

Nurturing China's agriculture sector



2007 Annual Report



中化化肥控股有限公司

SINOFERT HOLDINGS LIMITED

Mar 28, 2008

Disclaimer

This presentation and the presentation materials distributed herewith include forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that Sinofert Holdings (“Sinofert”) expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. Sinofert’s actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, exploration and development outcomes, estimates of reserves, market shares, competition, environmental risks, changes in legal, financial and regulatory frameworks, international economic and financial market conditions, political risks, project delay, project approval, cost estimates and other risks and factors beyond our control. In addition, Sinofert makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.

2007 Performance Highlights

Market Share

- Total sales volume of 15.16mn tons
- Increasing market share up to 17% and maintaining No. 1 in China

Production

- Production capacity increased by 4.82mn tons to 7.85mn tons
- Only one fertilizer provider in China covering all 4 major types of fertilizers

Distribution

- Distribution centers increased by 297 to 1672
- Sales volume through the distribution centers reached 9.79 million tons, up by 1.93mn tons

Asset

- Total Asset increased by 74% YoY
- Net Asset increased by 84% YoY

P&L

- Business turnover increased by 39% YoY
- Net profits increased by 43% YoY

Dividend

- Proposed dividend of 2.76 HK cents for FY2007
- 19% higher than last year



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- **Financial Performance: Continuous Rapid Growth**
- **Operating Highlights: Steady Implementation of Our Corporate Strategy**
- **Outlook: To Become a Leading Integrated Service Provider of Agricultural Input Products in the World**

Performance Highlights for 2007: Continuous Growth in Both Scale and Profitability

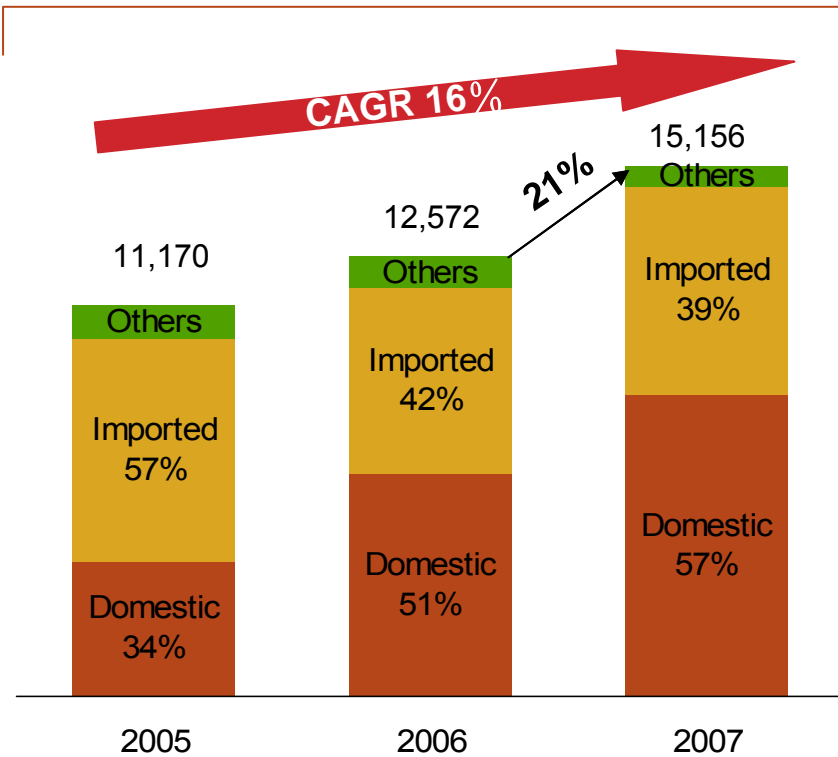
(HK\$ mn)	Before adjustment of fair value change in convertible bonds	Growth YoY	After adjustment of fair value change in convertible bonds
Sales Volume (kt)	15,156	↑ 21%	15,156
Turnover	29,437	↑ 39%	29,437
Gross Profit	2,769	↑ 62%	2,769
Net Profit	1,286	↑ 43%	663
EPS	21.44 HK cents	↑ 39%	11.06 HK cents
Dividend Per Share	2.76 HK cents	↑ 19%	2.76 HK cents

Note: 1) The Company issued HK\$1.3bn CB in Aug 06. The above mentioned data excludes impacts of changes in FV of CB (with impact less HK\$1,865,000 from net income in 2006, and HK\$623,185,000 in 2007)

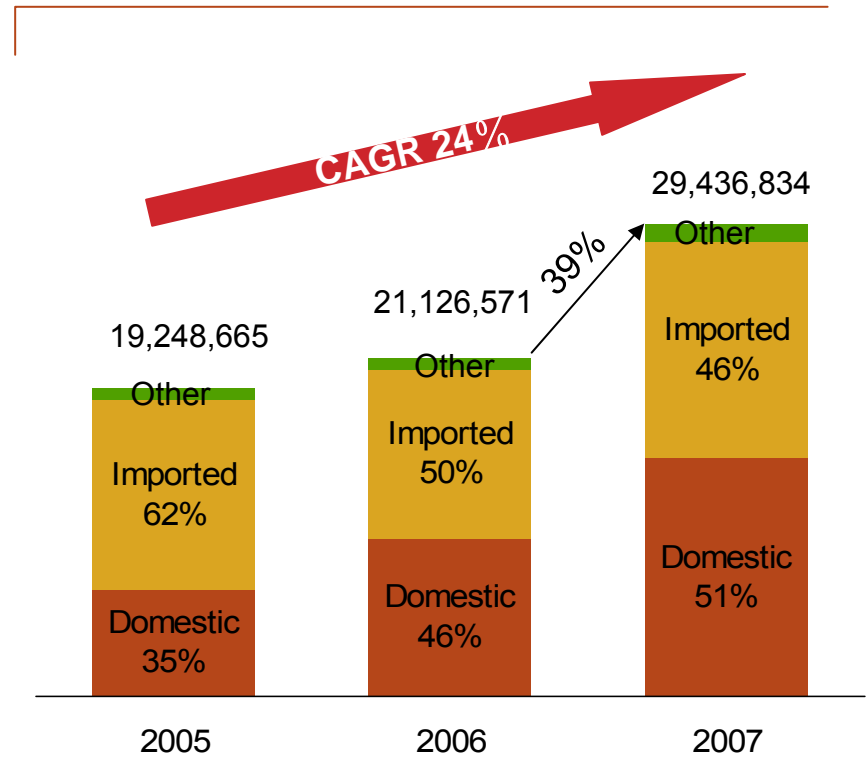
Note 2) The weighted average number of shares as of 2007 was 6,000,022,000; while 5,807,949,000 as of 2006

Stable Growth in the Business Scale

Sales Volume ('000 ton)

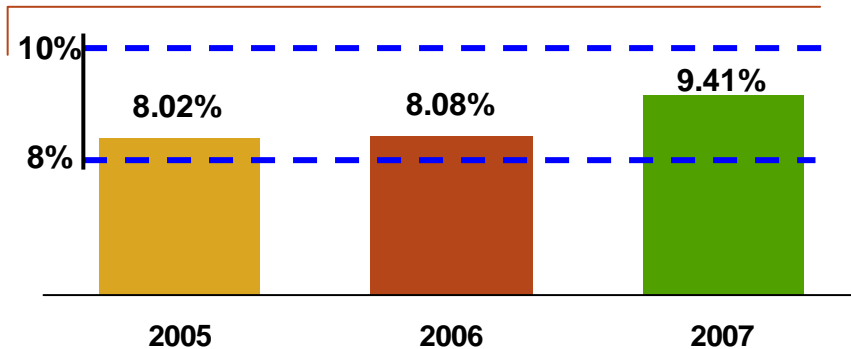


Turnover (HK\$ '000)

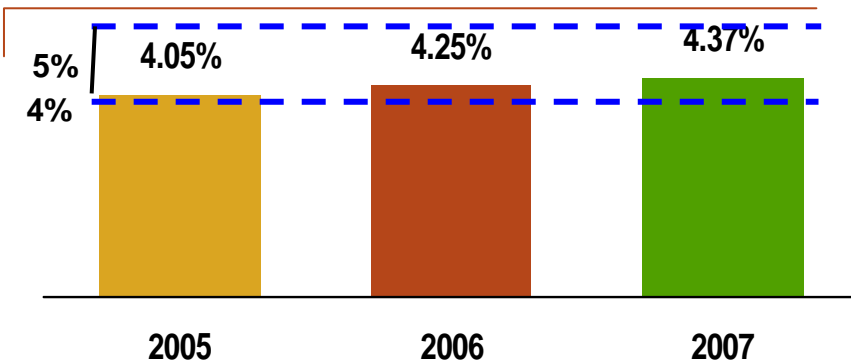


Stable Improvement of Profitability with Sharp Growth in Net Income

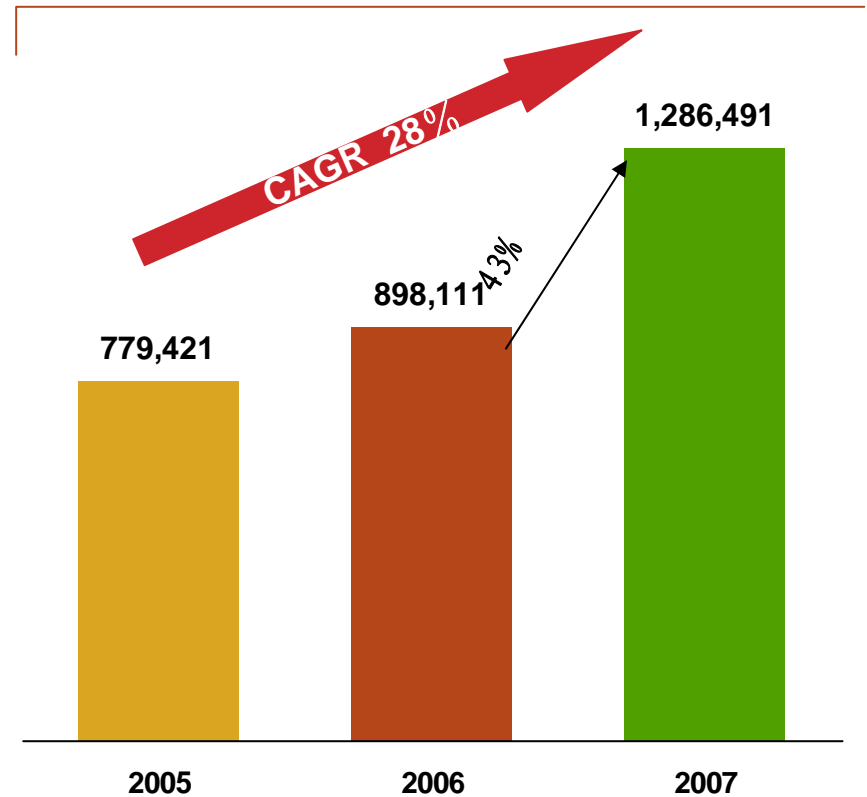
Gross Margin (%)



Net Margin (%)

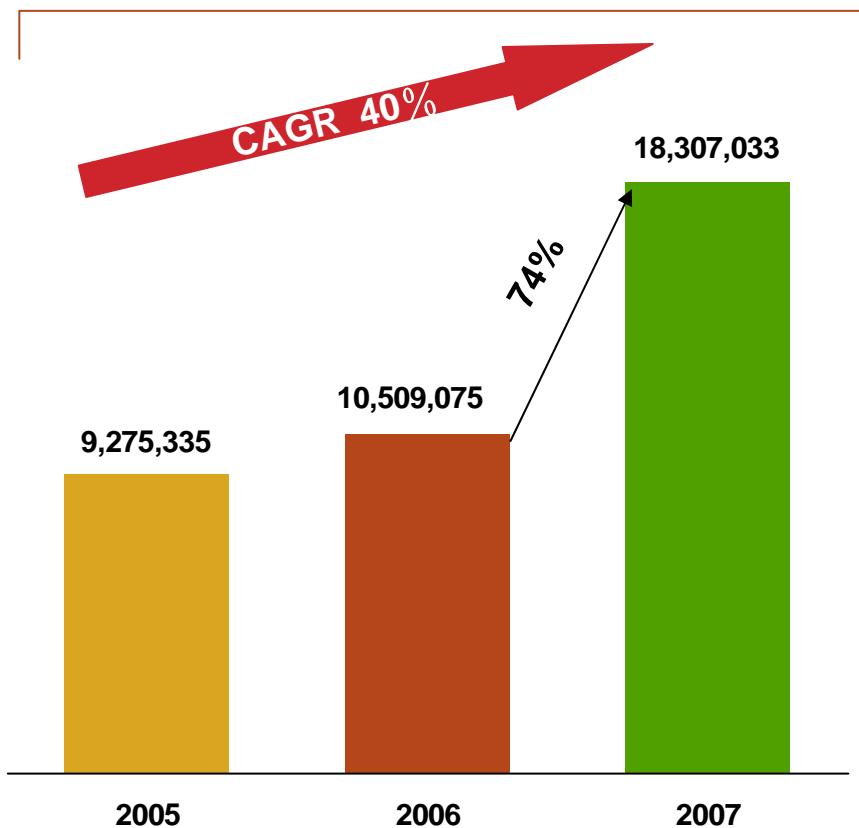


Net Profit (HK\$ '000)

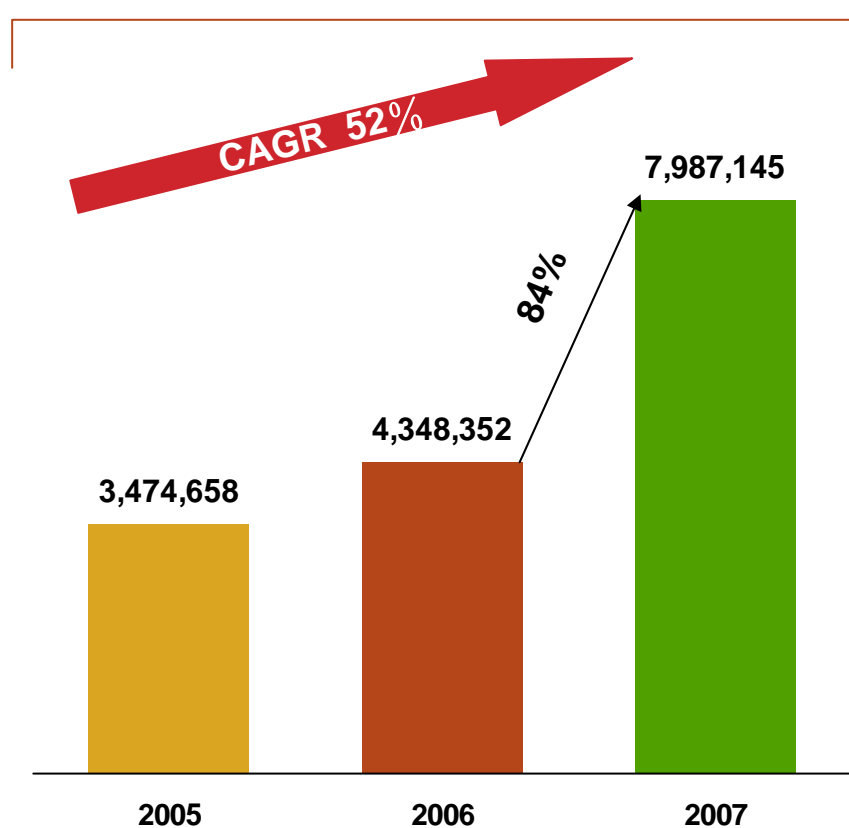


Assets Scale Expansion

Total Assets (HK\$ '000)

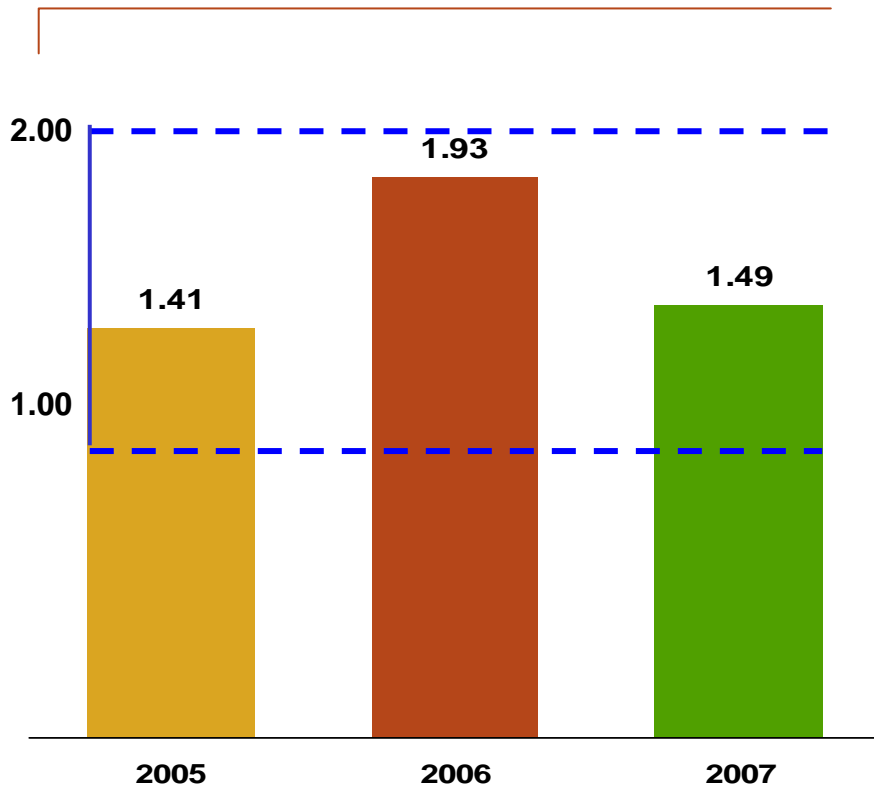


Net Assets (HK\$ '000)

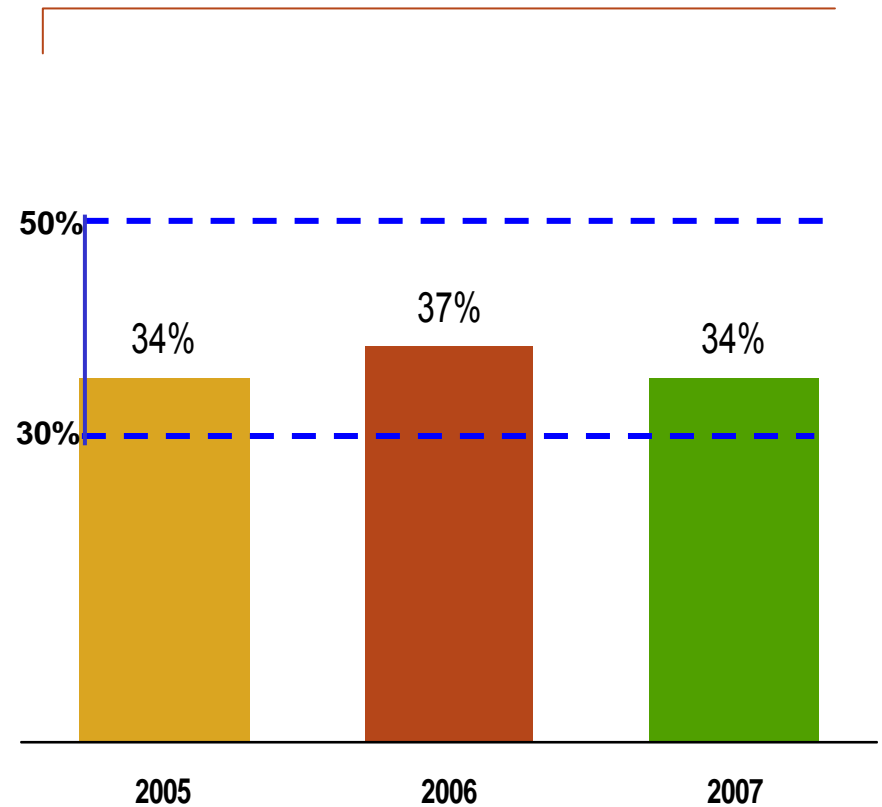


Solvency

Current ratio (%)



Debt-to-equity ratio (%)

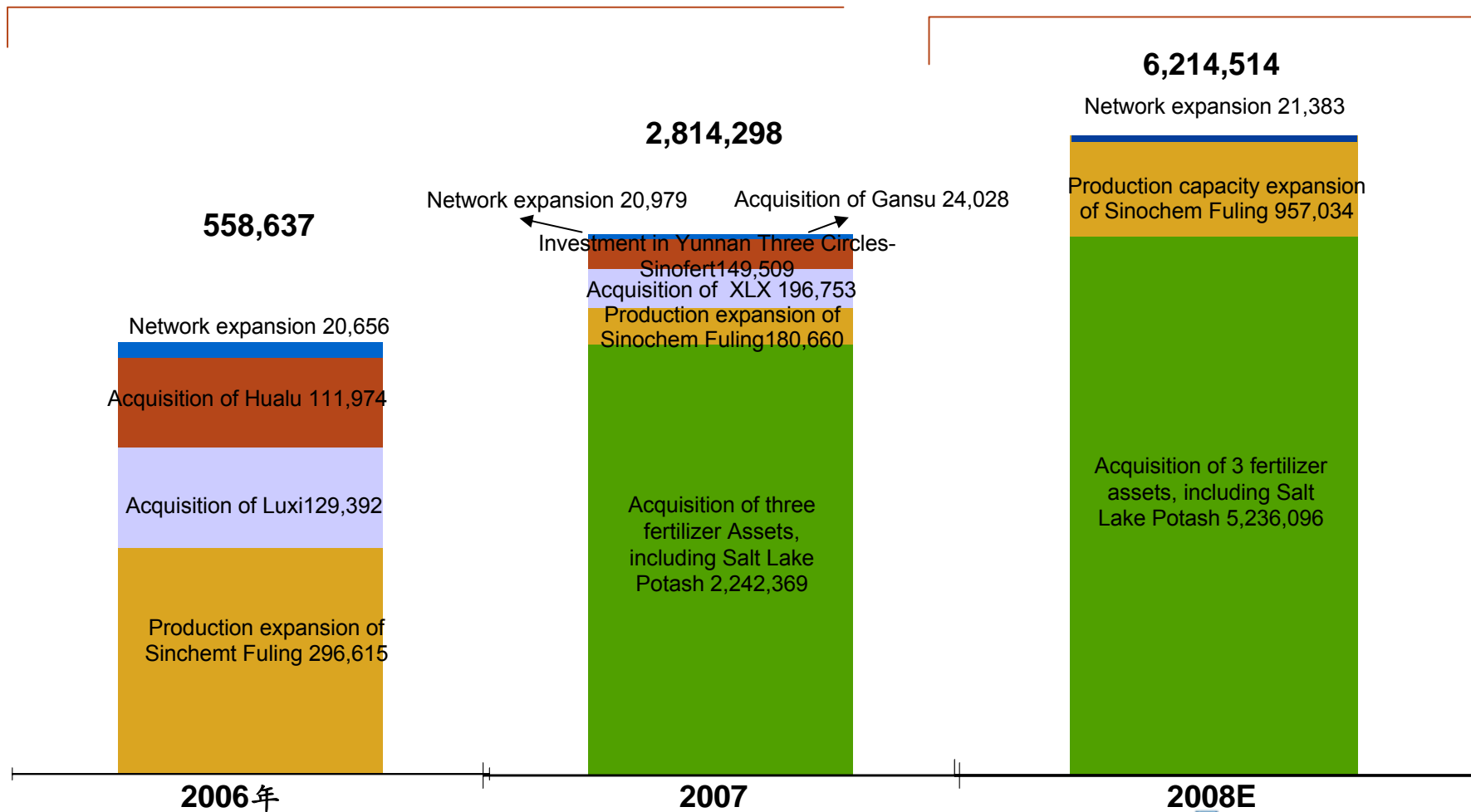


Note: Deb- to-equity ratio = total interest bearing liabilities/total equity

Capex

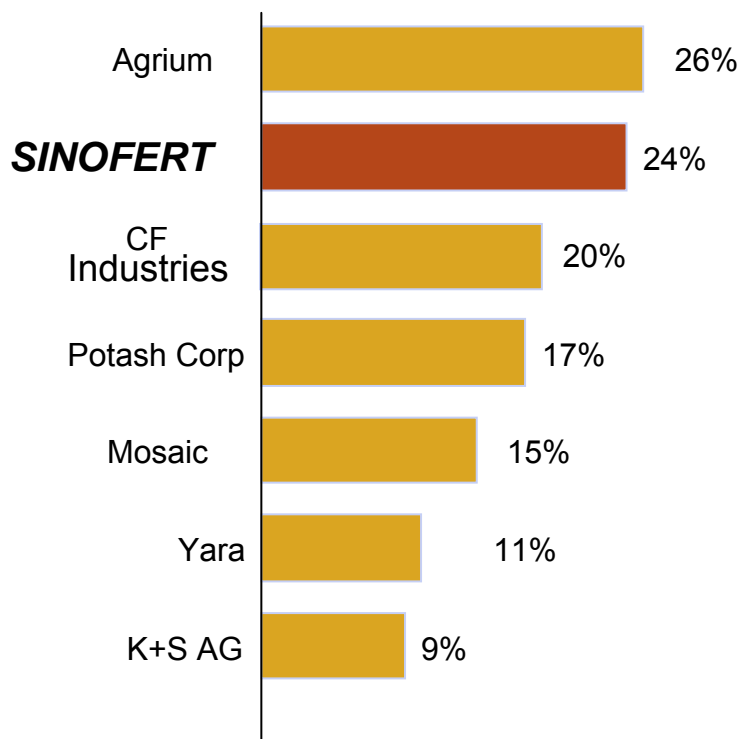
Capex (HK\$ '000)

Capital Commitment for 2008(HK\$ '000)

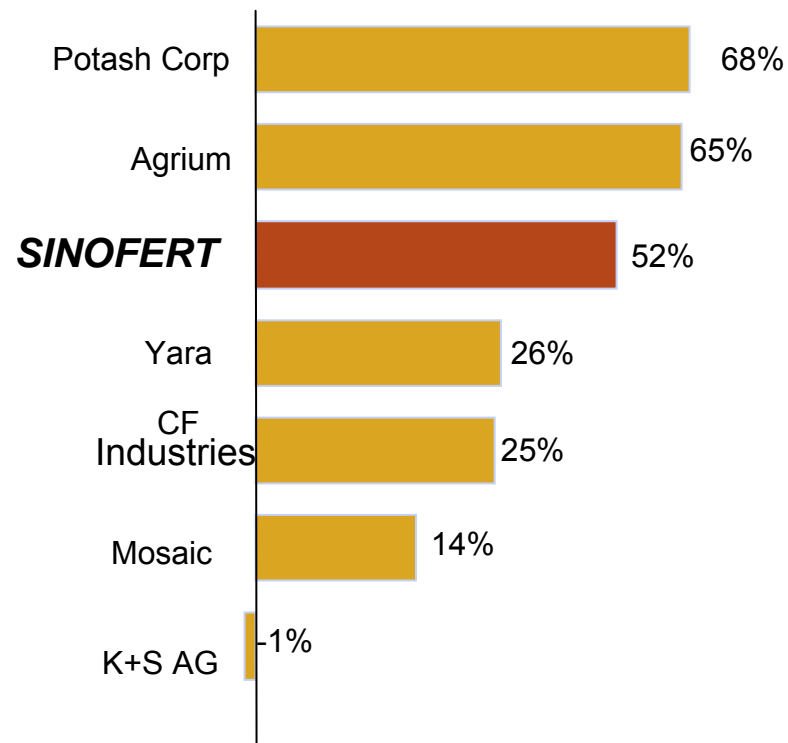


Global Comparable Fertilizer Companies

Turnover Growth (05-07 CAGR)



Net Asset Growth (05-07 CAGR)

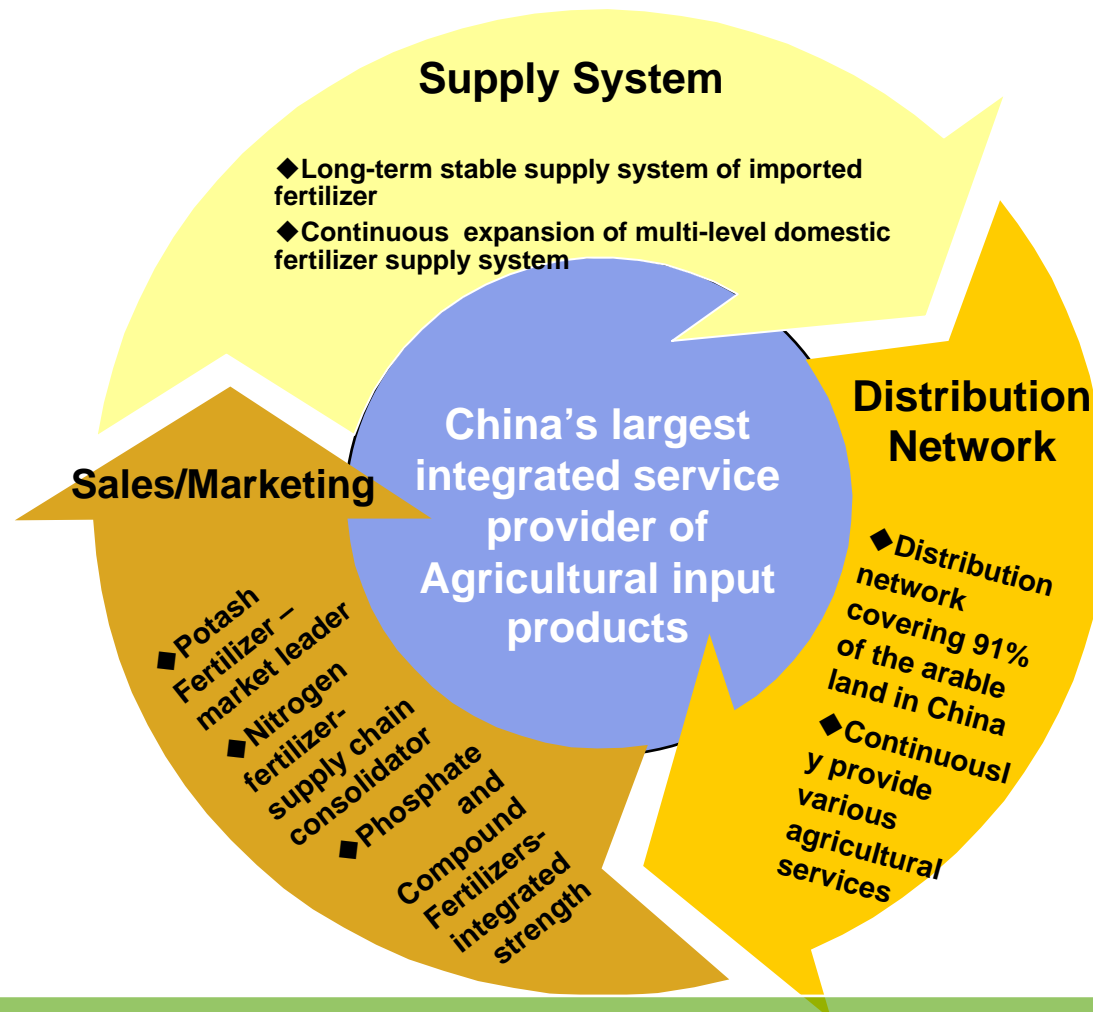


Source: Bloomberg

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- **Financial Performance: Continuous Rapid Growth**
- **Operating Highlights: Steady Implementation of Our Corporate Strategy**
- **Outlook: To Become a Leading Integrated Service Provider of Agricultural Input Products in the World**

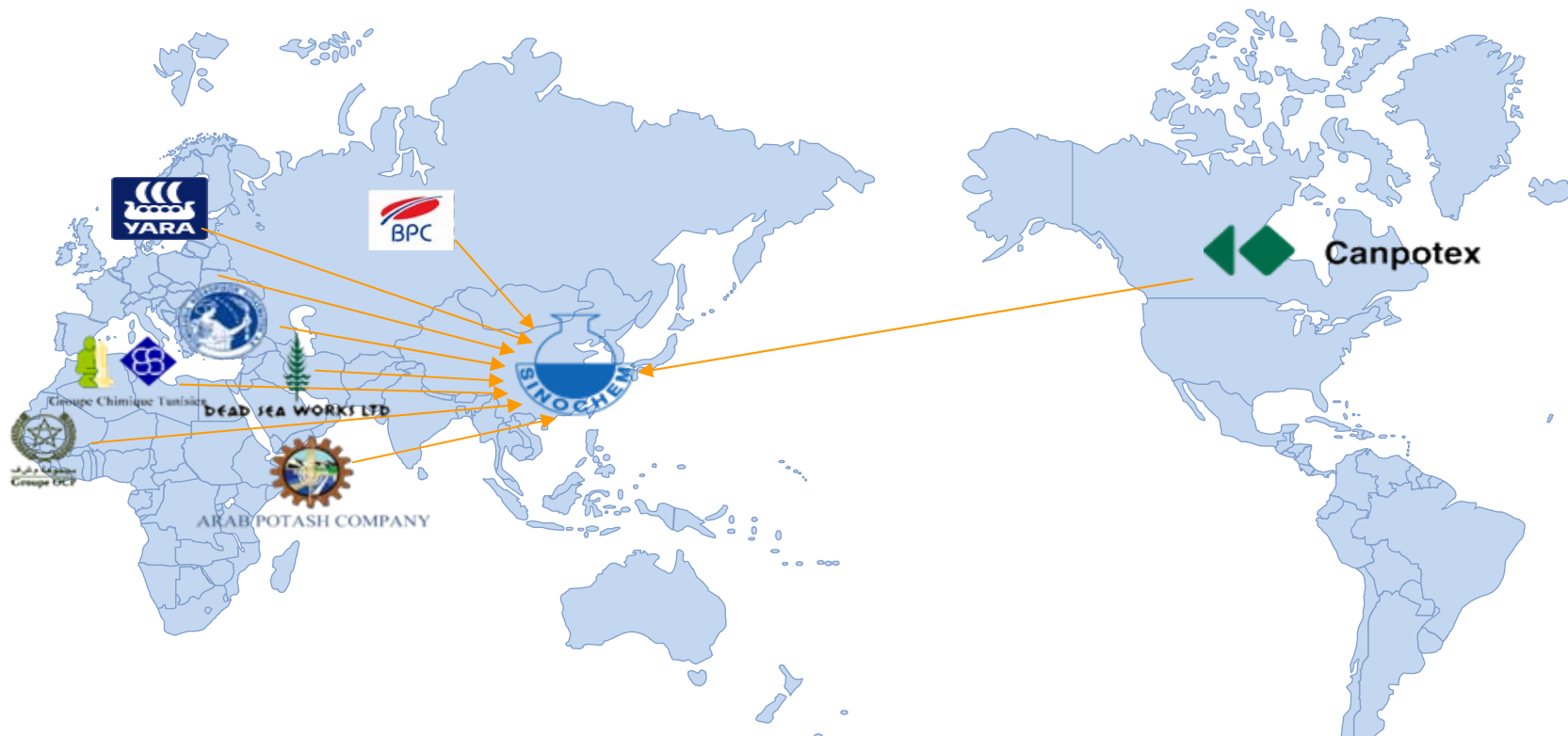
Strategy: Expanding into Production, Marketing and Distribution Business while Focusing on Distribution



- All the business segments mutually supplementing each other to create synergy under the unique integrated business model



Supply System: Long-term and Stable Supply System of Imported Fertilizers



Maintaining stable strategic cooperation with global key fertilizer suppliers

- ◆ For potassium fertilizer, maintaining exclusive agency agreements with Canpotex, DSW, and APC; continuing to boost the long-term and stable partnership with BPC
- ◆ For phosphate fertilizer, maintaining exclusive agency agreements with OCP and GCT in North Africa
- ◆ Maintaining exclusive agency agreements with YARA and FERTIVA in the areas of high concentration compound fertilizer

Maintaining the position as China's largest distributor of imported fertilizers, with market share of 48.2 %

- ◆ Imported potash fertilizer accounting for 50.4%
- ◆ Imported compound fertilizer accounting for 55.2%

Supply System: Expanding Multi-level Domestic Fertilizer Supply System (I)

Expanded production capacity after acquisition of 3 fertilizer assets from parent company

Transaction overview

- **Target:** on 28 Dec 2007, special shareholder meeting approved asset injections from parent company for 18.49% QSLP, 40% Tianji-Sinochem, and 51% Shandong Fertilizer
- **Total considerations:** RMB 7.0bn (or equivalent of HK\$ 7.37bn)
- **Latest development:**
 - In Dec 2007, consideration of RMB 2.1bn was paid to the parent company; on Jan 2008, consideration of remaining RMB 4.9bn was paid
 - As of late Mar 2008, asset ownership transfer was completed for Tianji-inochem and Shangdong Fertilizer, and share transfer was completed for QSLP

- **Salt Lake Potash : the largest producer of potash fertilizer in China , well-positioned with resource accessibility**
- Capacity: 2 mn tons of potassium chloride, accounting for above 70% of the total domestic output, with notable advantage in terms of economy of scale
 - Owns the mining right of Qarhan Salt Lake region and is entitled to continuous exploitation of the resources
 - Production efficiency enhanced by technical improvement with cost decreasing

- **Shandong Fertilizer: significant competitive advantages in technology & geographic location**
- Capacity: 0.6 mn tons of Compound Fertilizer
- Advanced production technology, close to the biggest national Compound Fertilizer market

- **Tianji-Sinochem-: significant cost edge**
- Capacity: 0.6 mn tons of granular urea
- Located in the coal-rich area of China with raw material advantages

Increasing production capacity by 3.2 mn tons from invested entitles

Getting access to scarce resource-- potash reserve

Generating notable financial income and cash flows every year



Supply System: Expanding Multi-level Domestic Fertilizer Supply System (II)

Upon asset acquisitions, the supply base of domestic fertilizers would take shape

**Phosphate fertilizer
capacity: 3.98 mn tons**

- ◆ Sinochem-Fuling: 1 mn tons
- ◆ Sinochem-kailin: 1.36 mn tons
- ◆ Sinochem-Cargill 0.6 mn tons
- ◆ Yunnan Three Circles-Sinofert: 0.6 mn tons
- ◆ Gansu Wengfu: 0.42 mn tons

**Compound Fertilizer
capacity: 1.27mn tons**

- ◆ Shandong Fertilizer: 0.6mn tons
- ◆ Sinochem-Fuling: 0.3mn tons
- ◆ Sinochem-Zhisheng: 0.2 mn tons
- ◆ Yantai-Sinochem: 0.1mn tons
- ◆ Sinochem-Dongfang: 0.07mn tons

**Potassium Fertilizer
capacity: 2 mn tons**

- ◆ QSLP: 2mn tons

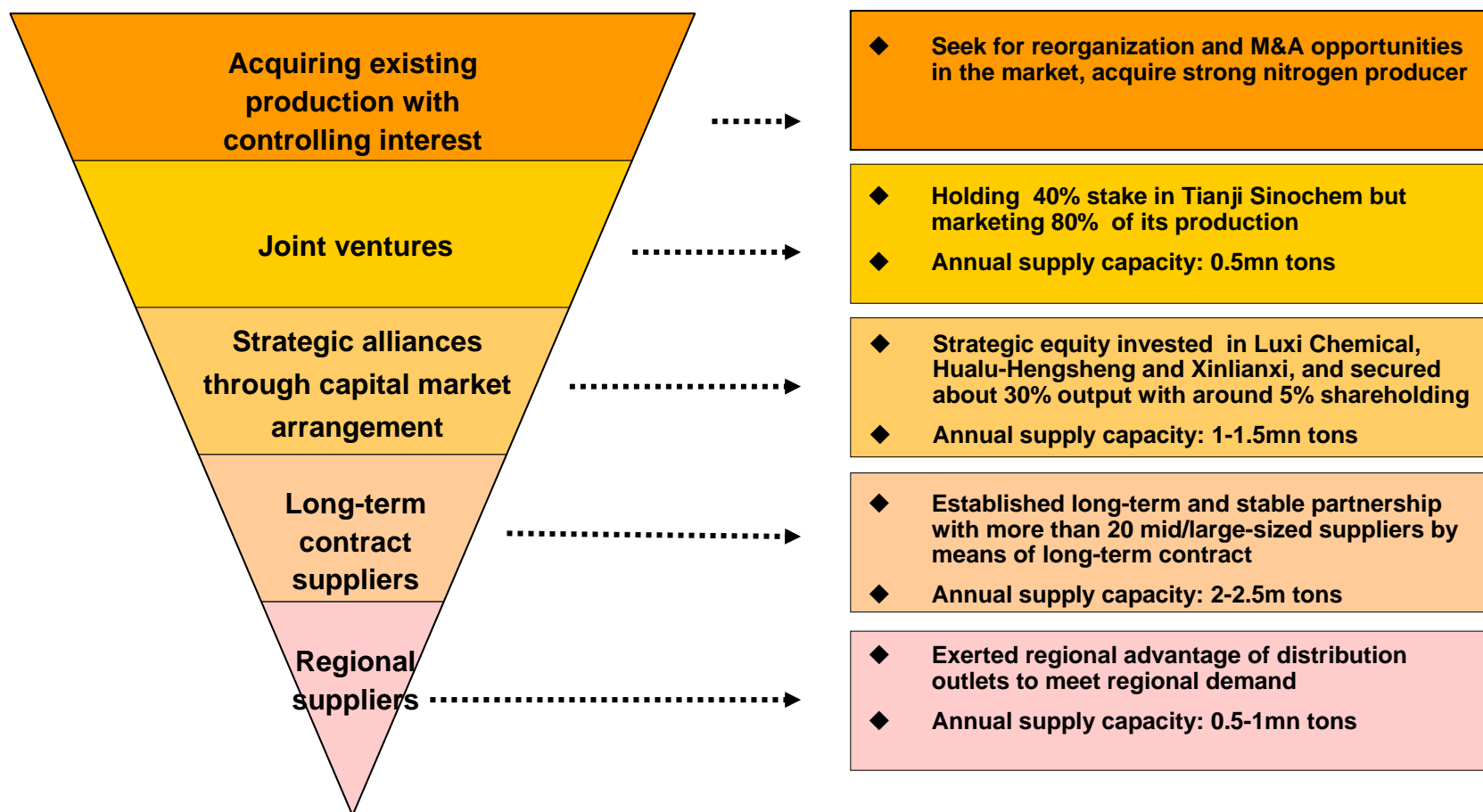
**Nitrogen fertilizer
capacity : 0.6 mn tons**

- ◆ Tianji-Sinochem: 0.6mn tons

- The only fertilizer producer in China which boasts the production of all the four major types of fertilizers (nitrogen, phosphate, Potash, and compound)
- One of the largest fertilizer producers in China with production capacity of 7.85mn tons resulting from share investing/shareholding producers

Supply System: Expanding Multi-level Domestic Fertilizer Supply System (III)

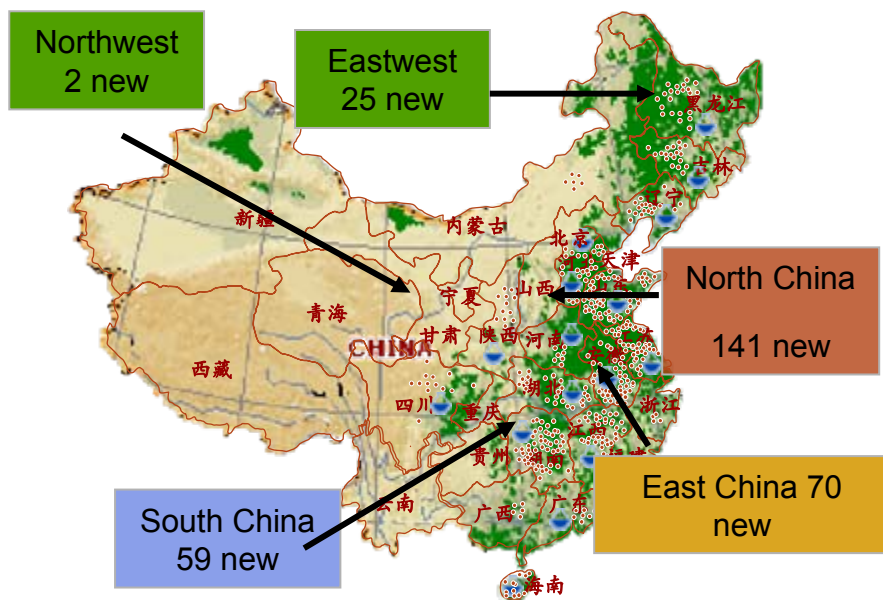
Strengthening nitrogen fertilizer supply base and optimizing the multi-level supplier system



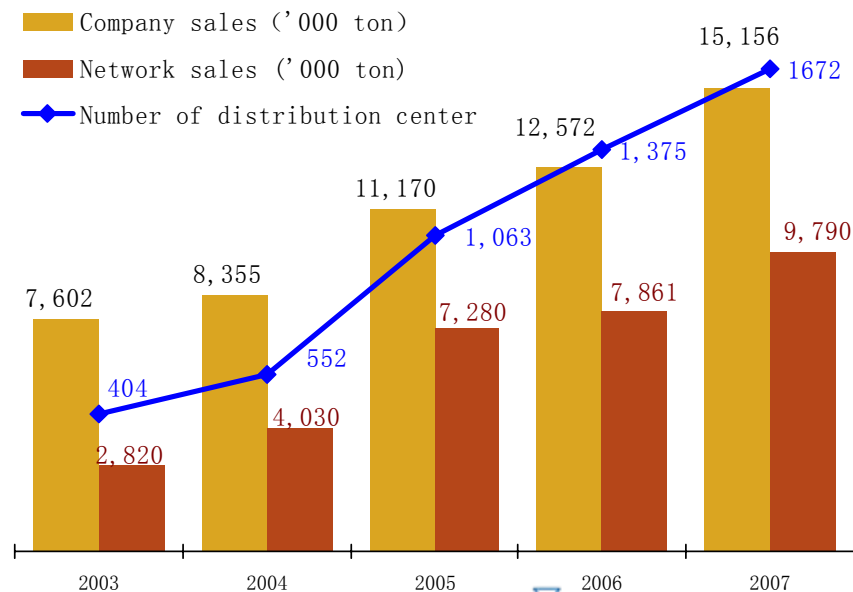
Distribution Network: Expansion in Both Scale and Sales Volume

- Continuously intensifying network in the East, and establishing new distribution centers in Central and Western China. There were 297 newly-set distribution centers, bringing the total number to 1,672
- Sales volume through distribution network is 9.79mn tons, up 25% yoy

Newly added 297 distribution centers



Number and sales volume of distribution outlets



Distribution Network: Nationwide Coverage

Distribution network	Date of establishment	07 sales volume ('000 tons)	Distribution network	Date of establishment	07 sales volume ('000 tons)
Shandong Branch	1999.04	1317	Anhui Branch	2002.03	587
Jiangsu Branch	2000.12	1081	Jilin Branch	2002.11	586
Heilongjiang Branch	2002.03	928	Fujian Branch	2005.01	459
Hebei Branch	2002.12	781	Liaoning Branch	2003.07	445
Hubei Branch	2002.03	695	Northwest Branch	2006.06	306
Guangdong Branch	2005.01	682	Guangxi Branch	2006.11	258
Henan Branch	2003.08	621	Hunan Branch	2002.09	217
Jiangxi Branch	2002.07	614	Hainan Branch	2001.06	213

The map shows the following sales volumes for various provinces and regions:

- 黑龙江: 587
- 吉林: 586
- 内蒙古: 586
- 辽宁: 445
- 北京: 459
- 河北: 445
- 天津: 445
- 山西: 445
- 山东: 445
- 宁夏: 445
- 陕西: 306
- 河南: 306
- 安徽: 306
- 江苏: 306
- 湖北: 258
- 四川: 258
- 重庆: 258
- 江西: 217
- 湖南: 217
- 贵州: 217
- 福建: 217
- 台湾: 213
- 海南: 213
- 云南: 213
- 广西: 213
- 青海: 695
- 西藏: 682

■ The distribution network covers 26 provinces, autonomous regions and municipalities and 91% of China's arable land

Distribution Network: Providing Regular Agrichemical Services to Improve Brand Value



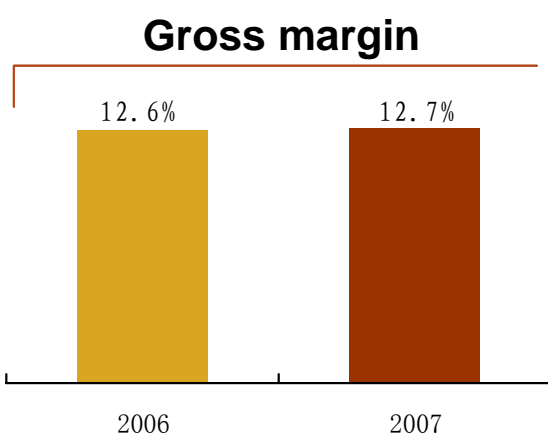
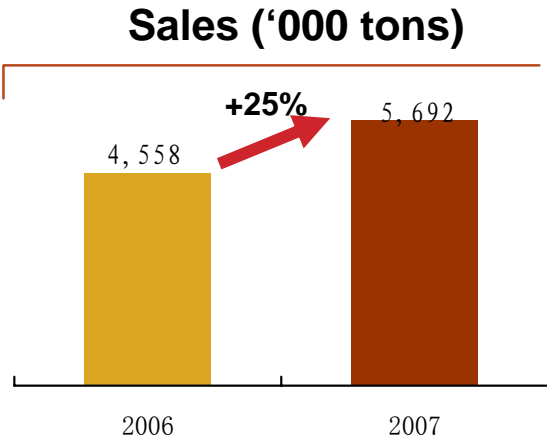
- A total of 3,075 agrichemical lecturing, market promotion, field demonstration and soil testing activities in a year
- Continued with “soil testing for model villages of scientific fertilizer application”. Established 360 new model villages in 2007 and 535 in total. The activity is favorably reported and publicized by major Chinese media organizations

- Sinofert potash customer rewarding campaign was carried out in 40 cities and counties in 8 provinces in South China with 80 roadshows
- “10,000 Movies in 100 counties” campaign with 9,100 movie shows, benefiting more than 4.2mn farmers
- Continued distributing 3.93mn copies of materials such as fertilizer application manuals and agrichemical service brochures to farmers for free
- Various agrichemical activities benefited more than 50mn farmers in the years

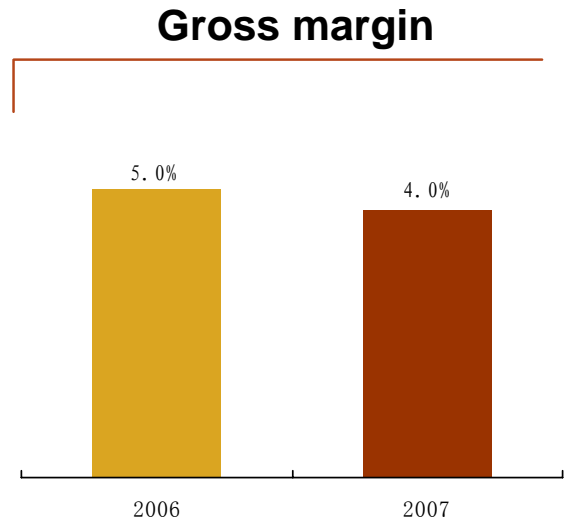
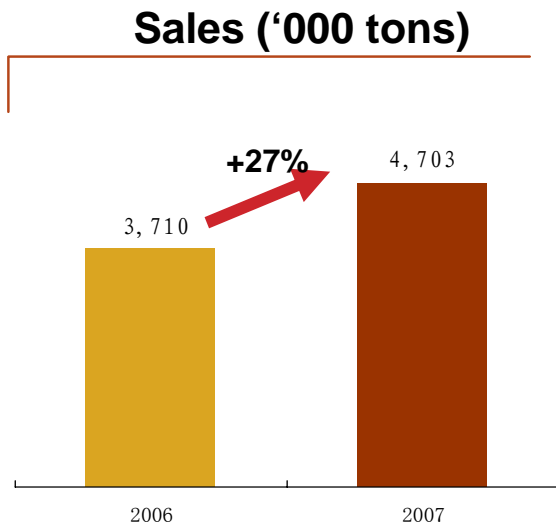


Product Sales: Potash and Nitrogen Fertilizers

Potash:
Be a market leader
 55% share in
 China's potash
 market



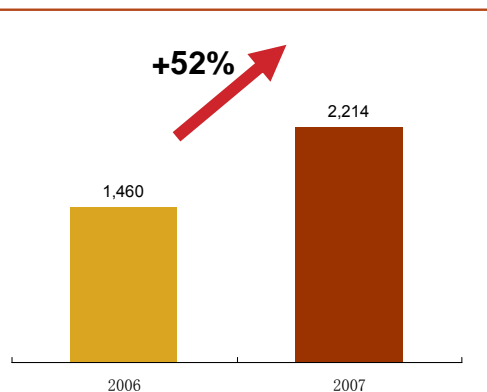
Nitrogen:
Be the supply chain
consolidator
 Increasing market
 share to 10%



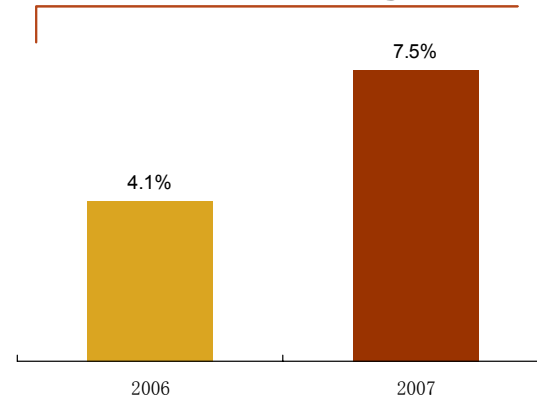
Product Sales: Phosphate and Compound Fertilizers

Phosphate
Expand production volume, and enlarge business scale and market share

Sales ('000 tons)

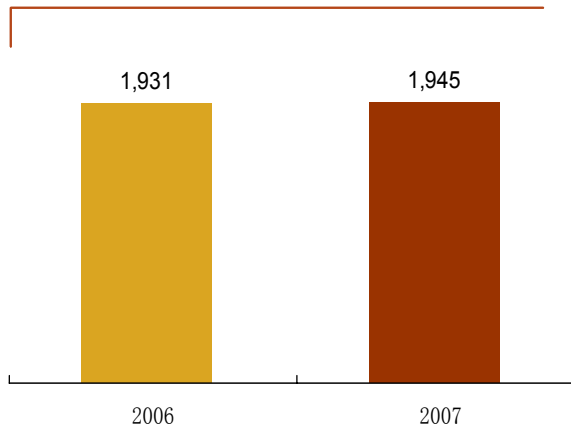


Gross margin



Compound
High end product positioning with brand value, improving business scale and market share

Sales ('000 tons)



Gross margin

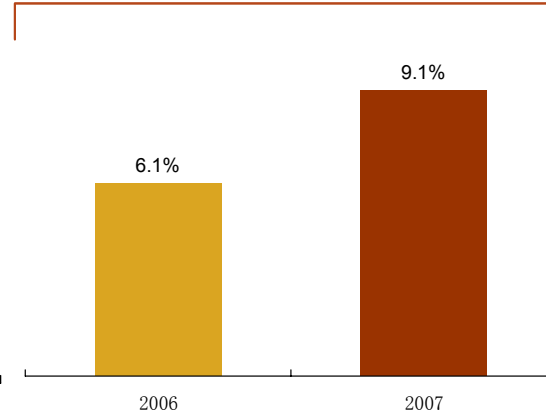
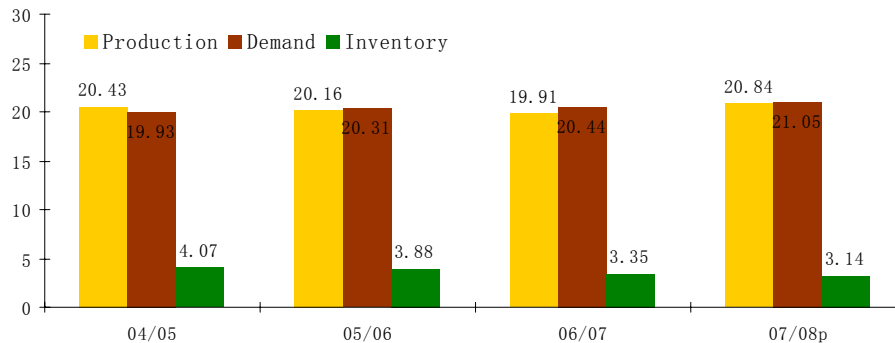


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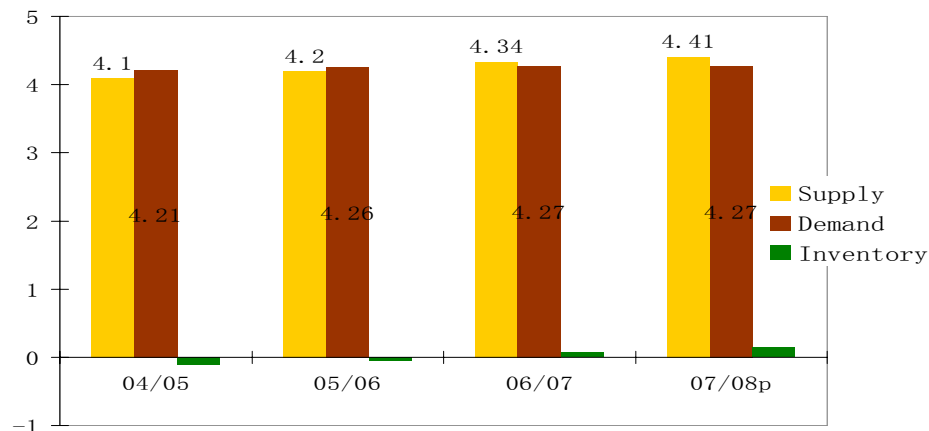
Global Grain Inventory Keeps Falling, and China's Grain Supply/Demand Is in Tight Balance

Global crops supply/demand and inventory trends



Source: USDA

China's major crops supply/demand trend



Source: China National Grain and Oils Information Center

➤ Global crops inventory keeps falling

The world's crops inventory at the end of 2007 is expected to be 314mn tons, lower than that of 2006 (335mn tons) and 2005 (388m tons). The global crops inventory kept decreasing for 3 consecutive years and falls to the lowest level for recent 30 years

➤ Skyrocketing prices for major crops in the world

Based on the COBT futures prices, the average annual price of wheat, corn and rice rose by 39.4% in 2007 over 2006, reaching the highest level for recent 10 years

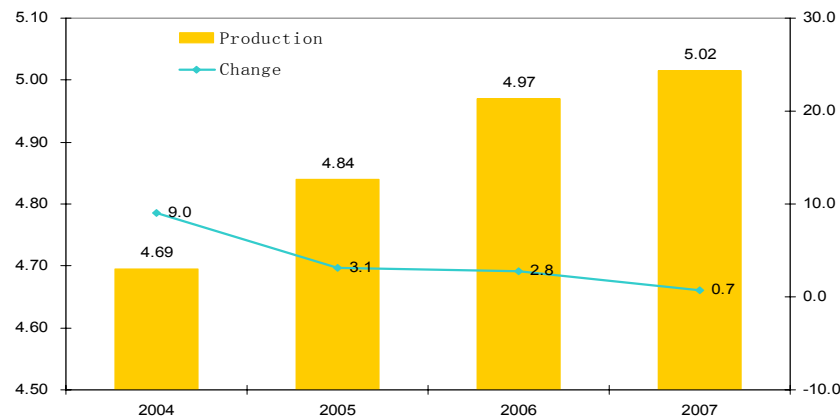
➤ Tight balance in grain supply/demand in China

The production of the major crops kept growing YOY and reached 427 mn tons in 2007, but the supply is still tight

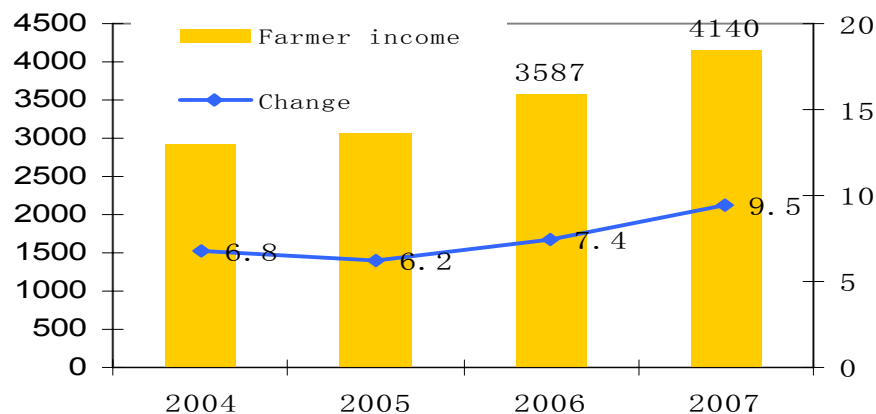
China Continues with the Agricultural Favorable Policies to Promote Grain Production and Increase Farmers' Income

- Increased financial support in order to solve the “agriculture, farmers and rural area” issue:** In 2007, the Central government spent RMB 431.8 bn to solve the “agriculture, farmers and rural area” issue. In 2008, the Central government plans to spend RMB 562.5 bn to solve the “agriculture, farmers and rural area” issue
- Strengthen and improve agricultural supporting policies:** increase direct subsidy for grain and integrated agricultural subsidies, and the minimum purchase prices of grain shall be raised based on specific situation
- Adhere to the most stringent farming land protection scheme:** strengthen the protection of prime farming land and take a firm stand to maintain a minimum of 1.8 bn Mu of plow land
- Gradually increase farmers' income on an annual basis:** with the strengthening of favorable treatment policies to rural sector, the income of farmers keeps on rise. The average annual growth rate keeps above 6% from 2004 to 2006 with 9.5% in 2007

2004-2007 grain production trend in China



2004-2007 farmers income in China



The Global Fertilizer Supply/Demand Trend and the Fertilizer Market in China

- **The largest fertilizer market in the world**

Fertilizer production and consumption account for 30% in international market

- **Higher than world average level of fertilizer demand growth rate in China**

Annual average growth rate in fertilizer application for 2002-2007 is 3.3% with demand growth higher the world average level

- **Oversupply in China with different supply/demand for different fertilizers**

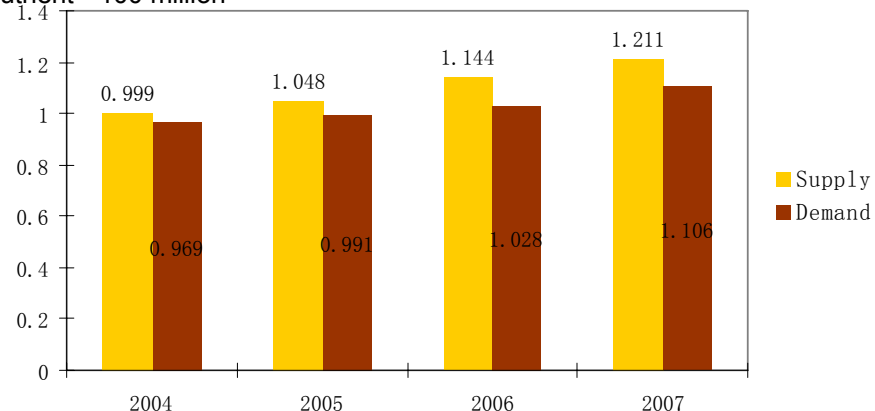
Potash: big spread between demand and supply with 70% of demand relying on import

Phosphate: balance in demand and supply with small export

Nitrogen: oversupply with about 10% of excess production

World fertilizer supply/Demand trend

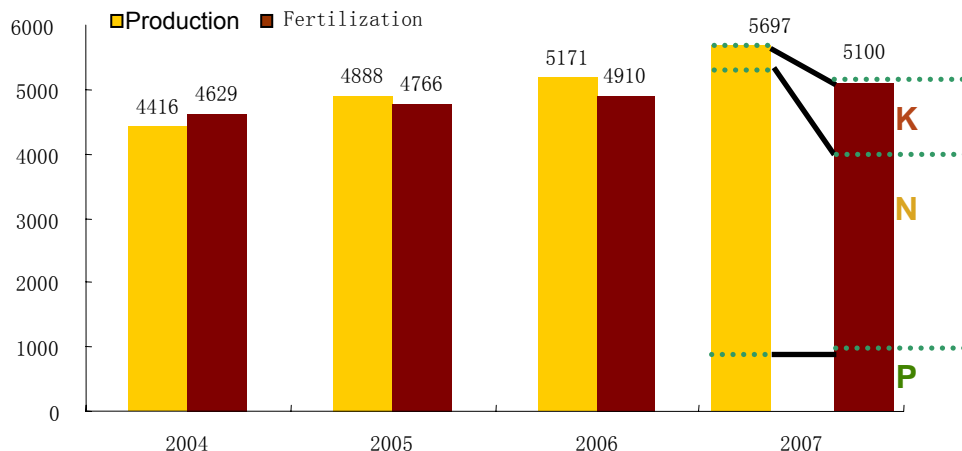
in 100% nutrient * 100 million



Source: FMB

China fertilizer supply/demand trend

in 100% nutrient * 100 million



Source: www.sinofi.com



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Strategic Goal of the Company

3-year objective: expand into production and marketing and distribution business while focusing on distribution

Expand industry base, consolidate product supply and enhance distribution networks

Production: one of the largest basic fertilizers producers in China

- ❑ Total production capacity from affiliates and subsidiaries will reach 10mn tons in 2008 while that for 2010 will be over 15mn tons
- ❑ Cooperate with leaders in production sector in depth, capture industry consolidation opportunities and increase M&A pace
- ❑ Seek overseas resources projects
- ❑ Optimize management and control system for investment projects

Distribution: the largest agricultural input distributor and service provider

- ❑ Establish distribution centers on county level with the total number of distribution centers of 2000 by 2008; optimize network layout, improve operation quality, and increase market shares in 2009-2010
- ❑ Standardize network construction and management
- ❑ Safe, convenient and cost effective logistics system
- ❑ Continuous, in-depth and various agrichemical service

By 2010 fertilizer sales will account for 25% of the fertilizer markets in China

- ❑ Maintain a growth rate of no less than 20% in terms of operational performance between 2008-2010
- ❑ Develop into the largest agricultural input provider in China with world leading position



Product Development Strategy

product	potassium fertilizer	Nitrogenous fertilizer	Phosphorus	Compound fertilizer	Pesticides & seeds
Market positioning	Market leader with no less than 50% market share	supply chain Consolidator with 2% growth rate p.a. in market share	Expand production capacity, achieve steady growth of both business scale and market shares	High quality positioning with brand value and grow business scale and market shares	Consolidation and M&A Combine advantages with leaping-forward development
Supply	<ul style="list-style-type: none"> ◆ Enhance cooperation with Salt Lake Potash ◆ Equity investment in companies with potash resources ◆ renew exclusive agreements with international players 	<ul style="list-style-type: none"> ◆ Participate in the nitrogen sector restructuring and seek M&A opportunities ◆ Improve the multi-level supplier system 	<ul style="list-style-type: none"> ◆ Capacity expansion on self-owned plants ◆ Seek cooperation /M&A opportunities on phosphorus resources 	<ul style="list-style-type: none"> ◆ Maintain import advantage ◆ Increase sales by self-owned production expansion ◆ Develop new types of fertilizers 	<ul style="list-style-type: none"> ◆ Consolidate quality players via M&A and equity ◆ Target on leading players with scale and profitability
distribution strategy	<ul style="list-style-type: none"> ◆ Increase sales with strong distribution network and comprehensive product lines ◆ Improve profitability by expanding customer base at village / town level ◆ Optimize multi-level logistics system focusing on large-scaled distribution warehouse with warehousing capacity and utility enhancement ◆ Promote sales and improve brand recognition by providing in-depth agrichemical services 				

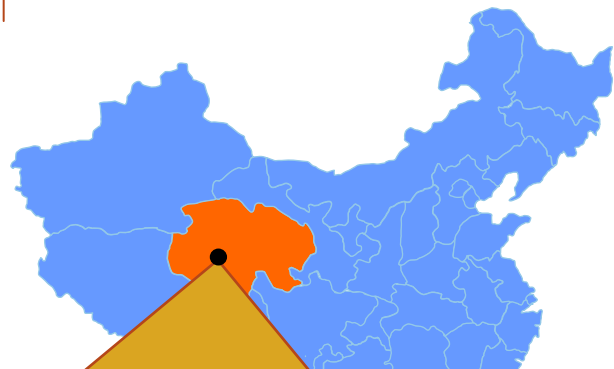
An aerial photograph of a vast agricultural field during harvest. The foreground and middle ground are filled with rows of golden-brown crops, likely wheat or corn, being harvested by several red combine harvesters. The background shows a transition to green fields under a clear sky. The text is overlaid in the upper-middle section of the image.

**Sinofert: Growing with Modern
Chinese Agriculture in a
Sustainable, Healthy and
Rapid Way**

Q & A

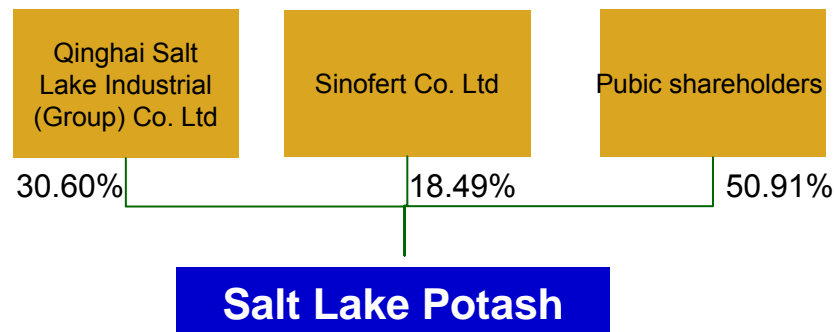
Appendix 1: Acquisition of Assets from the ParentCo – Salt Lake Potash of Significant Resource Advantage

Overview of Salt Lake Potash

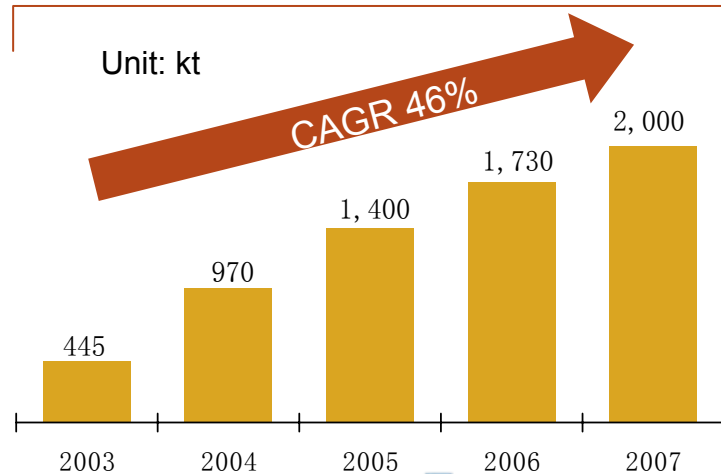


- Location: Qinghai Qarhan Salt Lake
- Main products: potassium chloride
- Market position:
 - China's largest potassium chloride producer with over 70% domestic production
 - "Salt Bridge" potassium chloride products rewarded as "National renowned product" and "National Inspection-free products"
- Strength in resources and technology
 - License for Qarhan Salt Lake area with sustainable development prospect
 - Production efficiency enhanced by technical improvement with the cost decreasing

Ownership structure



Rapid output growth



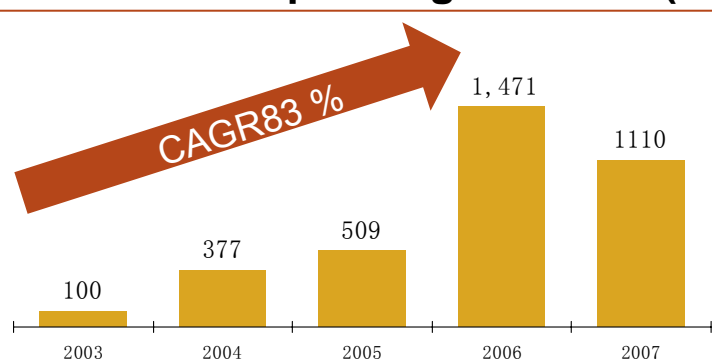
Source: 07 full year data unavailable, derived based on the average growth rate



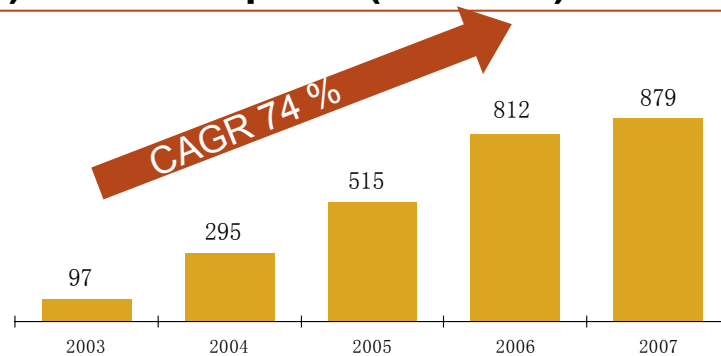
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SINO FERT HOLDINGS LIMITED

Appendix 1: Acquisition of Assets from the Parent Co – Salt Lake Potash of Significant Strategy Importance

Net cash flow from operating activities (RMB mn)



Net profit (RMB mn)



■ Reinforced dominance in the potash sector with a win-win prospect

- “China’s largest supplier of imported fertilizer” + “China’s largest potash producers”
- A market share of over 70% in China’s potash market
- Combination of Salt Lake Potash’s production strength and Sinofert’s distribution advantage

■ Joint development of Salt Lake resources

■ Salt Lake Potash’s outstanding financial performance will benefit the Company

- Increased investment earnings

Based on Salt Lake Potash’s 2007 results, the Company’s net profit will be increased by HK\$ 159 mn and the EPS will be increased by 2.6 HK cents

- Salt Lake Potash’s high dividend policy will provide Sinofert’s with an expanded source of cash

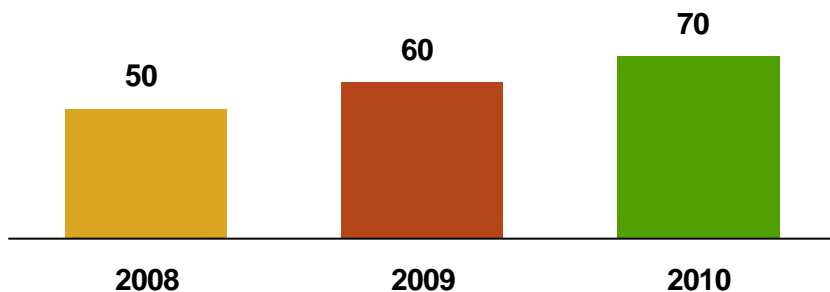
Source: 07 full year data unavailable, derived based on the average growth rate

Appendix 2: Acquisition of Assets from the ParentCo – Shandong Fertilizer and Tianji-Sinochem

Shandong Fertilizer: significant technological and geographic advantage

- Production capacity of 600 kt/year for compound fertilizer
- Advanced production technology and technological advantage
- Geographic advantage– located in an area with the largest and most intensive demands for compound fertilizer in China
- Positive fit between the products provided by the shareholders and the Company's operations

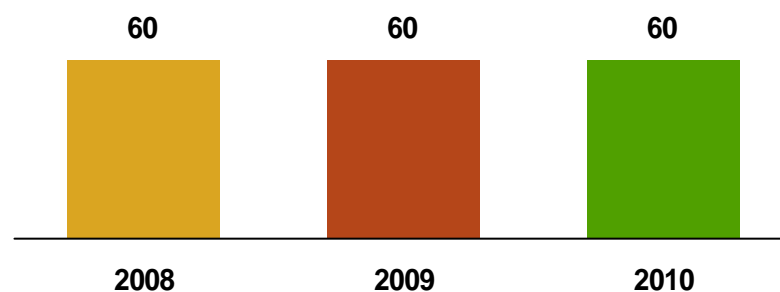
Shandong Fertilizer's production plan for 2008-2010 (10 kt)



Tianji-Sinochem: significant cost advantage

- Production capacity of 600 kt/year for urea
- Located in an area with abundant coal resources; significant advantage in supply of raw materials
- Granular urea is the trend for nitrogenous products
- A large-scaled modern coal chemical project

Tianji-Sinochem production plan for 2008-2010 (10 kt)



Appendix 3: Two Equity Financings

New share issuance

Date of offering

July 2007

Size of offering

400,000,000 shares

The Company's enlarged issued share capital: 6,209,286,726 shares

Offering price /proceeds raised

HK\$5.90/HK\$2320mn

Net offering price per share after deduction of relevant expenses: HK\$ 5.81

Offering target

Public

Status

Ranking pari passu with the existing share

placement

Date of offering

January 2007

Size of offering

714,285,714 shares

The Company's enlarged issued share capital: 6,924,909,338 shares

Offering price/proceeds raised

HK\$7.00/HK\$5bn

Offering target:

Sinochem HK (Group) Co. Ltd

519,995,539
shares

Potash Corp 19,290,175 shares

Status

Ranking pari passu with the existing share



Appendix 4: Convertible Bond

Key terms

Size: HK\$1.3 bn

Due time: 5 years (August 7, 2011)

Issue price: 100%

Interest: 0.00%

Yield: 4.875%

Issue premium: 30%

Sellable date: 3 years after issuance
(August 7, 2009)

Redemption price: 115.55%-127.23%

Redemption condition: stock price
gaining a minimum 30% after 3 years
from the issuance

Dividend protection: comprehensive

Accounting treatment policy

“Fair value” evaluation is needed for the “derivatives tranche” with regard to the discrepancy between the beginning and ending fair value, and the fair value for the equity swap shall be provisioned in the financial accounts on a prudential basis.

Impact on the performance

The fair value change in convertible bonds resulted in HK\$623 mn which was listed in income statement. Given the factor dose not impact the normal course of business and cash flow, it is not included in the analysis of 07 annual result.

Option exercise

As of the end of 2007, convertible bonds with total face valve of HK\$391 mn were converted at HK\$3.74 per share (principal of HK\$10 mn was converted into 2,673,796 ordinary shares; principal of HK\$381 mn was paid by cash)

As at the end of 2007, the total face value of outstanding loan notes was HK\$909 million.