



中化香港控股有限公司
SINOCHEM HONG KONG HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Stock Code: 297

Interim Report 2006



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Corporate Information

Non-Executive Directors

Mr. LIU De Shu (Chairman)
Mr. SONG Yu Qing (Deputy Chairman)

Executive Directors

Mr. DU Ke Ping (Chief Executive Officer)
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

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Bermuda

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Principal Bankers

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



Chairman's Statement

Dear shareholders,

I am pleased to present to you the interim report of Sinochem Hong Kong Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2006 for your review, and also welcome all friends from various industries who have interest in the Company to read and study the report.

In the first half of year 2006, the Group experienced a grim market situation ever seen in recent years. In particular, potash contract negotiations^(Note 1) with international suppliers were not concluded until late July. As a result, the import of sea-borne potash fertilizers had to be suspended during first half 2006, which created heavy pressure on the Company to fulfil operational goals for the first half. In front of such challenges and dictated by our high sense of responsibility for the shareholders, the Group achieved substantial progresses in upstream resource acquisition, domestic fertilizer operations, distribution outlets building and the strengthening of strategic alliance with both international and domestic suppliers by adopting a series of major actions to bring into full play the Group's advantages in market leadership, extensive distribution network, strong brand image and highly effective management. As a result, new progress was made in the strategy of "focusing on distribution and integrating production, supply and sales for synergic development", and meanwhile business performance maintained continuous growth. In the first half of 2006, the Group achieved sales volume of 6.15 million tonnes, representing a 10.06% increase over the first half 2005 comparative figures^(Note 2). Turnover reached HK\$10,306 million, up by 7.08% year on year, the net income earned also increased by 19.40% year on year to HK\$465 million, and earnings per share (EPS) was 8.01 HK cents. The above business results represented a record high year on year in the Group's history.

The Board of Directors believes that the remarkable results are attributable to the consummate skills of the management team in winning the market, in addition to their excellent professionalism and commitment. The Board of Directors also believes they will keep working harder for the Company's growth and enhance the Group's profitability in increasingly intensified market competition in the years to come.

Since the completion of acquisition of the Fertilizer Group in July 2005, the Company has made great efforts in continuously improving corporate governance under the care and support from all the shareholders. The Company has improved the independence, diversified structure and specialized functions of the Board of Directors, ensuring the fair protection and execution of the interest of all the shareholders in the Company. The internal control policy and business procedures were completely amended and improved in compliance with the requirement of the listing rules, which has safeguarded the Company's fast growth and safe operation.



Looking into the second half of 2006 and beyond, we have confidence in the Chinese fertilizer market and the Group's future. The Chinese agricultural sector is undergoing a fast and sound growth, and the demand for fertilizers keeps rising steadily. China will open its fertilizer distribution market^(Note 3) by the end of year 2006, and the government has decided on the reform direction of fully deregulating market price and making direct subsidies to the farmers. The future industrial development and market consolidation is positive for large enterprises to play a leading role, while the building of "new socialist countryside" is also in favour of the Group to take advantage of its predominance role in the fertilizer industry. In the second half of 2006 the Group will proactively respond to these macro factors, and make rolling revision of the Group's Three-year Development Plan as per the usual practice, so as to enable the Group as the largest market player to become the forerunner in China's fertilizer industry. The Group will improve long-term resource acquisition efficiency and stability by continuing to make strategic investment in enterprises of value. The Group will also continue to carry out the product strategy of "co-development of diversified fertilizer products", consolidate and enforce the Group's advantage in potash fertilizer, and vigorously push forward the operations of nitrogen and other domestically produced fertilizers. The Group will make further efforts to expand its distribution network featuring five major functions of "product sale, channel maintenance, brand promotion, agrichemical services, and fighting against counterfeiting to protect the Group's interest", and further improve the Group's core competencies to fulfil various business and development goals for the year 2006 and bring higher returns to the shareholders.

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

Liu De Shu

Chairman

Hong Kong, 6 September 2006

Notes:

1. Potash contract negotiations

In the end of 2005, Belarussian Potash Company (BPC) formally proposed a US\$40 per tonne increase for 2006 potash shipments to China citing that China's import price was lower than peripheral markets. Under this background, the Chinese buying consortium, led by China Chamber of Commerce of Metals Minerals & Chemicals Importers & Exporters (CCCMC) and participated by relevant domestic enterprises, began to negotiate with BPC for 2006 sea borne potash pricing to China.

Preparations for the negotiation started from the end of 2005, the first round talk began on 10 February 2006, and the final round of negotiation completed on 21 July 2006. After nearly eight months of multi-round negotiations, the parties finally agreed to increase the price by US\$25 per tonne, rather than the initially proposed increase of US\$40, of US\$35 later and multi-phase increase with first phase rise of US\$28. During the same period, China domestic market did not import any sea borne potash fertilizer under new contract.

After settlement of the above price negotiations with BPC, other international potash suppliers had also referred to similar price increases, and agreed on the 2006 sea borne potash price to China market.



2. First half 2005 comparative figures

Pursuant to the approval at the special general meeting of shareholders, the Company changed its financial year end date from March 31 to December 31 in the wake of the Company's re-listing in July 2005. However, the end date of the Company's 2005 Interim Report was 30 September 2005, and the end date of the Company's 2005 Annual Report was 31 December 2005. Therefore, the comparative figures for first half 2005 as cited hereinafter in the Chairman's Statement, Management Report and Management Discussion and Analysis in this Interim Report were calculated by dividing by two the numbers in the audited income statement of the Company in its 2005 Annual Report.

3. Opening up China's fertilizer distribution market

On 11 November 2001, the Chinese government signed legal documents of accessing the World Trade Organization (WTO), *Protocol on the Accession of the People's Republic of China*, and became an official member of the WTO on 11 December 2001.

Under the commitments for "distribution services" in Annex IX to the Protocol, "within five years after China's accession to the WTO, foreign service suppliers may establish joint ventures to engage in the commission agents' business, wholesale business and retail business of all imported and domestically produced chemical fertilizers, processed oil and crude oil, and foreign majority ownership will be permitted and no geographic or quantitative restrictions will apply."

It means that, latest by 11 December 2006, China must allow foreign enterprises to engage in chemical fertilizer import and domestic fertilizer commission agent services, wholesale and retail business, and allow foreign companies to own majority equity interest, as well as remove geographic or quantitative restrictions.



Management Report

Dear shareholders,

Year 2006 is the first year of China's "11th Five-Year Plan" period and also the beginning of building "new socialist countryside" in China, the Central Government continues to adopt policies benefiting the farmers and increase investment in the agricultural sector, such as abolishing agricultural tax, increasing direct subsidies to grain-growers, and constructing infrastructures in the countryside. These measures have created new energy for rural development and increased farmers' income. The unprecedented prosperity and flourishing in the rural market has provided positive opportunities for the Company. On the other hand, in the first half of year 2006 the Group experienced a grim market situation ever seen in recent years, with supply increasingly exceeding demand in domestic fertilizer market and competition becoming more severe. In addition, potash contract negotiation was not concluded until late July, resulting in the suspension of sea borne potash import to China in the first half of 2006 and bringing heavy pressure on the Group's business operations. Under such a background, the management team, with the trust and support of the Board of Directors, grasped market trends, strictly observed their duty and kept forging ahead in continuously carrying out the strategy of "focusing on distribution and integrating production, supply and sales for synergic development". By initiating a series of significant strategic measures, the management team led the whole staff and workers to vigorously expand business operations and continuously improve the internal control system. As a result, the Group achieved remarkable performance, and further consolidated the leading position of the Group in the Chinese fertilizer market.

I. Business Performance Maintained Sustainable, Stable and Fast Growth

For the six months ended 30 June 2006, the Group's fertilizer business achieved turnover of HK\$10,306 million, up by 7.08% over the corresponding period of last year; net profit reached HK\$465 million, up by 19.40% year on year. By overcoming the difficulties of the market, the Group achieved remarkable business results and continued the momentum of sustainable, stable and fast growth as seen in the past few years.



II. Rapid Progress Made in Various Business Segments and Internal Management Continuously Improved

1. Sales – Product Structure Improved and Distribution Network Scale and Quality Enhanced

For the six months ended 30 June 2006, the Group realized sales of 6.15 million tonnes, up by 10.06% year on year, further consolidating the market position of the largest fertilizer distributor in China. Among this, the sales of imported fertilizers was 2.46 million tonnes, accounting for 40% of total sales. The figure was 22.50% lower year on year, which was mainly due to the impact of the prolonged potash contract negotiations with international suppliers. The sales of domestically produced fertilizers reached 3.27 million tonnes, making up 53.17% of the total sales and representing an increase of 61.58% year on year. In the first half of 2006 the Group followed the preset development strategy and attached strategic importance to the expansion of domestically produced fertilizer business. By initiating a series of actions the scale of domestic fertilizer business expanded rapidly, and operating abilities continuously improved. This has laid a good foundation for the further growth of the Group's domestic fertilizer business, and the shift from "potash fertilizer being No. 1" to "co-development of diversified fertilizer products" basically took shape.

The Group continued to expand its distribution network according to the preset development strategy. In the first half of 2006 two new branch companies were set up to strengthen the Group's presence and increase market shares in northwest and southwest China. Meanwhile, 80 fertilizer sales outlets were added. By 30 June 2006, the Group owned 16 branch companies and 1,143 sales outlets, covering 21 agricultural provinces and 75% of total farming land in China. For the six months ended 30 June 2006, total sales achieved by the distribution network was 3.94 million tonnes, accounting for 64% of total sales volume.



II. Rapid Progress Made in Various Business Segments and Internal Management Continuously Improved (Continued)

2. *Production – Capacity of Resource-based Products Increased, Technological Innovation Ability Uplifted*

In the production sector, the Group further increased the capacities of existing enterprises and achieved technological innovation results, reinforcing the economies of scale and the market competitiveness of the enterprises. As of 30 June 2006, the Group had shareholder equities in seven fertilizer production enterprises, collectively running capacities of 3.03 million tonnes, which was 0.3 million tonnes of MAP more than that at the end of 2005, or an increase of 11%. Among this the production capacity of phosphate fertilizers, which is based on phosphoric rock, accounted for 78% of total capacity. In addition, the Group also made significant progresses in technological R&D. The “purifying technique for wet-method thin phos-acid” jointly developed by Sinochem Fuling Chemical Co., Ltd and Sichuan University successfully passed the appraisal test by the Ministry of Education. This new technique helps to reduce energy consumption, and meanwhile substantially improve the overall utilization efficiency of rock phosphate. Sinochem Kailin built a closed circulation phosphate-chemical plant through independent technological innovation, at which waste gas is used for power generation and phosphogypsum can be re-used to protect the environment and bring additional profits to the enterprise.

3. *Procurement – Imported Fertilizer Supply System Stable, Domestically Produced Fertilizer Supply Chain Management Taking Shape*

In addition to expanding supply channels from its own production sector, the Group also attaches great importance to forming pluralized sourcing channels in both the overseas and domestic marketplaces so to stabilize the import supply system and build a domestically produced fertilizer supply chain. In 2006 the Group continued to consolidate its strategic alliances with nine major international fertilizer suppliers by the establishment of exclusive product distribution contracts for the China market. In sourcing domestically produced fertilizers, the Group brought into full play its collective advantages in distribution network, brand popularity and financial capabilities to establish a core supplier system for continuously increased domestic fertilizer supply through such measures as supply chain management and strategically investing in nitrogen producers with competitive advantage. For the six months ended 30 June 2006, the procurement of domestically produced fertilizers reached 3.65 million tonnes, making up 56% of total procurement, significantly higher than the ratio of 40% for the same period of last year. By implementing the strategy of pluralizing supply channels, the Group is able to provide to the customers a product mix of nitrogen, phosphate, potash and compound fertilizers, therefore catering to the diversified needs of individual customers in different regions.



II. Rapid Progress Made in Various Business Segments and Internal Management Continuously Improved (Continued)

4. *Brand Building and Agrichemical Services – Uplifting Brand Value, Committed to Social Responsibilities*

“SINOCHEN” fertilizer is currently the only brand name enjoying “Nationally Famous Brand” title in both the categories of “goods” and “services” recognized by the Chinese government. Sinochem also enjoys global prestige in the international fertilizer industry and all the customers. Social responsibility and public image are always of prime concerns to the Group. In 2006, the Group continued to provide agrichemical services for public welfare in various forms, including featured sections or articles in mass media such as radio and trade publications, onsite exchanges with agrichemical experts and toll-free enquiry hotlines for the farmers, as well as setting up exemplary villages for balanced fertilizer applications. As a result, the farmers learned more on scientific fertilization and techniques, which in turn promoted the sales of the Group’s products, and uplifted the brand image of “Sinochem Fertilizer”. In March 2006, major Chinese news media, including Xinhua News Agency and CCTV jointly made an intensive coverage on the Group’s agrichemical service activities.

5. *Internal Control and Management – Institutionalizing and Strengthening Dynamic Supervision and Audit*

The management of the Company has always attached top priority to the security of shareholders’ asset value, and therefore taking the building of an advanced and standardized internal control and management system as the foundation for the Company’s long-term, healthy development. Over the years the Group has applied the centralized and integrated capital management system for both overseas and domestic operations. A complete risk control system and standardized transaction and contract approval processes have been set up for the key sections of the principal operations of the Group, including upstream investment, product procurement and downstream distribution. In particular, the management information system comprising the SAP system and distribution management system (DMS) as well as cash management system jointly set up with the banks have been implemented for cross-checking and monitoring of logistics, cash flow and information flow, therefore helping to effectively prevent and control risks. In addition, the Group has optimized 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 Company.



III. Prospects

The Chinese government always attaches utmost importance to the issues concerning the agricultural sector, the rural areas and the farmers, and will continue to make greater efforts in implementing policies beneficial to the farmers. At present, the agricultural sector is undergoing a fast and healthy growth, the building of “new socialist countryside” is well underway, and the farmers’ income level is on the rise. As the largest fertilizer consuming country, fertilizer demand in China has been growing at an annual average rate of 5% since the year 2000. The Chinese government will open its fertilizer wholesale and retail market at the end of 2006, and has decided on the reform direction of fully deregulating fertilizer prices and making direct subsidies to the farmers. In summary, government policies benefiting the agricultural sector and the farmers, growing fertilizer demand and increasingly intensified market competition will provide a favorable external environment for the Group’s development in the long run. By tapping into its own advantages in various aspects, the Group will further sharpen its cutting edge and enhance its position as market leader in the Chinese fertilizer industry.

In the second half of year 2006, under the leadership of the Board of Directors, the management team will proactively respond to both the global and domestic macro economic situations, bring into full play the wisdom of all the employees and external professionals and experts, and make rolling revision of the Group’s Three-year Development Plan so as to enable the Group as the largest market player to become the forerunner in China’s fertilizer industry. Following the conclusion of potash contract negotiations, the management will grasp all potential market opportunities to further consolidate the Group’s leading position in China’s potash fertilizer market, and meanwhile attaches strategic importance to the expansion of domestic fertilizer business, especially nitrogen fertilizers. In addition, the Group will take the advantage of integrated production and sales of phosphate and compound fertilizers to steadily increase the market competitiveness of the Group’s phosphate and compound fertilizer products. By making strategic investment in production enterprises and leveraging on setting up capital bonds, the Group will enhance its long-term resource acquisition efficiency and stability. The Group will make further efforts to expand its distribution network featuring five major functions of “product sale, channel maintenance, brand promotion, agrichemical services, and fighting against counterfeiting to protect the Group’s interest”, and continuously enhance the quality of its distribution network. More importantly, the Group will continue to attach top priority to the safety of shareholders’ asset value, and keep improving internal control systems as required by the listing rules and the requirements of corporate development so as to promote the sustained, stable and rapid growth of the Company, as well as to fulfill all business and development targets for the year 2006 and bring increasingly higher returns to all the shareholders.



Chronicle of Events

- 1 On 27 January 2006, PotashCorp, the world's largest potash producer and strategic investor of the Company, exercised 10.01% of purchase option on the first eligible day of the exercisable period, increasing its shareholding in the Company to 20%. Therefore, PotashCorp became the second largest shareholder of the Company.
- 2 In February 2006, the Group launched a series of agrichemical service activities in the three provinces in northeast China as part of the Group's national action plan to provide "fertilizers, application techniques and services" to the farmers. These activities drew attention and wide coverage by major news media, including the CCTV, the Central People's Radio Station, Xinhua News Agency, People's Daily, Economic Daily, Guangming Daily and the Farmer's Daily.
- 3 In March 2006, the first "Sinofert Scientific Fertilization Model village" was set up in Heilongjiang Province, unfolding the plan to build such "model villages" nationwide by the Group.
- 4 In April 2006, the Company released its 2005 Annual Report and presented international road shows in Hong Kong, Singapore and Europe.
- 5 In April 2006, a new 300,000 tonne per annum capacity MAP line successfully went into production at Sinochem Fuling.
- 6 In April 2006, the Group signed Memorandum of Understanding for the cooperation during 2007-2009 with CANPOTEX of Canada, which secured the stable supply of potash fertilizer for the Chinese market during the next three years.
- 7 In April 2006, the Group signed a 400,000 tonne-sulphur purchase agreement for the year 2006 with Saudi Industrial Export Company (SIEC).
- 8 In May 2006, Canadian potash marketed by the Group was designated to be "Specialty Fertilizer for Hainan Province Super Rice Program" by the Agricultural Science Institute of Hainan Province.
- 9 In June 2006, the Group set up two new branches in northwest and southwest China to promote its marketing abilities in these regional markets.
- 10 In June 2006, as one of 40 famous brand names in China, Sinofert participated in the launching ceremony of the national "Brand Promotion Tour" organized by the Ministry of Commerce, kicking off the year-round nationwide brand promotion activities.



Management Discussion and Analysis

The year 2006 marks the opening of China's national "11th Five-Year Plan". The Central Government continues to stabilize and strengthen various favourable policies for the agricultural sector, the rural areas and the farmers, with total financial expenditure increased to RMB339.7 billion. In addition, a new policy to directly subsidize grain growers to offset their increased cost on fertilizers and diesel oil consumption was adopted for the first time. These various policies have increased the farmers' income, aroused their enthusiasm in grain planting and therefore boosting the demand for fertilizers.

Despite the prolonged potash contract negotiations and intensified competition in the phosphate and compound fertilizer market, the Group achieved remarkable results during the first half of 2006 by taking specific measures to overcome the difficulties.

- For the six months ended 30 June 2006, turnover reached HK\$10,306 million, up by 7.08% over the corresponding period of 2005; and
- Net profit reached HK\$465 million, up by 19.40% over the corresponding period of 2005.

I. Operation Scale

1. Sales volume

For the six months ended 30 June 2006, sales volume of the Group reached 6.15 million tonnes, an increase of 10.06% year on year. Due to the impact of the prolonged potash contract negotiations, the sales of imported fertilizers decreased from 3.18 million tonnes for first half 2005 to 2.46 million tonnes, representing a decrease of 22.50%. By vigorously expanding domestic fertilizer business operations, sales of domestic fertilizers increased from 2.02 million tonnes for first half 2005 to 3.27 million tonnes, representing an increase of 61.58%. The sales of domestic fertilizers exceeded that of imported fertilizers.

In terms of product structure, the sales of potash fertilizers decreased by 23.20% year on year, which was chiefly caused by the suspension of potash import due to the prolonged potash contract negotiations. The sales of nitrogen fertilizers increased by 99.50%, thanks to the Group's innovative resource acquisition method – setting up a core supplier system by consolidating strategic alliances with suppliers through capital bonds. The sales of compound fertilizers grew by 41.92% year on year, which was mainly due to the increase of domestically produced compound fertilizer sales. The sales of phosphate fertilizers was basically the same as that of the corresponding period of last year. If the sales of rock phosphate were deducted from the 2005 figure, the sales of phosphate fertilizers would have been increased by 13.23%, which was attributable to the increased sales of both domestically produced and imported phosphate fertilizers.



I. Operation Scale (Continued)

2. Turnover

For the six months ended 30 June 2006, turnover reached HK\$10,306 million, up by HK\$681 million over the corresponding period of 2005, or an increase of 7.08%, which was slightly lower than the increase rate of sales volume. The reason was that in order to better serve the needs of different customers, the sales of low cost, low-nutrient content fertilizers of both nitrogen and phosphate increased in 2006, therefore lowering the average sales price.

Table 1:

	For the six months ended 30 June			
	2006		2005	
	Turnover HK\$'000	As a percentage of turnover	Turnover HK\$'000	As a percentage of turnover
Potash fertilizers	3,994,041	38.76%	5,061,004	52.59%
Nitrogen fertilizers	2,600,831	25.24%	1,505,076	15.64%
Compound fertilizers	1,973,100	19.14%	1,403,587	14.58%
Phosphate fertilizers	1,384,324	13.43%	1,320,550	13.72%
Others	353,411	3.43%	334,116	3.47%
Total	10,305,707	100.00%	9,624,333	100.00%

II. Profit

1. Gross profit margin

For the six months ended 30 June 2006, gross profit margin was 8.14%, slightly higher than that of 8.02% for the corresponding period of 2005.

The changes of gross profit margins of various products are as follows: The price of potash fertilizers rose because of tight supply caused by the suspension of sea-borne potash import as a result of the prolonged potash contract negotiations, and meanwhile the Group adopted different marketing strategies in specific regional markets, both of which helped to increase the gross profit margin of potash fertilizers on a year on year basis. The gross profit margin of nitrogen fertilizers also increased thanks to the improved supply chain management and the enhanced efficiency of the distribution network operations. The gross profit margins of compound fertilizers and phosphate fertilizers decreased from the corresponding period of 2005, which was mainly due to oversupply in the domestic market.



II. Profit (Continued)

2. *Share of results of jointly controlled entities*

For the six months ended 30 June 2006, the share of results of jointly controlled entities was HK\$22 million, a decrease of 11.45% from HK\$25 million for the corresponding period of 2005. This was mainly caused by lowered profitability of phosphate production as a result of price hikes in raw materials during first half 2006, as well as the dip in both production and sales of Yunnan Three-Circle Sinochem Cargill due to power shortage.

3. *Net profit and net profit margin*

For the six months ended 30 June 2006, the Group realized net profit of HK\$465 million, representing an increase of 19.40% over HK\$390 million for the same period of 2005. The net profit margin was 4.52%, up by 0.47 percentage points over 4.05% for the same period of 2005. This was mainly due to the slight increase in the Group's gross profit margin and the decrease of expenses.

A major factor affecting the performance of the Group during first half 2006 was the prolonged potash contract negotiation, which resulted in the suspension of sea-borne potash shipments to China under new contracts. Consequently, the sales of sea-borne potash fertilizers of the Group for the six months ended 30 June 2006 fell significantly by 0.79 million tonnes, or 32.80% from that of the corresponding period of 2005, directly affecting the overall profit during the reporting period.

III. Expenditures

Selling and distribution expenses was HK\$226 million for the six months ended 30 June 2006, representing an increase of 14.61% over HK\$197 million for the corresponding period of 2005. This was mainly attributable to the 10.06% increase in sales volume, incurring proportionally higher transportation, loading and discharging expenses.

Administrative expense was HK\$72 million for the six months ended 30 June 2006, down by 35.38% from HK\$112 million for the corresponding period of 2005. This was mainly attributable to the affecting of HK\$50 million in "provision for impairment of inventories", otherwise the administrative expense would have been increased by 11.50%. This was mainly caused by increased expenditures in incentive stock option granting and in consultancy services, as well as in the expansion of the distribution network.

Finance costs was HK\$50 million for the six months ended 30 June 2006, representing a decrease of 10.16% from HK\$56 million for the corresponding period of 2005. This was mainly attributable to lowered inventories and lowered capital cost through effective capital management.

The Group's total expenditure decreased by 4.48% to HK\$349 million for the six months ended 30 June 2006 from HK\$365 million for the corresponding period of 2005, while the ratio of expenditure to turnover decreased to 3.39% from 3.79%.



IV. Cash Flow

Cash inflow of the Group for the six months ended 30 June 2006 was HK\$35 million. Thanks to lowered inventories and increased turnover rate as well as timely collection of receivables, cash inflow of the Group from business operations reached HK\$779 million; due to property and plants and equipment purchase of HK\$146 million as well as collection of investment return, there was a cash outflow of HK\$100 million from investment activities; and due to repayment of bank loans and payment of dividends there was a cash outflow of HK\$644 million from financing activities.

V. Inventory Turnover

The inventory balance of the Group as at 30 June 2006 was HK\$2,825 million, representing a decrease of 41.12% from HK\$4,798 million as at 31 December 2005. This was mainly attributable to lowered potash inventory caused by import suspension as a result of prolonged potash contract negotiations. The inventory volume as at 30 June 2006 was 1.53 million tonnes, decreased by 1.82 million tonnes from that as at 31 December 2005, among which the inventory of potash fell by 1.24 million tonnes. In terms of inventory structure, the proportion of potash inventory decreased from 52.37% to 24.26%.

Due to the decrease of potash inventory and faster distribution turnover rate, the inventory turnover day* decreased from 90 days in 2005 to 72 days for the six months ended 30 June 2006, hence improved assets operating efficiency.

**Note:* Calculated on the basis of average inventory balance as at the end of the reporting period divided by cost of goods sold, and multiplied by 180 days.

VI. Trade and Bills Receivables Turnover

The balance of the Group's trade and bills receivables as at 30 June 2006 was HK\$346 million, representing a decrease of 59.15% from HK\$847 million as at 31 December 2005. This was mainly attributable to the lowered capital cost and the decrease of bills receivables balance resulted from bills discounting. In addition, there were strict policies in place to control the sales on credit which was mainly given to the long-term business partners, resulting in a good performance of receivable assets.

Average trade and bills receivables turnover day* decreased from 13 days in 2005 to 10 days for the six months ended 30 June 2006.

**Note:* Calculated on the basis of average trades and bills receivables balance as at the end of the reporting period divided by turnover, and multiplied by 180 days.



VII. Other Financial Indicators

Earnings per share (EPS) of the Group for the six months ended 30 June 2006 was 8.01 HK cents, increasing by 10.56% over that of 7.25 HK cents for the corresponding period of 2005. This was mainly attributable to the increase in net profit for the six months ended 30 June 2006.

Return on equity (ROE) of the Group was 12.11% for the six months ended 30 June 2006, increasing by 0.89 percentage points over that for the corresponding period of 2005. This was mainly due to increase in net profit.

The current ratio of the Group increased from 1.41 as at the end of 2005 to 1.95 for the six months ended 30 June 2006, indicating improved short-term solvency. The liability to equity ratio decreased from 34.40% as at the end of 2005 to 19.57% for the six months ended 30 June 2006, indicating improved long-term solvency.

Table 2:

	For the six months ended 30 June	
	2006	2005
Profitability		
EPS (HK cents) ^(Note 1)	8.01	7.25
Return on equity ^(Note 2)	12.11%	11.22%
	As at 30 June 2006	As at 31 December 2005
Solvency		
Current ratio ^(Note 3)	1.95	1.41
Debt to equity ratio ^(Note 4)	19.57%	34.40%

Note 1: Calculated on the basis of profit attributable to shareholders of the Company for the reporting period divided by weighted average share during the reporting period. The number for 2005 was calculated by pro rata profit attributable to shareholders of the Company for the year divided by the weighted average share as at 31 December 2005.

Note 2: Calculated on the basis of profit attributable to shareholders of the Company for the reporting period divided by total equity attributable to shareholders of the Company as at the end of the reporting period. The number for 2006 was calculated by profit attributable to shareholders of the Company for the six months ended 30 June 2006 divided by the total equity attributable to shareholders of the Company as at 30 June 2006, and the number for 2005 was calculated by pro rata profit attributable to shareholders of the Company divided by the total equity attributable to shareholders of the Company as at 31 December 2005.

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

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



VIII. 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 for related capital expenditures.

As at 30 June 2006, cash and cash equivalents of the Group were HK\$102 million, mainly denominated in Renminbi and US dollar.

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

Table 3:

	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000
Secured	120,930	126,744
Guaranteed	530,731	13,044
Unsecured	1,577,746	2,537,245
Total	2,229,407	2,677,033

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

As at 30 June 2006, the Group had banking facilities of HK\$8,330 million, including US\$415 million, RMB5,178 million, and HK\$76 million, denominated in respective currencies. The amount of banking facilities already used was HK\$1,228 million, and that of unused was HK\$7,102 million.

IX. 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.

X. Contingent Liabilities

As at 30 June 2006, contingent liabilities of the Company comprised bank loan guarantees amounting to HK\$3,515 million provided to certain subsidiaries by the Company. The Group had no material contingent liabilities.



XI. Capital Commitments

Table 4:

	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000
Assets under construction		
Contracted but not provided for	60,931	71,922
Authorized but not contracted for	22,585	8,459
Subtotal	83,516	80,381
Capital expenditure in respect of investments		
Investment in Yunnan Three-Circle Sinochem Fertilizer Company Limited	137,558	134,577
Investment in Shandong Luxi Chemical	126,000	–
Subtotal	263,558	134,577
Total	347,074	214,958

XII. Major Investment

For the six months ended 30 June 2006, the Group's major investment of HK\$144 million represented the assets under construction at Sinochem Fuling.



Deloitte.

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Independent Review Report

TO THE BOARD OF DIRECTORS OF SINOCHEN HONG KONG HOLDINGS LIMITED

Introduction

We have been instructed by Sinochem Hong Kong Holdings Limited (the "Company") to review the interim financial report set out on pages 21 to 36.

Respective responsibilities of Directors and Auditors

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

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

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
6 September 2006



Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	NOTES	Six months from 1.1.2006 to 30.6.2006 HK\$'000 (unaudited)	Nine months from 1.1.2005 to 30.9.2005 HK\$'000 (unaudited)
Turnover	3	10,305,707	15,859,039
Cost of sales		(9,466,851)	(14,700,883)
Gross profit		838,856	1,158,156
Other income		42,255	43,114
Selling and distribution expenses		(226,299)	(297,966)
Administrative expenses		(72,114)	(148,176)
Finance costs	4	(50,477)	(82,050)
Share of results of jointly controlled entities		22,111	50,607
Profit before taxation	5	554,332	723,685
Taxation	6	(76,802)	(112,562)
Profit for the period		477,530	611,123
Attributable to:			
– equity holders of the Company		465,318	586,907
– minority interests		12,212	24,216
		477,530	611,123
Dividend	7	116,740	–
Earnings per share	8		
Basic		8.01 HK cents	11.21 HK cents
Diluted		8.01 HK cents	N/A

**Condensed Consolidated Balance Sheet**

At 30 June 2006

	NOTES	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	833,512	726,510
Investment properties	9	181,608	160,000
Prepaid lease payments		41,163	41,924
Mining rights		23,080	22,839
Goodwill		356,503	356,503
Interests in jointly controlled entities		350,572	367,861
Available-for-sale investments		15,243	14,462
Deferred taxation assets		2,116	2,094
		1,803,797	1,692,193
Current assets			
Inventories		2,825,302	4,798,149
Trade and other receivables	10	2,402,733	2,698,996
Prepaid lease payments		879	–
Amounts due from jointly controlled entities		41,178	–
Amounts due from related companies		17,953	19,446
Pledged bank deposits		5,739	–
Bank balances and cash		102,259	66,551
		5,396,043	7,583,142
Current liabilities			
Trade and other payables	11	763,803	2,838,928
Amounts due to jointly controlled entities		995	3,822
Amounts due to related companies		64,423	22,846
Taxation payable		85,171	50,608
Bank borrowings – due within one year	12	1,849,457	2,442,945
		2,763,849	5,359,149
Net current assets		2,632,194	2,223,993
Total assets less current liabilities		4,435,991	3,916,186



	NOTES	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
Non-current liabilities			
Bank borrowings – due after one year	12	379,950	234,088
Deferred taxation liabilities		18,677	21,385
		398,627	255,473
		4,037,364	3,660,713
Capital and reserves			
Issued equity	13	767,766	767,766
Reserves		3,076,081	2,706,892
Equity attributable to equity holders of the Company		3,843,847	3,474,658
Minority interests		193,517	186,055
Total equity		4,037,364	3,660,713



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Attributable to equity holders of the Company									
	Issued equity HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Share options reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2005	78	245,632	270,225	272,664	-	105	1,112,162	1,900,866	155,436	2,056,302
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	26,704	-	26,704	3,522	30,226
Profit for the period	-	-	-	-	-	-	586,907	586,907	24,216	611,123
Total recognised income and expense for the period	-	-	-	-	-	26,704	586,907	613,611	27,738	641,349
Issue of shares, net of issuing expenses	482,325	-	-	-	-	-	-	482,325	-	482,325
Acquired on acquisition of subsidiaries	285,363	-	-	-	-	-	-	285,363	-	285,363
Capital contributions from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	10,177	10,177
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(2,268)	(2,268)
At 30 September 2005	767,766	245,632	270,225	272,664	-	26,809	1,699,069	3,282,165	191,083	3,473,248
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	(21)	-	(21)	162	141
Profit for the period	-	-	-	-	-	-	192,514	192,514	(11,213)	181,301
Total recognised income and expense for the period	-	-	-	-	-	(21)	192,514	192,493	(11,051)	181,442
Acquired on acquisition of a subsidiary	-	-	-	-	-	-	-	-	9,136	9,136
Capital contributions from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	31	31
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(3,144)	(3,144)
Transfer	-	-	-	6,114	-	-	(6,114)	-	-	-
At 31 December 2005	767,766	245,632	270,225	278,778	-	26,788	1,885,469	3,474,658	186,055	3,660,713
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	18,098	-	18,098	274	18,372
Profit for the period	-	-	-	-	-	-	465,318	465,318	12,212	477,530
Total recognised income and expense for the period	-	-	-	-	-	18,098	465,318	483,416	12,486	495,902
Disposals of subsidiaries	-	-	-	-	-	-	-	-	(3,194)	(3,194)
Recognition of equity-settled share-based payments	-	-	-	-	2,513	-	-	2,513	-	2,513
Dividend paid	-	-	-	-	-	-	(116,740)	(116,740)	-	(116,740)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(1,830)	(1,830)
Transfer	-	-	-	445	-	-	(445)	-	-	-
At 30 June 2006	767,766	245,632	270,225	279,223	2,513	44,886	2,233,602	3,843,847	193,517	4,037,364



Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Six months from 1.1.2006 to 30.6.2006 HK\$'000 (unaudited)	Nine months from 1.1.2005 to 30.9.2005 HK\$'000 (unaudited)
Net cash from (used in) operating activities	778,557	(282,450)
Net cash (used in) from investing activities		
Purchase of property, plant and equipment	(146,412)	(148,537)
Other investing cash flows	46,737	241,359
	(99,675)	92,822
Net cash (used in) from financing activities		
Dividend paid	(116,740)	–
Other financing cash flows	(527,429)	235,745
	(644,169)	235,745
Net increase in cash and cash equivalents	34,713	46,117
Cash and cash equivalents at the beginning of the period	66,551	214,064
Effect of foreign exchange rate changes	995	7,519
Cash and cash equivalents at the end of the period	102,259	267,700



Notes to the Condensed Financial Statements

For the six months ended 30 June 2006

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), except that the presentation of the comparative figures is for nine months ended 30 September 2005 as set out in the paragraph below.

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. In the previous year, the interim financial statements were drawn up for the nine month period ended 30 September 2005 and accordingly the corresponding amounts shown for the condensed consolidated income statement, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes cover the nine month period ended 30 September 2005 and therefore may not be comparable with amounts shown for the current six month period.

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost basis, except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2005. In addition, the Group has applied the following accounting policy for share options granted during the current interim period:

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the share options that will eventually vest and adjusted for the effect of non market-based vesting conditions, with a corresponding increase in share options reserve. At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.



2. Principal Accounting Policies (Continued)

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (hereinafter collectively referred to as the “new HKFRSs”) issued by the HKICPA that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 March 2006.

3 Effective for annual periods beginning on or after 1 May 2006.

4 Effective for annual periods beginning on or after 1 June 2006.

3. Segment Information

The Group’s primary format for reporting segment information is business segments.

For management purposes, the Group is currently organised into two main operating business:

Sourcing and distribution	–	sourcing and distribution of fertilisers and agricultural related products
Production	–	production and sales of fertilisers
Others	–	provision of rental services



3. Segment Information (Continued)

Business segments

	Six months ended 30 June 2006				Total HK\$'000
	Sourcing and distribution HK\$'000	Production HK\$'000	Others HK\$'000	Elimination HK\$'000	
Turnover					
External revenue	9,701,841	603,866	–	–	10,305,707
Inter-segment revenue	10,182	350,406	–	(360,588)	–
	9,712,023	954,272	–	(360,588)	10,305,707
Segment result	545,461	47,320	2,646	–	595,427
Unallocated corporate expenses					(14,253)
Interest income	997	345	182	–	1,524
Finance costs	(35,007)	(13,384)	(2,086)	–	(50,477)
Share of results of jointly controlled entities	–	22,111	–	–	22,111
Profit before taxation					554,332
Taxation					(76,802)
Profit for the period					477,530



3. Segment Information (Continued)

Business segments (Continued)

	Nine months ended 30 September 2005				
	Sourcing and distribution <i>HK\$'000</i>	Production <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover					
External revenue	14,570,693	1,284,665	3,681	–	15,859,039
Inter-segment revenue	43,005	445,429	–	(488,434)	–
	<u>14,613,698</u>	<u>1,730,094</u>	<u>3,681</u>	<u>(488,434)</u>	<u>15,859,039</u>
Segment result	<u>688,038</u>	<u>77,014</u>	<u>666</u>	<u>–</u>	<u>765,718</u>
Unallocated corporate expenses					(10,590)
Finance costs	(53,600)	(27,882)	(568)	–	(82,050)
Share of results of jointly controlled entities	–	50,607	–	–	<u>50,607</u>
Profit before taxation					723,685
Taxation					<u>(112,562)</u>
Profit for the period					<u>611,123</u>

4. Finance Costs

	Six months from 1.1.2006 to 30.6.2006 <i>HK\$'000</i>	Nine months from 1.1.2005 to 30.9.2005 <i>HK\$'000</i>
Interest on bank borrowings		
– wholly repayable within five years	(48,391)	(76,987)
– not wholly repayable within five years	(2,086)	(568)
Interest on other borrowings	–	(4,495)
	<u>(50,477)</u>	<u>(82,050)</u>

**5. Profit Before Taxation**

	Six months from 1.1.2006 to 30.6.2006 HK\$'000	Nine months from 1.1.2005 to 30.9.2005 HK\$'000
Profit before taxation has been arrived at after charging:		
Allowance for inventories	–	11,841
Amortisation of prepaid lease payments	448	1,926
Depreciation of property, plant and equipment	25,789	33,956
and after crediting:		
Reversal of allowance for inventories	26,353	–

6. Taxation

	Six months from 1.1.2006 to 30.6.2006 HK\$'000	Nine months from 1.1.2005 to 30.9.2005 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	(276)	(932)
Taxation in other jurisdictions	(79,449)	(95,324)
	(79,725)	(96,256)
Deferred taxation	2,923	(16,306)
	(76,802)	(112,562)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the period.

Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Certain subsidiaries of the Company were exempted from the PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.



7. Dividend

	Six months from 1.1.2006 to 30.6.2006 HK\$'000	Nine months from 1.1.2005 to 30.9.2005 HK\$'000
Final dividend paid for 2005 of HK\$0.0201 (2004: nil) per share	116,740	–

8. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months from 1.1.2006 to 30.6.2006 HK\$'000	Nine months from 1.1.2005 to 30.9.2005 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	465,318	586,907
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,807,950	5,233,914
Effect of dilutive potential ordinary shares from the share options	4,622	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,812,572	

9. Movements in Property, Plant and Equipment and Investment Properties

During the period, the Group spent approximately HK\$146.4 million (2005: HK\$148.5 million) on the acquisition of property, plant and equipment.

The Group's investment properties were revalued at 31 May 2006 by Knight Frank Petty Limited, a firm of independent professional valuers, on market value basis, resulting in a surplus of HK\$8,000,000 which has been credited to the condensed consolidated income statement. The directors considered that the carrying amounts of the Group's investment properties at 30 June 2006 do not differ significantly from that which would be determined using fair values at the balance sheet date. In August 2006, the Group's certain investment properties were put on the market for sale by way of tender.



10. Trade and Other Receivables

The aging analysis of trade receivables at the reporting date is as follows:

	30.6.2006	31.12.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	248,562	363,176
Between 91 - 180 days	5,579	39,046
Between 181 - 365 days	877	373
Over 365 days	1,565	1,278
	256,583	403,873
Bills receivables	88,584	442,837
Bills discounted to banks	1,439,249	1,417,893
	1,784,416	2,264,603

Payment terms with customers are mainly on cash basis. The Group allows an average credit period ranging from 30 days to 120 days to its trade customers dependent on their credit worthiness, nature of services and condition of the market.

11. Trade and Other Payables

The aging analysis of trade payables at the reporting date is as follows:

	30.6.2006	31.12.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	278,096	2,244,443
Between 91 - 180 days	272,394	197,249
Between 181 - 365 days	2,009	6,022
Over 365 days	148	598
	552,647	2,448,312

12. Borrowings

During the period, the Group obtained new bank loans amounting to approximately HK\$2,804 million and repaid the bank loans amounting to approximately HK\$3,279 million. The loans bear interest at prevailing market rates and majority loans are repayable in instalments over a period of five years. The proceeds were used to finance the operations of the Group.



13. Issued Equity

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 31.12.2005 HK\$'000
At the beginning of the period/year	767,766	78
Issue of new shares of par value of HK\$0.10 each, net of issuing expenses	–	482,325
Acquired on acquisition of subsidiaries	–	285,363
At the end of the period/year	767,766	767,766

14. Disposal of Subsidiaries

During the six month period ended 30 June 2006, the Company disposed of certain subsidiaries to an independent third parties.

The net assets of these subsidiaries at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of	10,590
Minority interests	(3,194)
Loss on disposal of subsidiaries	(3,390)
Total consideration	<u>4,006</u>
Satisfied by:	
Other receivables	<u>4,006</u>
	<u>4,006</u>
Net cash outflow arising on disposal:	
Bank balances and cash disposal of	<u>(1,508)</u>

The subsidiaries being disposed of in the current period did not contribute significantly to the Group's cash flows or operating results.

**15. Commitments****(a) Capital commitments**

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Capital expenditure in respect of investments contracted but not provided for	263,558	134,577
Capital expenditure in respect of property, plant and equipment:		
Contracted but not provided for	60,931	71,922
Authorised but not contracted for	22,585	8,459
	83,516	80,381
	347,074	214,958

(b) Operating lease arrangements

The Group as lessee

The Group had future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Within one year	7,052	8,049
In the second to fifth year inclusive	4,805	4,205
Over five years	7,582	7,509
	19,439	19,763



15. Commitments (Continued)

(b) Operating lease arrangements (Continued)

The Group as lessor

The Group had contracted with tenants in respect of the rented premises which fall due as follows:

	30.6.2006 <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Within one year	9,495	8,474
In the second to fifth year inclusive	2,626	3,278
	12,121	11,752

16. Related Party Transactions

- (a) During the period, the Group entered into the following significant transactions with related parties:

	Six months from 1.1.2006 to 30.6.2006 <i>HK\$'000</i>	Nine months from 1.1.2005 to 30.9.2005 <i>HK\$'000</i>
Sales of fertilisers to ultimate holding company	575,403	730,473
Sales of fertilisers to related companies (<i>note</i>)	11,933	77,721
Sales of fertilisers to jointly controlled entities	1,549	14,748
Purchases of fertilisers from ultimate holding company	358,728	400,684
Purchases of fertilisers from related companies (<i>note</i>)	731,993	1,388,753
Purchases of fertilisers from jointly controlled entities	763,564	536,154
Import service fee paid to ultimate holding company	81	260
Import service fee paid to related companies (<i>note</i>)	8,837	7,397
Rental expenses paid to a related company (<i>note</i>)	2,147	2,729
Interest income on loans receivable from ultimate holding company	–	2,140

Note: The companies are beneficially owned by ultimate holding company, Sinochem Corporation, which was established in the People's Republic of China. The balances with these related companies have been shown on the face of the condensed consolidated balance sheet.

**16. Related Party Transactions (Continued)**

- (b) The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“state-owned enterprises”). In addition, the Group itself is part of a larger group of companies under Sinochem Corporation which is controlled by the PRC government. Apart from the transactions with Sinochem Corporation and fellow subsidiaries and other related parties disclosed as above, the Group also conducts business with other state-owned enterprises. The directors consider those state-owned enterprises are independent third parties so far as the Group’s business transactions with them are concerned.

During the period, the Group entered into the following significant transactions with other state-owned enterprises as follows:

	Six months from 1.1.2006 to 30.6.2006 HK\$’000	Nine months from 1.1.2005 to 30.9.2005 HK\$’000
Sales of fertilisers	1,143,971	1,382,996
Purchases of fertilisers	1,455,806	1,296,985

- (c) Compensation of key management personnel

	Six months from 1.1.2006 to 30.6.2006 HK\$’000	Nine months from 1.1.2005 to 30.9.2005 HK\$’000
Salaries and other benefits	3,926	1,563
Retirement benefit scheme contributions	64	83
	3,990	1,646

17. Post Balance Sheet Events

- (a) On 28 June 2006, the Group entered into a subscription agreement to subscribe 50,000,000 shares of Shandong Luxi Chemical Co., Ltd. (山東魯西化工股份有限公司 (“Shandong Luxi”)) for a cash consideration of RMB130,000,000 (equivalent to approximately HK\$126,000,000), representing 4.78% issued share capital of Shandong Luxi. The share subscription was completed on 5 July 2006.
- (b) On 20 July 2006, the Company entered into a subscription agreement (“Subscription Agreement”) with Deutsche Bank AG, Hong Kong Branch for the proposed issue of HK\$1,300 million listed zero coupon convertible bonds due 2011. On 7 August 2006, the subscription was successfully completed upon the fulfillment of the conditions contemplated under the Subscription Agreement.



Other Information

Interim Dividend

The Board of Directors resolved not to declare any interim dividend for the six months ended 30 June 2006.

Dividend Policy

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

Employees and Compensation Policy

As at 30 June 2006, the Group employed approximately 4,015 full-time employees (including those employed by controlled entities). Employees are remunerated according to market rates. The Company has adopted a share option scheme.

In order to further improve the management skills and professional standard of the management of the Group and to enhance the overall quality of the employees so as to provide sufficient human resources to support the Group's rapid developments, and to improve its competitiveness, in the first half year of 2006, the Group provided 13,796 hours of training courses for 713 person-times. The training courses covered areas such as operation and management of enterprise, policy and regulation, marketing management, finance, logistics, information technology, public relationship, internal audit, production safety, leading to further improvement in the overall quality and the professional standard of the Group's management personnel and employees.

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



Share Option Scheme and its Granting

Grantees	Exercisable period (Note 3)	Exercise price (HK\$)	Number of options (Note 3)
Mr. LIU De Shu (Note 1)	23 January 2008 to 22 January 2012	1.672	2,033,000
Mr. SONG Yu Qing (Note 1)	23 January 2008 to 22 January 2012	1.672	1,582,000
Mr. DU Ke Ping (Note 2)	23 January 2008 to 22 January 2012	1.672	5,213,000
Dr. CHEN Guo Gang (Note 1)	23 January 2008 to 22 January 2012	1.672	1,582,000
Mr. Harry YANG (Note 2)	23 January 2008 to 22 January 2012	1.672	1,582,000
Employees	23 January 2008 to 22 January 2012	1.672	16,453,000

Notes:

- (1) Non-Executive Director of the Company
- (2) Executive Director of the Company
- (3) Only two-thirds of the options are exercisable within one year from 23 January 2008 to 22 January 2009, and the remaining options are exercisable thereafter up to 22 January 2012.

Disclosure of Interests

Directors' interests in the shares

As at 30 June 2006, none of the directors or chief executives 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 executives 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.



Disclosure of Interests (Continued)

Directors' interests in the shares (Continued)

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 section headed "The Share Option Scheme and Its Granting".

Substantial shareholders' interests in the shares and underlying shares

As at 30 June 2006, the following persons (other than directors and chief executives of the Company) had interests or a short position in the shares and underlying shares of the Company which were recorded in the register of interests required to be maintained by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Long positions		Short positions	
	Number of shares involved	Approximate percentage of shareholding	Number of shares involved	Approximate percentage of shareholding
Sinochem Hong Kong (Group) Company Limited ("Sinochem Hong Kong")	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 Hong Kong and (b) 1,161,589,966 ordinary shares owned by PotashCorp in which Sinochem Hong Kong 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 Hong Kong, its wholly-owned subsidiary, holds an interest respectively.
- (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 Hong Kong in which PotashCorp is deemed to have an interest under sections 317 and 318 of the SFO.



Disclosure of Interests (Continued)

Substantial shareholders' interests in the shares and underlying shares (Continued)

Apart from the aforesaid, as at 30 June 2006, the Company had not been notified of any interests and short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

Review by Audit Committee

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors, namely, Dr. Li Ka Cheung, Eric, Dr. Tang Tin Sek and Mr. Ko Ming Tung, Edward, with Dr. Li Ka Cheung, Eric being the chairman. The Audit Committee, together with the management, has reviewed the interim report of the Group for the six months ended 30 June 2006 and the accounting principles and practices adopted by the Group.

Compliance with the Code on Corporate Governance Practices

During the reporting period, the Company has complied with all the provisions set out in the Code on Corporate Governance Practices.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all directors, and the directors have confirmed that they had complied with the required standards set out in the Model Code for the period from 1 January 2006 to 30 June 2006.

In addition, the Company has also formulated its own code of conduct for securities transactions by the employees of the Company and has required all the employees to comply with the required standards of the SFO and the Listing Rules.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the period from 1 January 2006 to 30 June 2006.