



中化化肥控股有限公司  
SINOCHEM HOLDINGS LIMITED

**Nurturing China's Agricultural Sector**

# 2009 Annual Report

***March 18, 2010***



# 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.

# Contents

- **Financial Performance**
- **Review on Business Operations**
- **Outlook**



# Results for 2009

RMB million	2009	2008	YoY change
Sales volume ( million tons)	15.23	16.22	-6%
Turnover	27,011	45,393	-41%
Gross profit	-563	3,401	-117%
Net profit	-1,444	1,913	-175%
Net profit (excluding the impact of changes in fair value of convertible bonds) <small>Note 1</small>	-1,494	1,749	-185%
EPS (RMB) <small>Note 2</small>	-0.2059	0.2739	-175 %

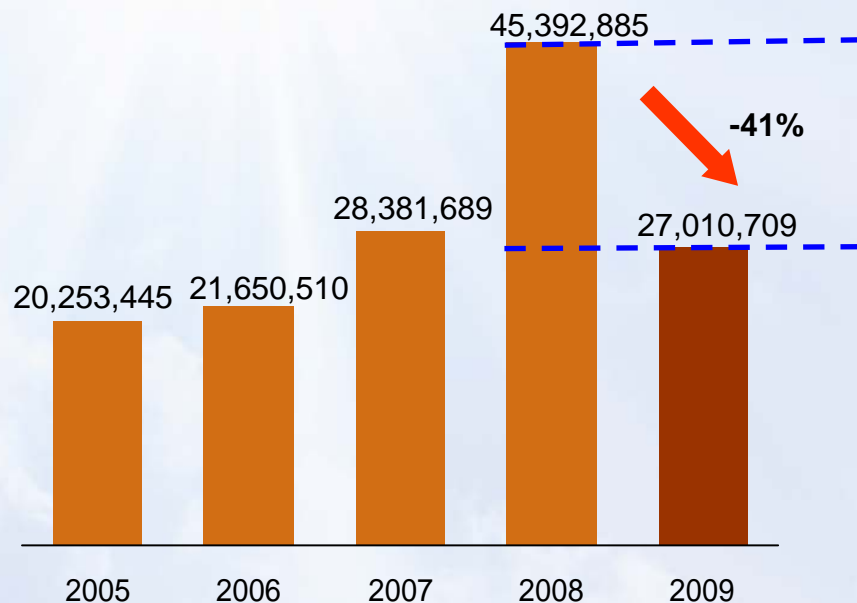
■Note 1: The changes in fair value of derivative component of convertible bonds incurred an increase of RMB 49,712,000 of net profit for 2009.

■Note 2: The weighted average number of shares for 2009 was 7,013,508,000.



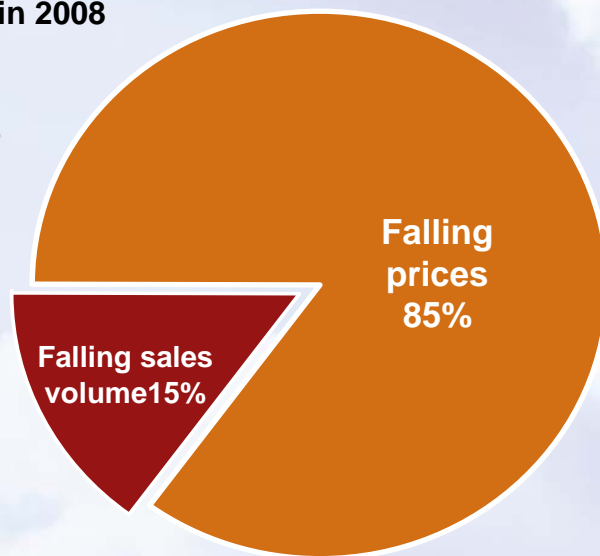
# Business Scale

## Turnover ( RMB 1,000)



## Impact of decrease in price/sales volume on turnover decline (%)

Average selling price of RMB 1,774/ton was 37% lower compared with that in 2008



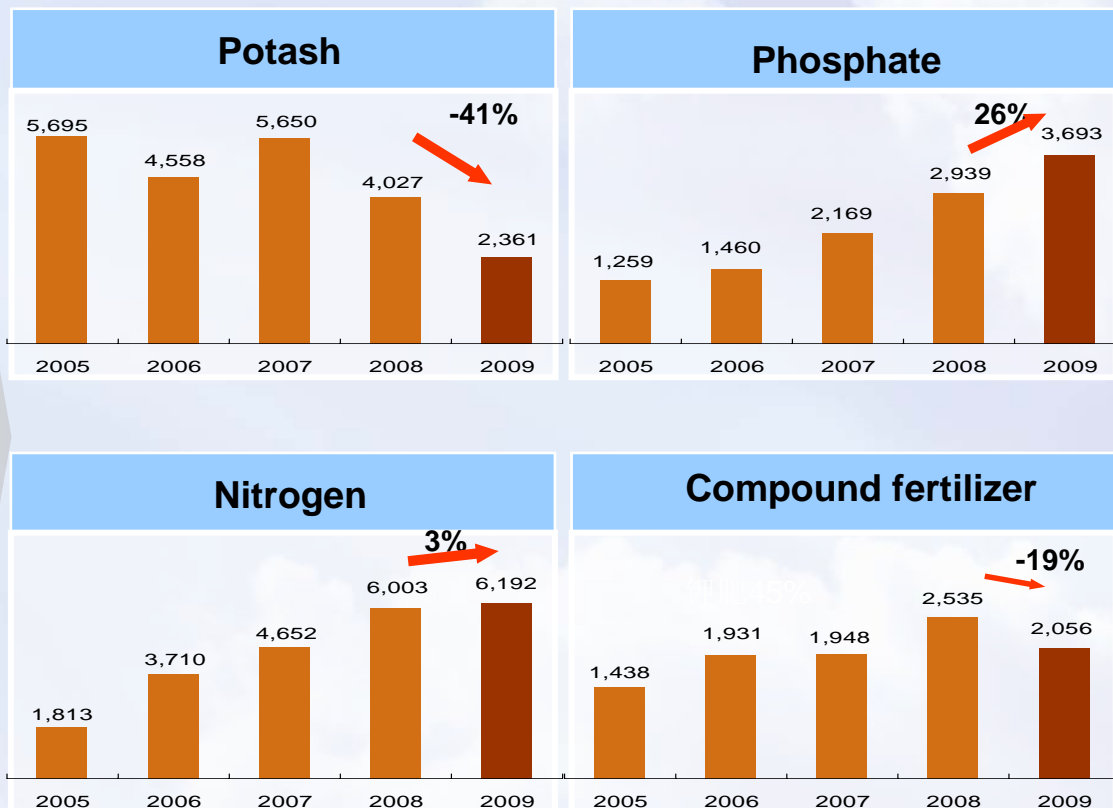
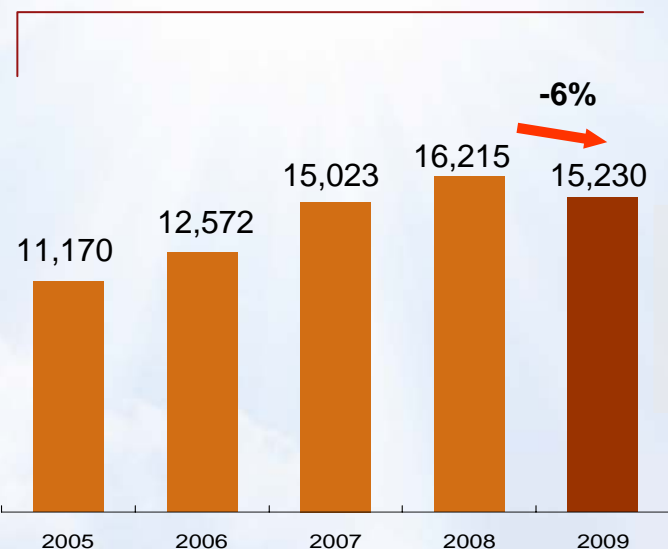
- Turnover fell by 41% YoY.
- Price decrease and sales volume decrease accounted for 85% and 15% in turnover decline, respectively.





# Business scale (continued)

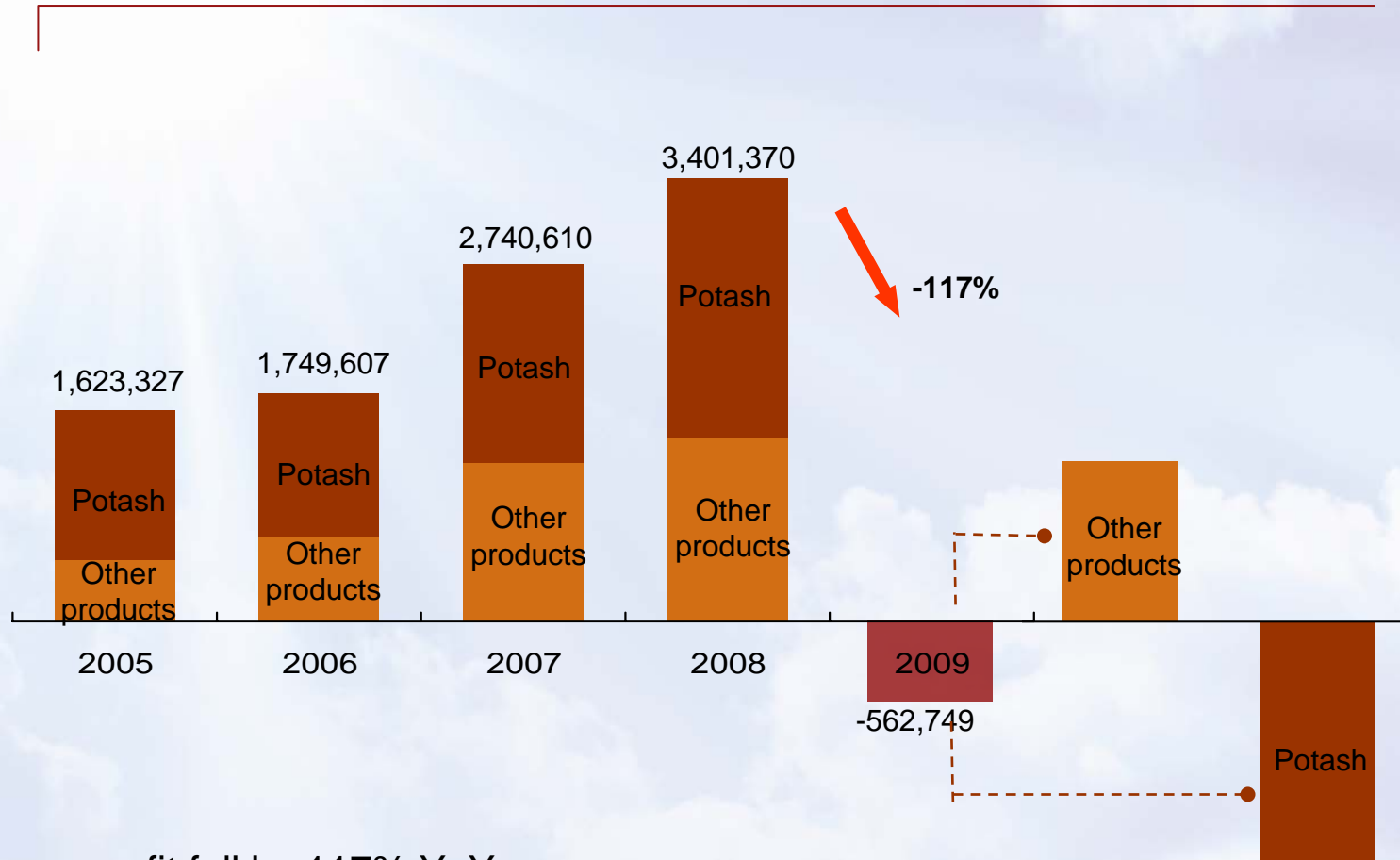
## Sales volume (1,000 tons)



- Sales volume fell by 6% YoY.
- Sales volume of phosphate and nitrogen increased by 26% and 3% YoY, respectively, while sales volume of potash and compound fertilizer decreased by 41% and 19% YoY, respectively.

# Profitability

## Gross profit (RMB 1,000)

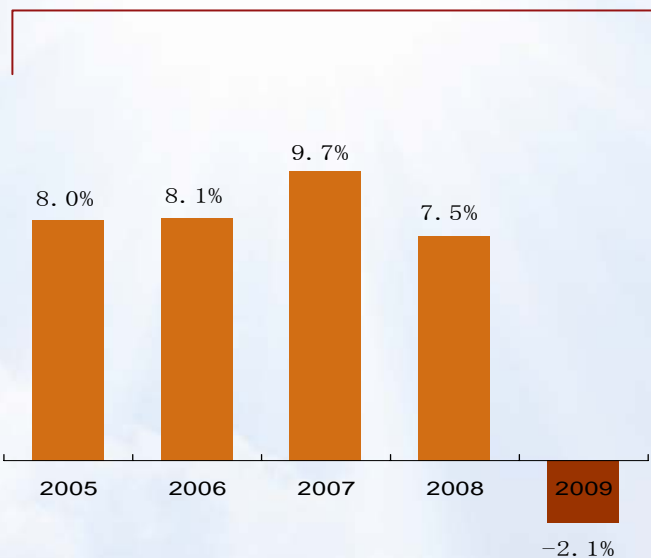


■ Gross profit fell by 117% YoY.

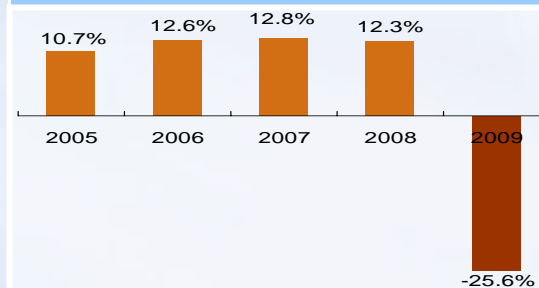
■ Potash business suffered losses while other products maintained normal profitability, resulting in gross profit in red.

# Profitability (continued)

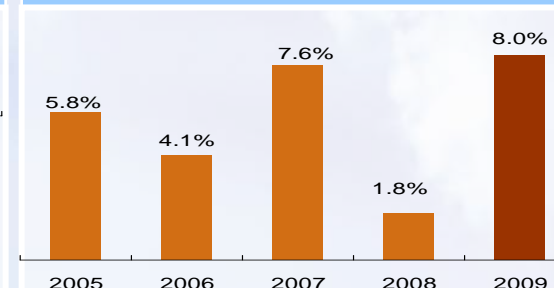
## Gross margin



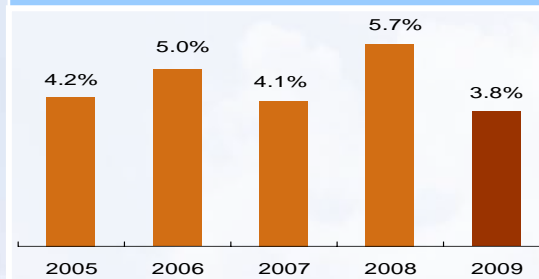
## Potash



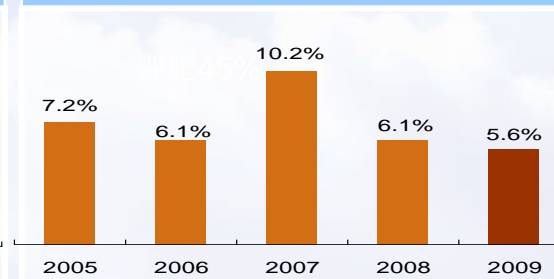
## Phosphate



## Nitrogen



## Compound fertilizer



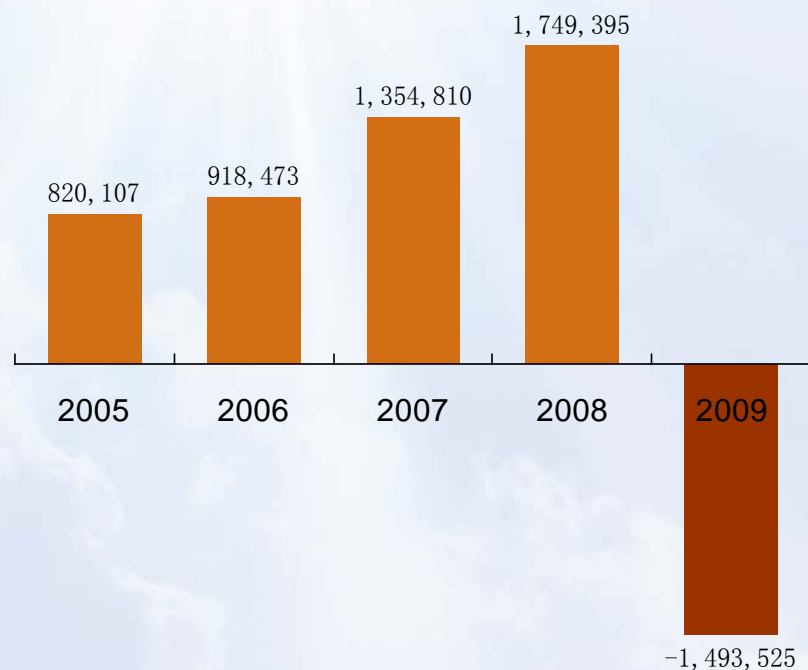
- Gross margin decreased by 9.6 percentage points YoY.





# Profitability (continued)

## Net profit (RMB 1,000)



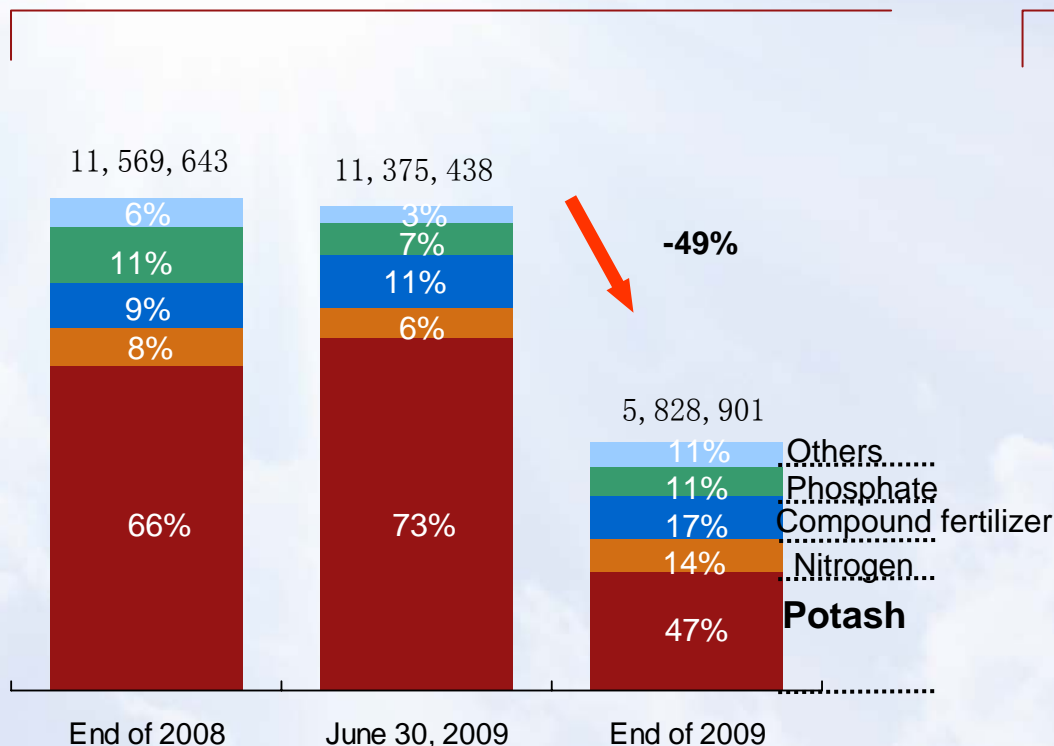
## Net margin



Note: Data excluded the impact of changes in fair value of derivative component of CB.

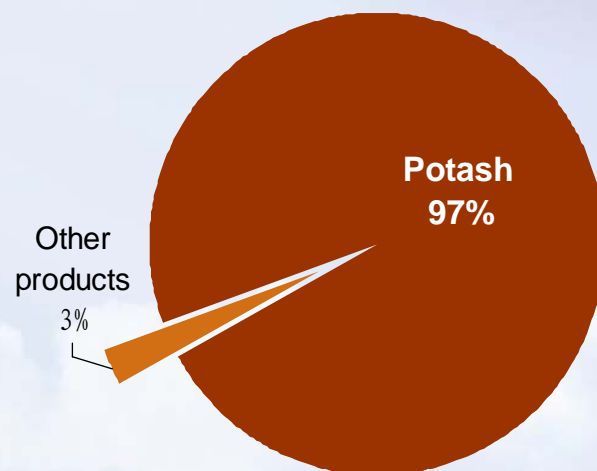
# Inventory and Inventory Provision

## Inventory structure (RMB 1,000)



- Inventory decreased by 49% compared with that at June 30, 2009, with a big drop in potash inventory.

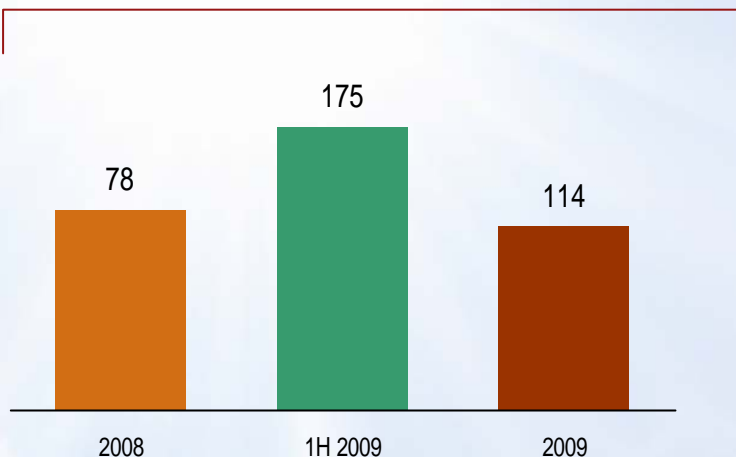
## Inventory provision (RMB 1,000)



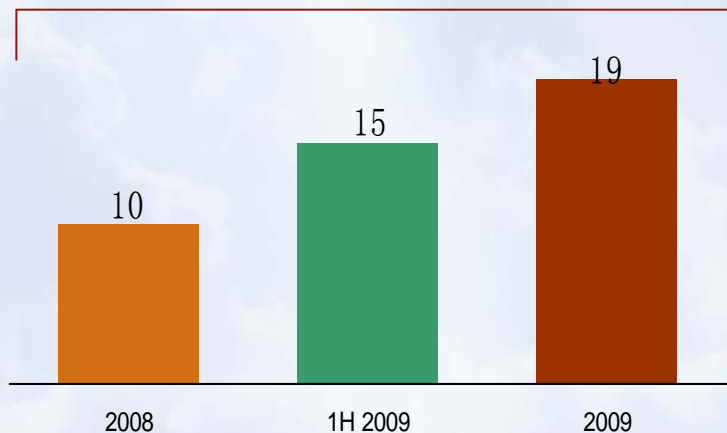
- According to accounting principle, inventory provision was RMB 761,582,000 for 2009 with the majority being potash inventory provision.

# Operation Efficiency and Operating Cash Flow

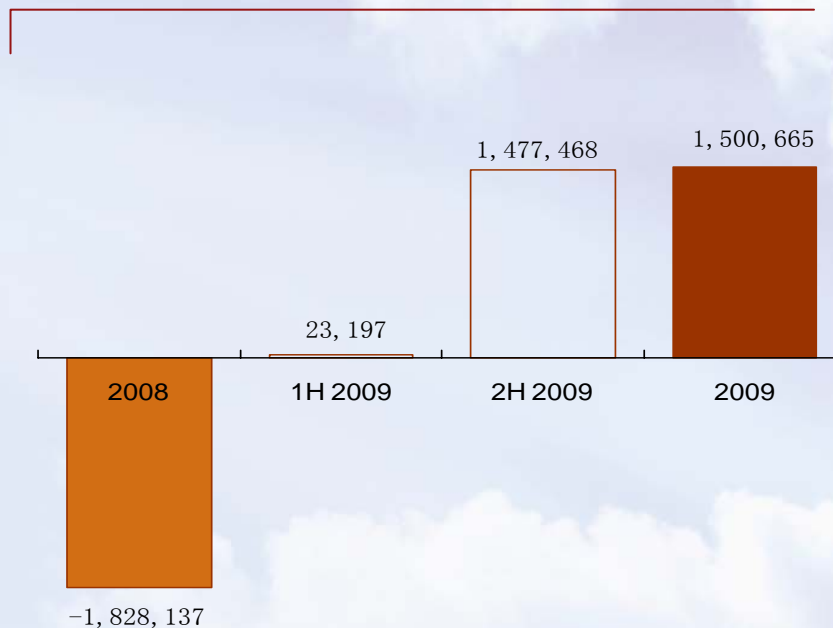
## Inventory turnover days



## Account receivables turnover days



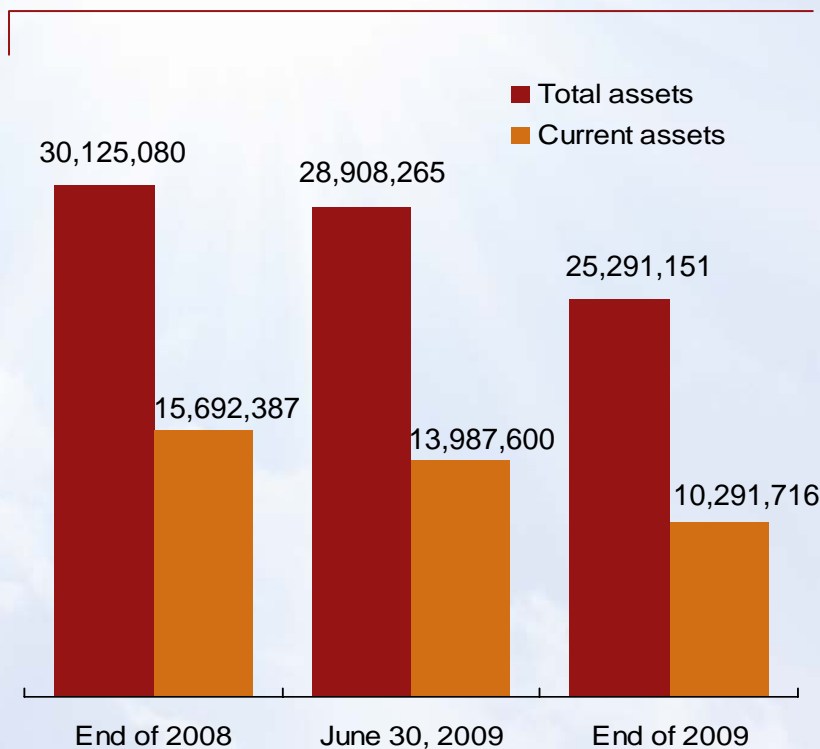
## Operating cash flow (RMB 1,000)



- Inventory turnover days decreased to 114 days for 2009 from 175 days for 1H09.
- Account receivable turnover days maintained within normal range.
- Operating cash flow improved significantly in 2H09 with total cash inflow of RMB 1,500,665,000 for 2009

# Assets Scale and Solvency

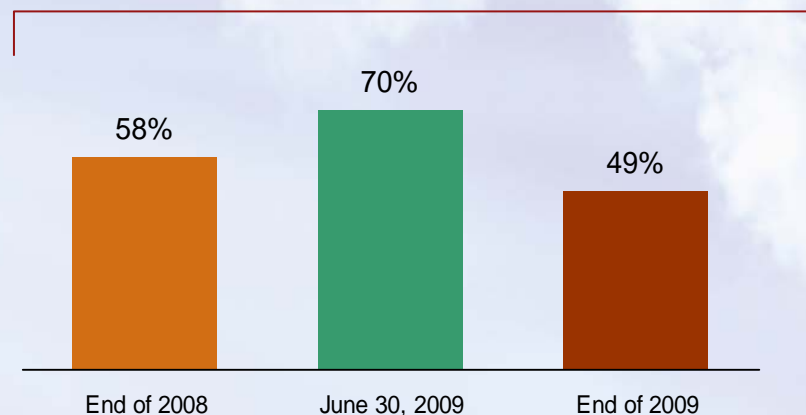
## Total assets (RMB 1,000)



■ Inventory decrease in 2H09 reduced current assets, driving total assets decreased by 16% YoY.

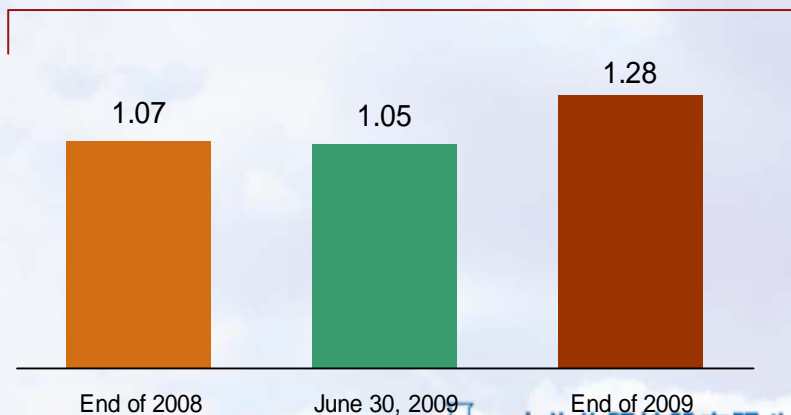
■ Debt-to-equity ratio decreased to 49%, while current ratio increased to 1.28.

## Debt-to-equity ratio



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

## Current ratio



# Contents

- Financial Performance
- Review on Business Operations
- Outlook

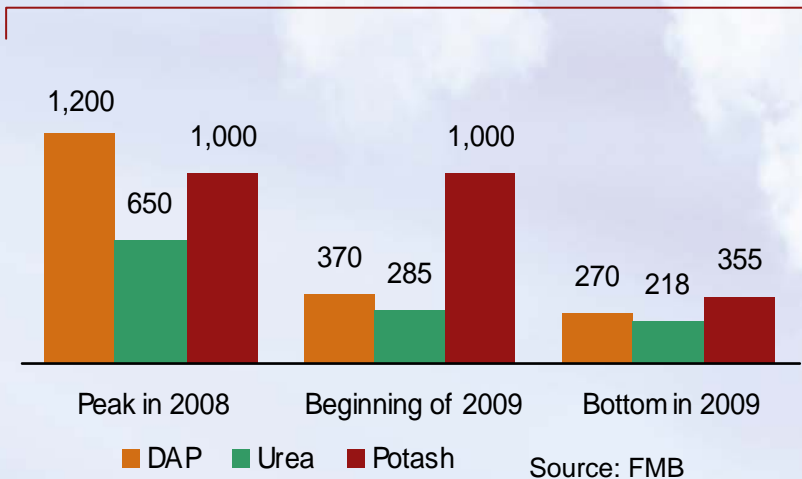


# Market Environment: International Fertilizer Market Slumped due to Oversupply

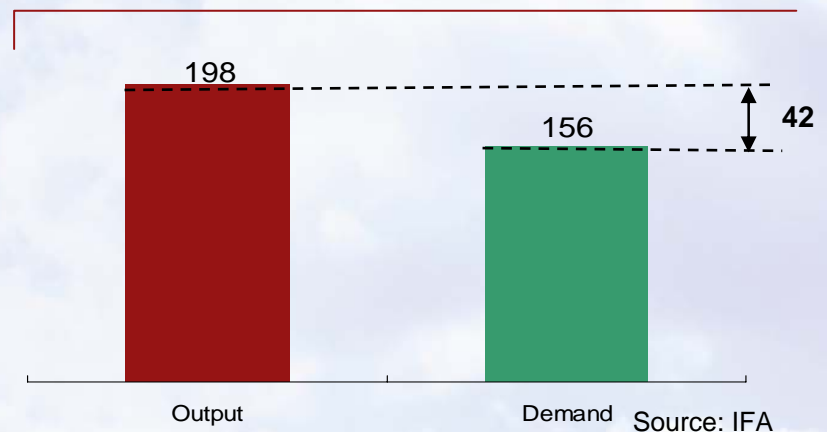
■ **The financial crisis led to a slump in global fertilizer prices.** DAP, urea and potash prices fell by 78%, 66% and 65%, respectively, from their peak prices in 2008 to the lowest levels in 2009.

■ **Oversupply in international fertilizer market** In 2009, global fertilizer market was oversupplied with excess output of 42 million tons; fertilizer demand, especially demand for potash fell by about 20% YoY.

International market price trend (US\$/ton)



Supply/demand in international market (million tons, in nutrient)

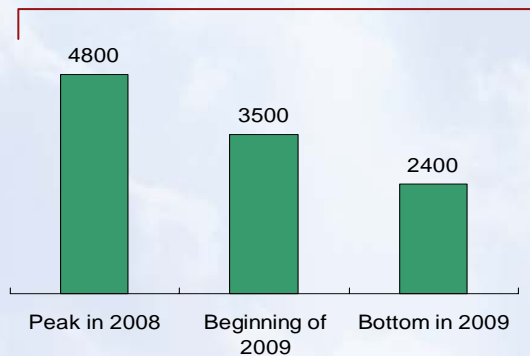




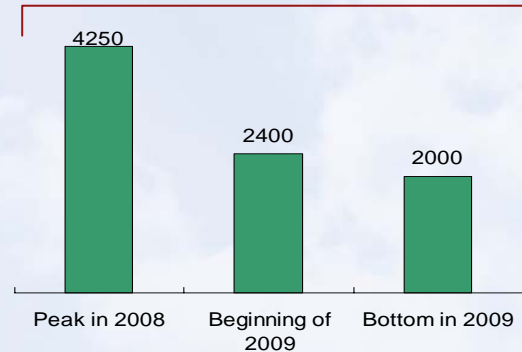
# Market Environment: Domestic Fertilizer Demand Weakened with Pathetic Prices

- **Domestic fertilizer demand weakened**, especially demand for potash, which dropped to 7 million tons in 2009, or down by about 40% from the peak in 2007.
- **Market price was sluggish**, prices of potash, DAP and urea fell by about 50% from their highs in 2008 to the lows in 2009.

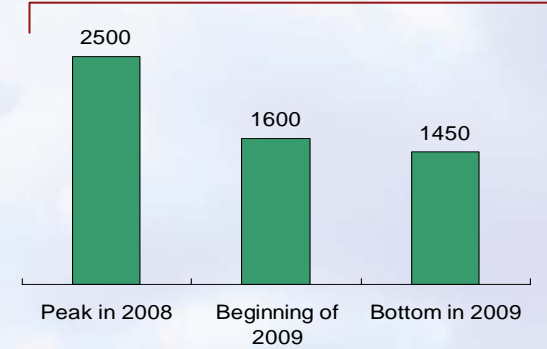
**MOP wholesale price at port**  
(RMB/ton)



**DAP ex-factory price**  
(RMB/ton)



**Urea ex-factory price**  
(RMB/ton)



# Operation Measures: Strengthening Product Operation to Maintain the Leading Market Position

## General Strategy

To cope with the tough market situation, the Company continuously carried out the integrated business operations. The Company adopted the marketing strategy of “being prudent in operations, quick-buy-and-quick-sell and always aware of risk control” to maintain the leading market position of the Company. Meanwhile, the Company further enhanced the integration of production enterprises and marketing ability of distribution network and improved internal control, enhancing the Company’s competitiveness and abilities for sustainable development.

## Product operation

### Seized market opportunities to expand sales volume and maintain market share

The Company seized opportunities of peak season in spring and market bottoming out in 4Q09 to expand direct sales and enhance sales ability, maintaining No.1 position in terms of market share in China.

### Innovated purchase model to reduce operation risks

Leveraging large volume purchase, the Company implemented innovated purchase model including tentative pricing to reduce operation risks.

### Further consolidated cooperation with international suppliers while improving domestic fertilizer supply system



# Operation Measures: Saving Energy and Reducing Consumption to Improve Cost Competitiveness of Production Enterprises

## Production

### Kept relatively higher operating rate and promoted energy saving and consumption reduction to improve product competitiveness

- Production enterprises kept higher operating rate than industry average, leveraging sales ability of distribution network.
- Unit production consumption of major input kept falling with continuously improved cost competitiveness through technology innovations including energy saving and consumption reduction.

### Enhanced resource procurement with additional production capacity

- Seize the opportunity of relatively low cost of resources to push forward resource acquisition including coal, phosphoric and potash mine in domestic and international markets.
- Further implemented urea production technology innovation and capacity expansion project in Sinochem Changshan; additional capacity of 250,000 tons of compound fertilizer came into production in Sinochem Dongfang with more exposure in major fertilizer consumption regions like Hubei and Hunan provinces.

### Improved production operation and management

- Recruited top talents and set up expert management team to improve technology and management in existing nitrogen production enterprises and make human resource preparation for nitrogen production technology innovation and capacity expansion project.
- Further implemented lean management to improve the company's essential competitiveness.



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# Operation Measures: Enhancing the Value of Distribution Network by Tapping into Potentials

## Distribution network

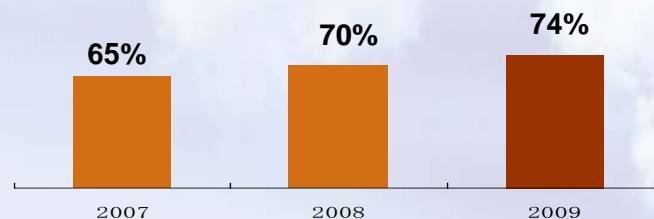
### Further enhanced distribution ability catering to demand at grass-roots

- Sales volume through distribution network accounted for 74% of total sales volume in 2009, up by 4 percentage points from 2008.
- Number of village and township customers/total number of customers increased to 85% in 2009, up by 10 percentage points from 2008 on YoY basis.

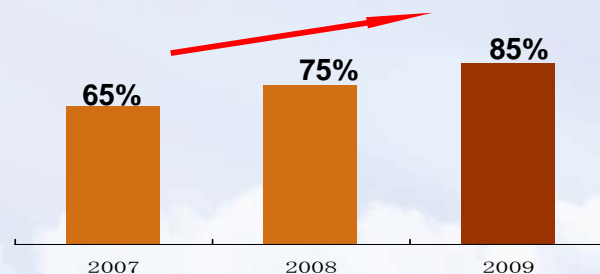
### Further optimized quality of distribution network to improve general competitiveness of distribution network

The Company vigorously promoted product sales, intensified channel maintenance, agrichemical service and information collection and analysis, improving long-term competitiveness, consolidating brand and products influence among end-users and realizing transformation of distribution network from scale expansion to quality improvement.

### Sales volume through distribution network/ total sales volume



### Number of village and township customers / total number of customers Note



Note: Including village and township customers and other customers of lower administrative level

### Six major functions of distribution network





# Operation Measures: Optimizing Financial Structure and Strengthening Internal Control

## Internal control

### Optimized financial structure with multiple measures to keep capital structure healthy

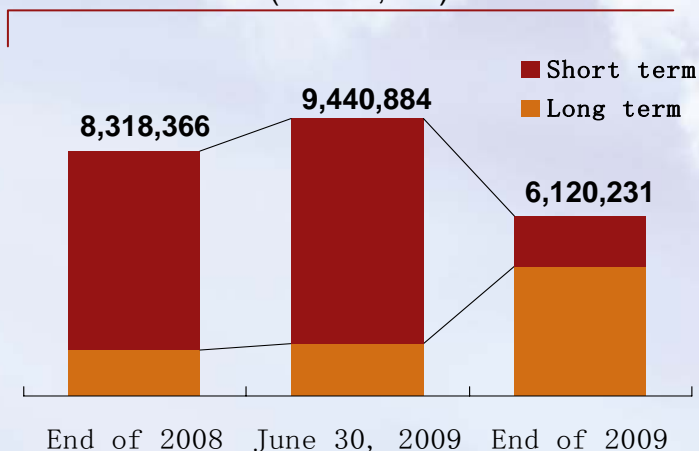
- Raised long term capital: the Company issued 10-year Corporate Bond of RMB 2.5 billion in November 2009 to gain long term fund with low cost.
- Interest-bearing liabilities decreased with improved structure: the interest-bearing liabilities at the end of 2009 was 35% less than that at June 30, 2009. The short-term interest-bearing liabilities/total interest-bearing liabilities ratio decreased to 28% from 81%.
- Maintained good cooperation relationship with several banks with expanded credit line. The Company had affluent credit line to support rapid and sustainable development of the Company

**Implemented stringent cargo management with regular inspection on cargo storage locations including warehouses to ensure inventory safety**

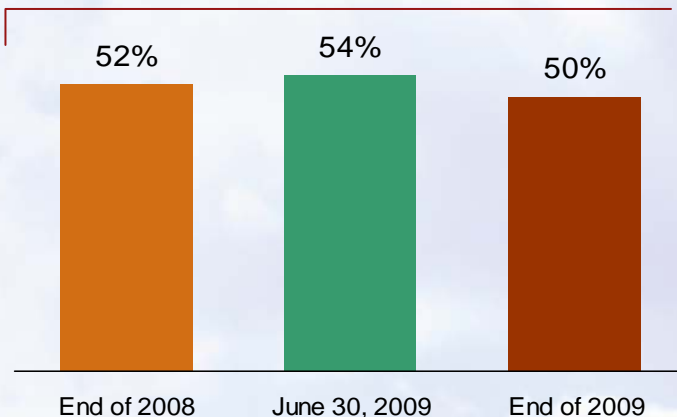
**Paid close attention on customer's credit standing and promoted domestic credit insurance implementation to prevent customer payment risk**

## Interest-bearing liabilities

(RMB 1,000)

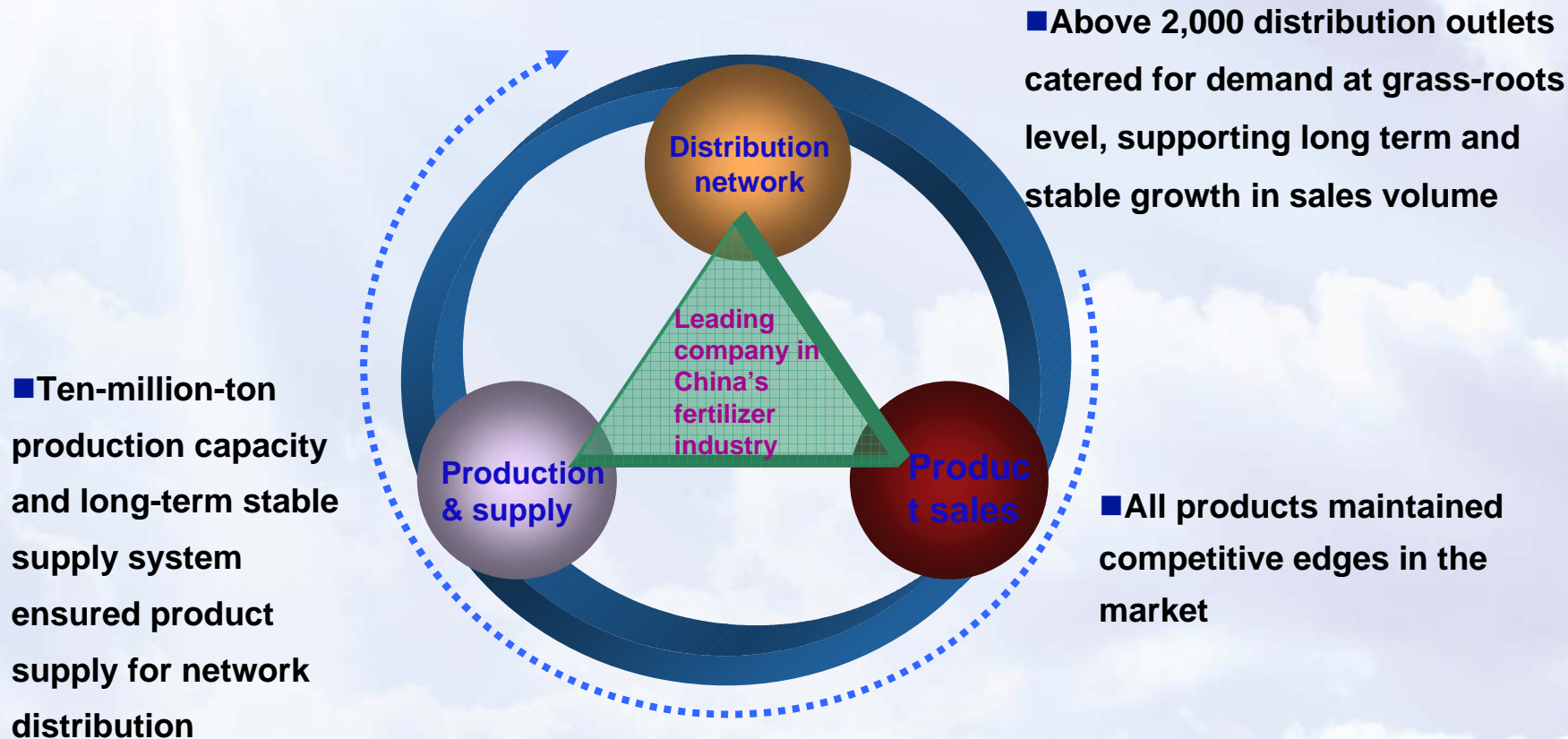


## Liabilities/assets ratio



# Core Cutting Edges: Integrated Business Model Supporting the Leading Position of the Company in the Market

The financial crisis has significantly struck the entire fertilizer industry. Despite the Company suffered some negative impact, the operation basis remained intact and the Company maintained the leading position in China's fertilizer market due to long-term implementation of integrated development strategy.



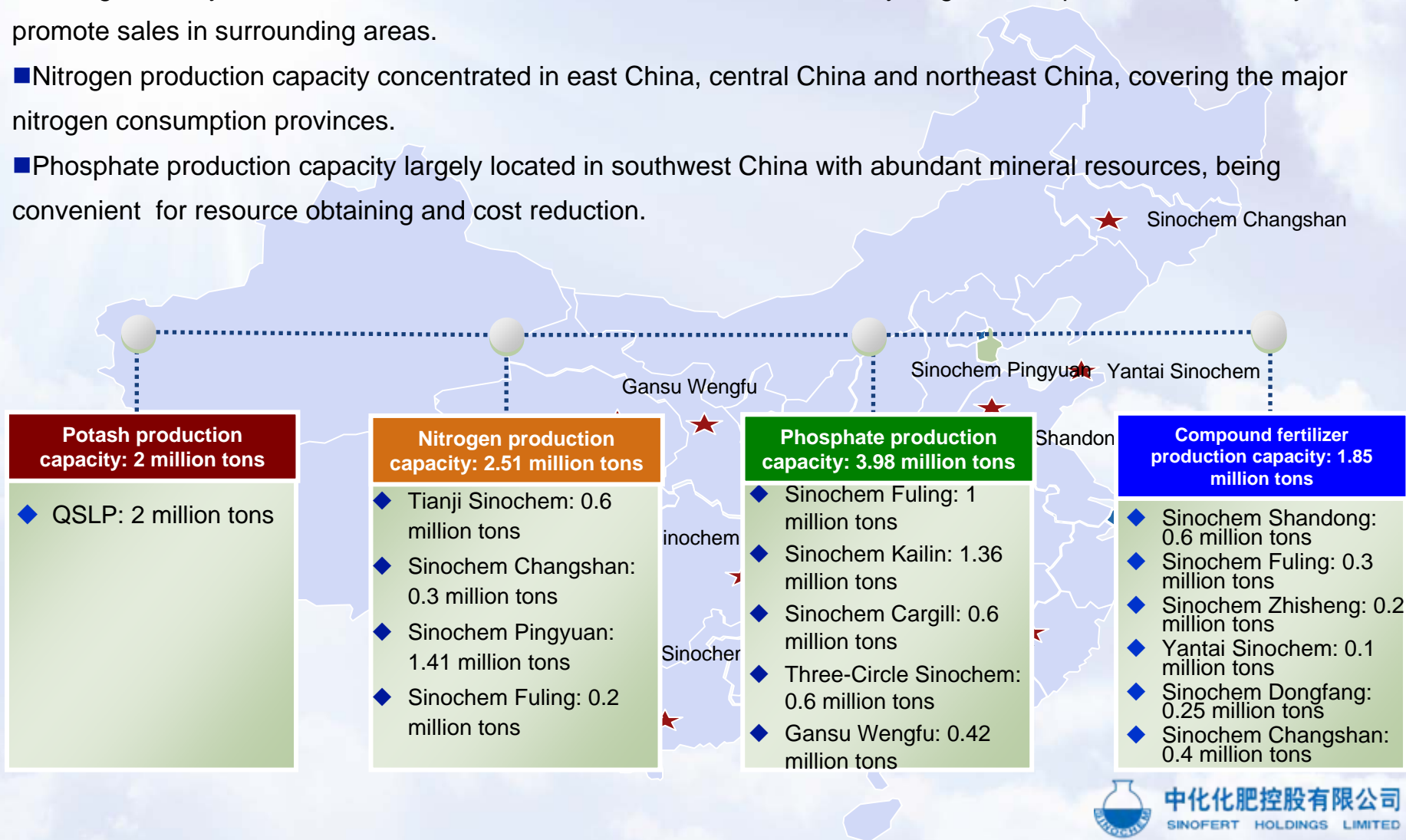


# Core Cutting Edge: Ten-million-ton Fertilizer Production Capacity with Rational Layout and Complete Product Lines

The Company is the largest basic fertilizer producer in China with over 10 million tons of production capacity covering four major basic fertilizers. Production locations were close to major agricultural provinces with ability to promote sales in surrounding areas.

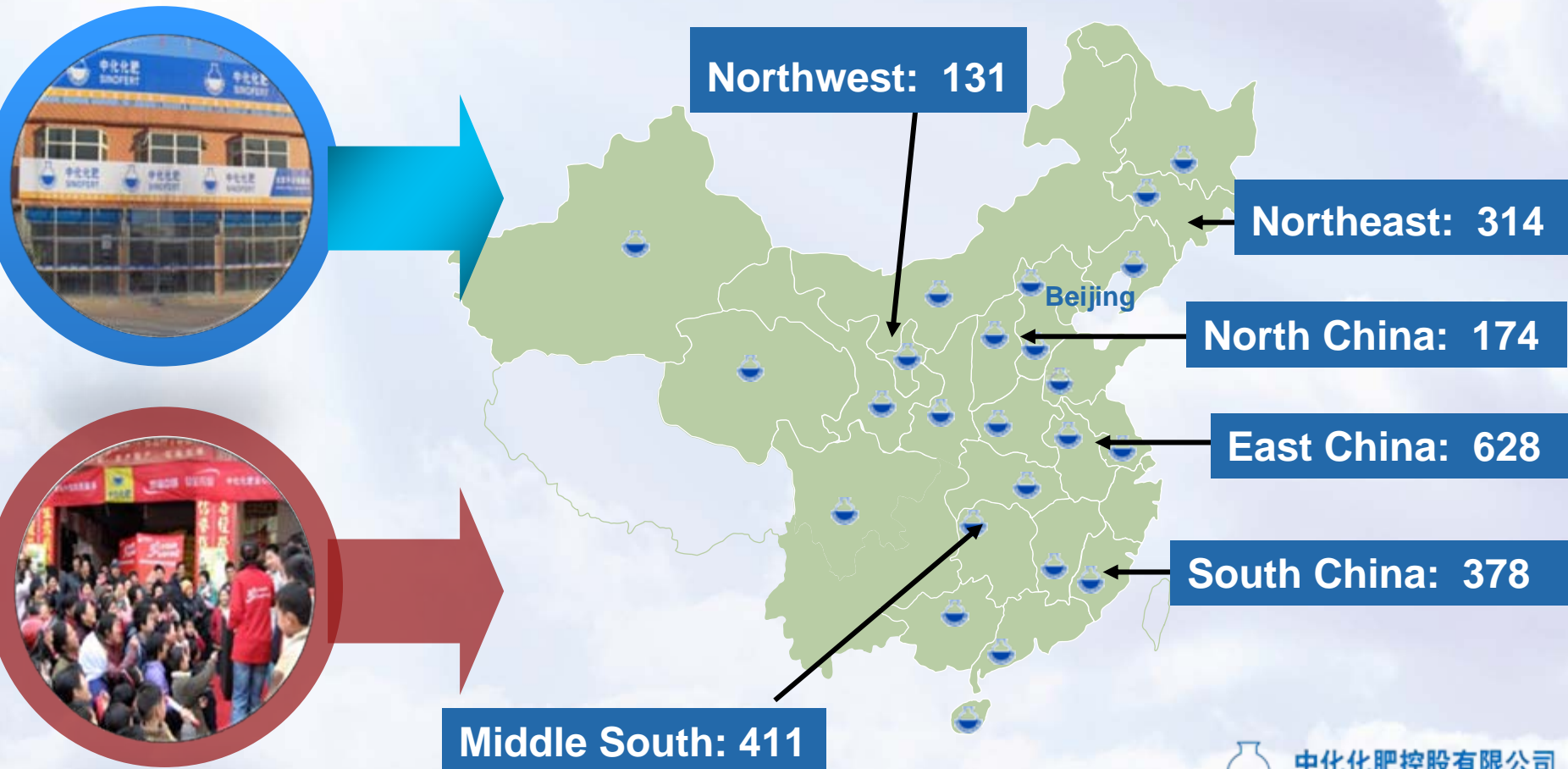
■ Nitrogen production capacity concentrated in east China, central China and northeast China, covering the major nitrogen consumption provinces.

■ Phosphate production capacity largely located in southwest China with abundant mineral resources, being convenient for resource obtaining and cost reduction.



# Core Cutting Edge: the Largest Distribution Network in China Covering All Major Agricultural Regions

The Company has the largest distribution network in China, covering the major agricultural counties in the mainland with above 90% of the agricultural land except Tibet. As of the end of 2009, the Company has established 2,036 distribution outlets.



# Core Cutting Edge: Maintaining the Position as the Largest Fertilizer Distributor and Service Provider in China

## Potash

- Maintained close cooperation with international potash suppliers
- Maintained long-term, stable cooperation with QSLP

## Nitrogen

- Further improved nitrogen supply system with the focus on share-controlling supply base, making outstanding integration edges of production and distribution

## Phosphate

- Maintained exclusive agency agreement with OCP and GCT
- Maintained competitive edges of high-concentrated phosphate, becoming one of products with competitiveness of the Company

## Compound fertilizer

- Maintained exclusive agreement with YARA, FERTIVA and PFI and kept competitive edges of high-concentrated compound fertilizer in domestic market

- All products kept long-term and stable competitive edges
- Maintained the position as the largest fertilizer distributor and service provider in China

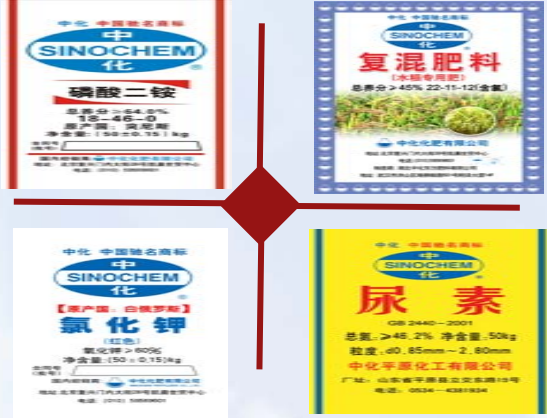


# Core Cutting Edges: Further Improving Brand Image

Maintained leading position of Sinochem brand in China's agricultural inputs industry



Implemented brand management strategy



Further promoted agrichemical services



- “Sinochem” is “ Chinese famous brand “and the only famous brand in both product and service in China agricultural inputs industry and was selected as “Farmers’ Favorite Brand Names” for three times in a row.

- “Sinochem” brand has extended to the terminal of agriculture demand in China with coverage of all kinds of fertilizers, in addition, the Company catered for customer demand by adopting different products based on market segment and customer target.

- The Company extensively provided non-profit agrichemical services to farmers with the principle of “whole-heartedly serving Chinese farmers”, developing into the “expert standing by the farmers”.

# Contents

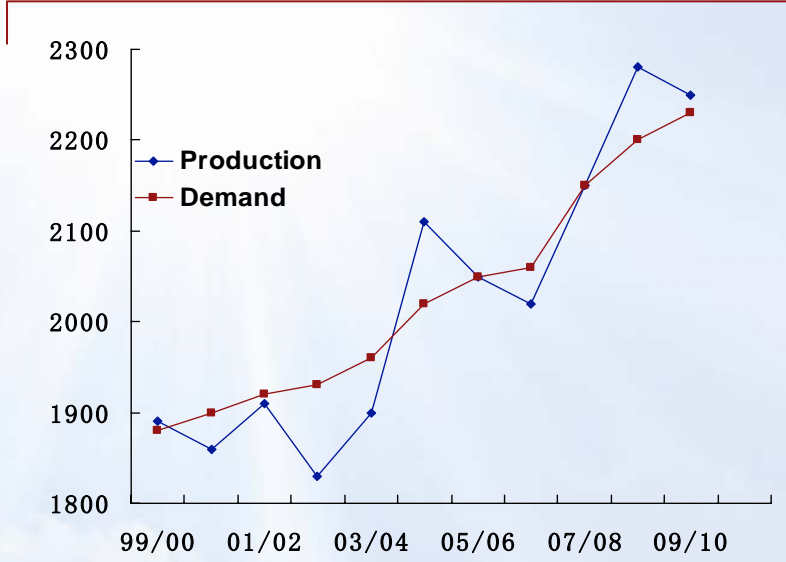
- Financial Performance
- Review on Business Operations
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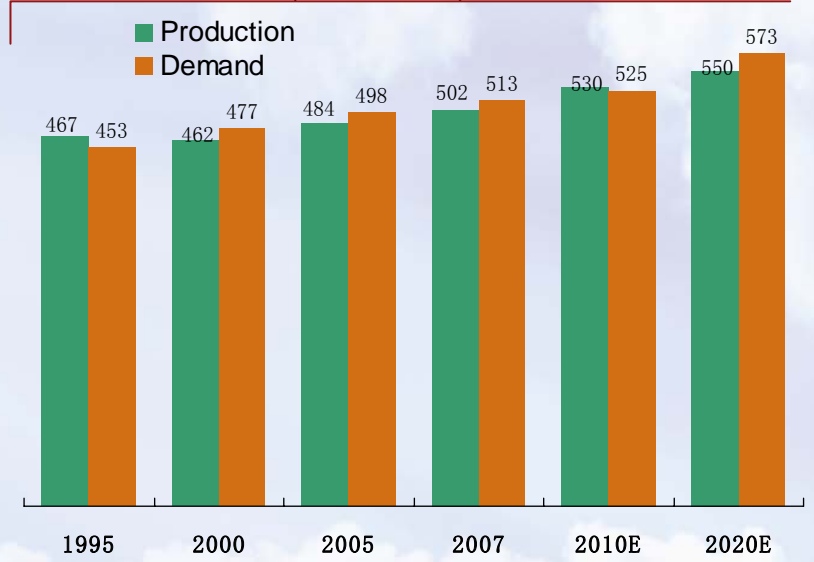


# Favorable Recovery in China's Fertilizer Market – Tight Grain Supply in Global Market and Tight Balance of Supply/demand in China in a Long Run

**Global grain production and demand**  
(million tons)



**China's grain production and demand**  
(million tons)



Source: FAO, State statistics Bureau

■ According to the statistics of Food and Agriculture Organization of the United Nations, the global grain production is expected to fall by 1.5% in 2009/2010 while the demand for grain is expected to increase by 1.8%, which is in line with the output.

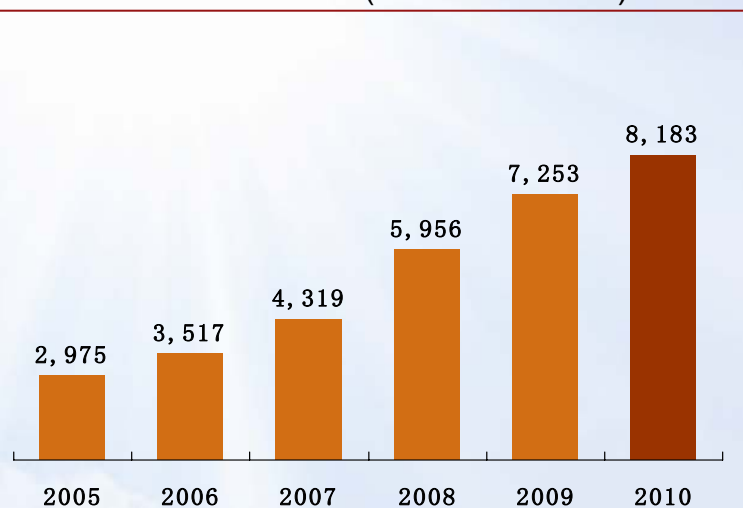
■ Inelastic demand for grain increased considerably with the growth in world population. The Food and Agriculture Organization of the United Nations predicts that the grain inventory/consumption ratio will be 23.4%, which is far below the level of late 1990s (around 30%). The global grain supply/demand balance is getting tight.

■ With the fast development of China's economy, the average rural per capita income rose rapidly and food structure for rural population improved significantly with more demand for meat, protein and fruit, driving domestic food demand up considerably. Grain supply/demand will be in tight balance in the long run.

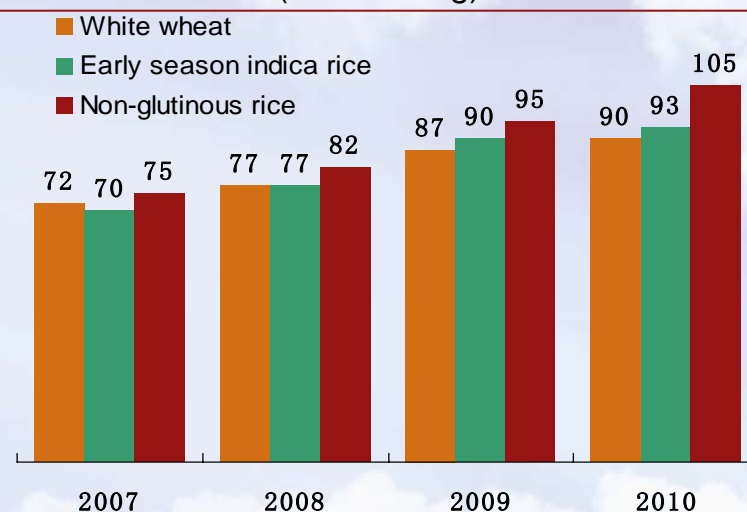


# Favorable Recovery in China's Fertilizer Market – Agriculture Is Continuously Supported by the Chinese Government to Promote Grain Output and Farmers' Income

**Fiscal support on “Agriculture, Farmers and Rural Area ”(RMB100 million)**



**Minimum purchase prices for major grains (RMB/ 50 kg)**



Source: Ministry of Finance and NDRC.

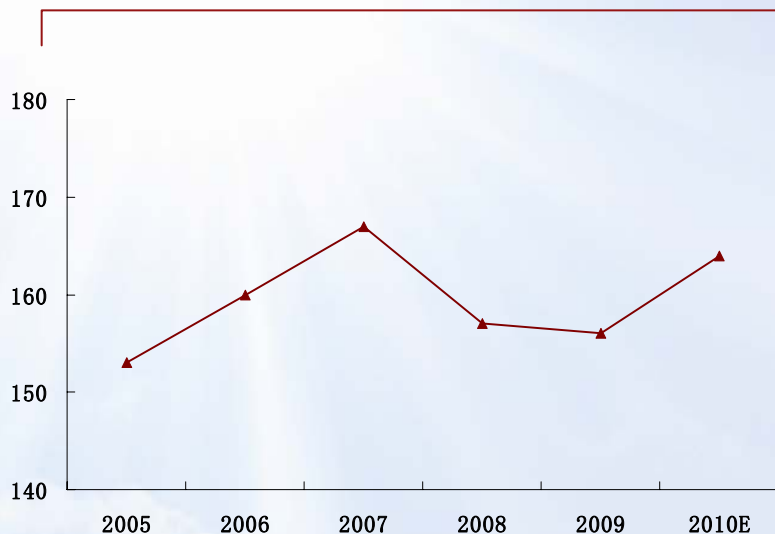
■ The Central Government issued No.1 Document on the issues concerning agriculture, rural area and farmers for seven consecutive years, addressing more fiscal support on agriculture, rural area and farmers based on the requirement of “keeping growth in total input and steadily bringing up the proportion”. The report on the work of the government delivered in the annual session of the National People's Congress and Chinese People's Political Consultative Conference announced the Central Government plans to invest RMB 818.3 billion in agriculture, rural area and farmers, comprehensively implementing 50bn kg grains production capacity expansion plan.

■ The Chinese government is making ongoing efforts to improve the agricultural subsidiary policy, enlarge the subsidiary coverage and improve the subsidiary level and continuously brings up the minimum grain purchase price, providing a favorable environment for more grain output and rural income and helping to enhance farmers' planting initiatives and fertilization.

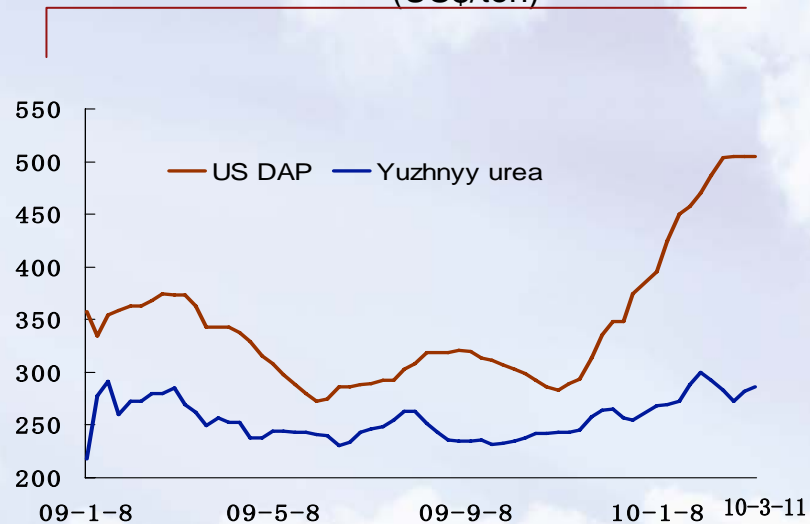


# Favorable Recovery in China's Fertilizer Market – Demand Recovered in 2010 with Price Bottoming out

Global fertilizer demand (million tons, in nutrient)



Export FOB price for major fertilizer products (US\$/ton)



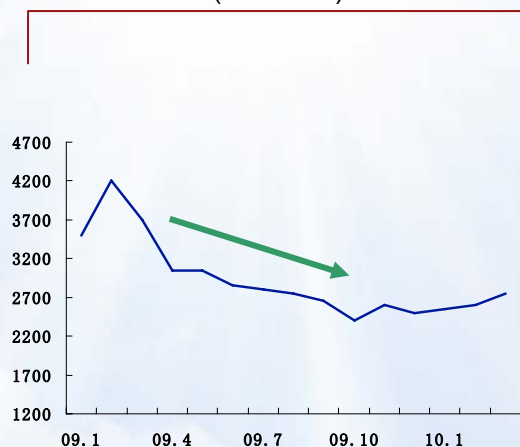
Source: IFA, FMB

■ Global demand recovered with tight supply at the end of 2009. According to forecast of IFA, global fertilizer demand will increase 4–5% in 2010 with major products sales volume recovery of 7–8%, potash demand will experience a huge bounceback of 11% and prices for DAP and urea will regain rising momentum since 2010.

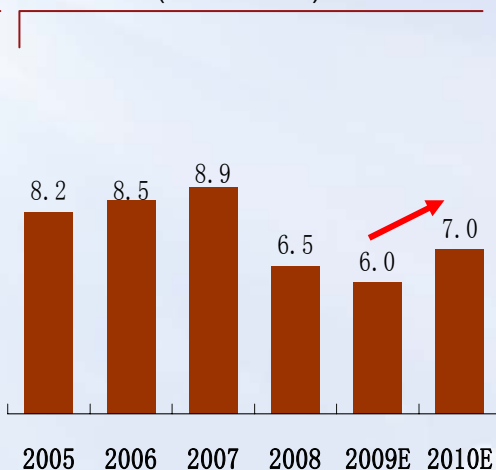
■ The economy of China has taken the lead in recovering from the downturn, farmers' planting initiative promoted by higher domestic agricultural prices. In 2010, market demand expects to recover with the increase of domestic fertilizer prices.

# Favorable Recovery in China's Fertilizer Market – Chinese Potash Demand to Recover in 2010

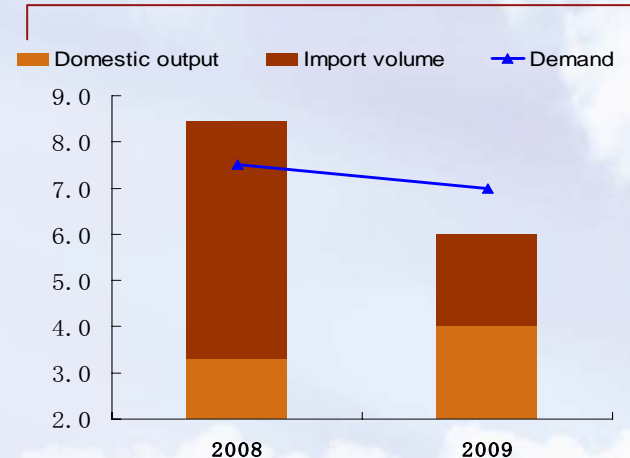
Port wholesale price for Russian pink potash (RMB/ton)



Agricultural potash consumption in China (million tons)



Potash destocking (million tons)



Source: China Fertilizer Market Week

■ Potash price returned to normal level from highs in the previous period by end of 2009; nutrients were not balanced in China's soil with deficient potash application in 2008 and 2009; thus, it is expected that potash demand will recover in 2010.

■ China's potash inventory was relatively low due to domestic potash supply decrease in 2009 and destocking among dealers and distributors. Change in supply/demand situation helps potash market to present recovery growth.

# Further Implementing Integrated Development Strategy and Maintaining the Leading Position in Chinese Fertilizer Industry

## Development Objectives

Continue to implement an integrated strategy of “centering on marketing and distribution and expanding into both production and network distribution”, aiming to become China’s largest comprehensive provider of agricultural inputs



# Further Implementing Integrated Development Strategy and Maintaining the Leading Position in Chinese Fertilizer Industry

**Production:** Implementing low-cost strategy for higher competitiveness on the basis of resource-supported production capacity expansion

## Production management

Integrated internal resource and implemented low-cost strategy with higher competitiveness of products through lean management and technology progress and production system innovation.

## Science and technology R&D

Boosted science and technology progress, introduced and cultivated exclusive technologies and developed diversified products that cannot be easily reduplicated, providing technology support to existing production enterprises and new production bases.

## Production capacity expansion

### Total production capacity exceeds 7 million tons at subsidiaries by 2012

- The Company plans to construct a large-sized urea production base with capacity of 3.2 million tons in Ningdong energy & chemical base leveraging local coal resource. Ningdong project will develop into the landmark in urea production industry, establishing the leading position of the Company in China's nitrogen production industry.
- Urea production capacity is planned to expand to 0.82 million tons from 0.3 million tons in Sinochem Changshan through production facility innovation and expansion, further enhancing influence of the Company in Northeast China.

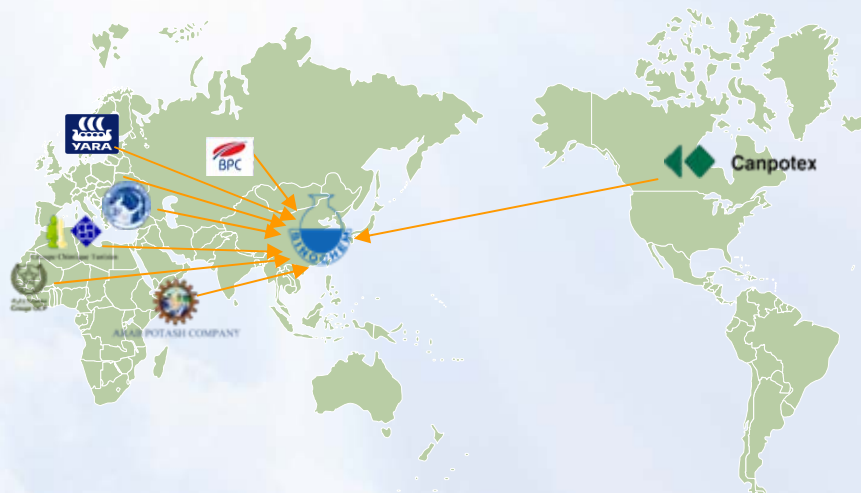


## Resource development

Selecting the right opportunity to inject shares from Sinochem Group with attention on the restructuring of Salt Lake Group and seeking opportunities to invest in resources including potash ore, phosphoric and coal mine.

# Further Implementing Integrated Development Strategy and Maintaining the Leading Position in Chinese Fertilizer Industry

**Supply:** Multi-leveled supply system both at home and abroad



## International supply

Maintaining exclusive contracts with major international fertilizer suppliers while exploring deepened ways of cooperation

## Domestic supply

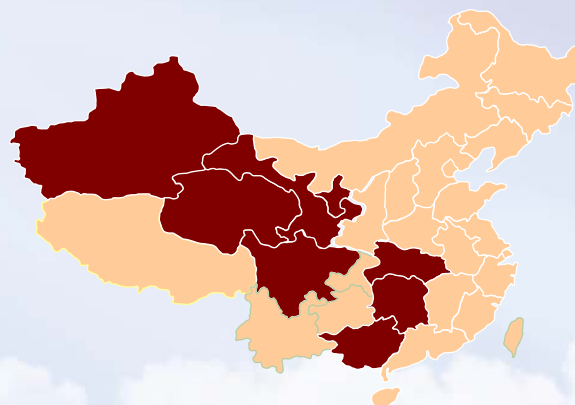
Enhancing construction of supply base with controlling interest; expanding long-term contract suppliers and catering for grass-roots market demand based on competitive edges of regional suppliers



# Further Implementing Integrated Development Strategy and Maintaining the Leading Position in Chinese Fertilizer Industry

**Distribution:** Extending distribution network to end-users, further optimizing “one-stop-shopping” services with operation model innovation and pushing forward quality improvement strategy of distribution network.

## Fert-Mart



### Operation model innovation

- Constructing Fert-Mart, chain warehouse-style supermarket, in distribution centers of agricultural production input in major agricultural regions with well-developed distribution network of the Company.
- Targeting at large-sized grain-growers, agricultural organizations, integrated purchase and village-level dealers, optimizing “one-stop-shopping” services with potential value and presenting features of “full product supply, low price, wholesales and convenient transportation”.

### Distribution network expansion and quality improvement

- Expanding distribution network in South China and Northwest with potential development with additional distribution outlets of 600 in the next three years.
- Improving existing distribution outlets including operation quality enhancement for individual outlet, standardized operation management implementation, agricultural service upgrade and logistics system optimization.

# Further Implementing Integrated Development Strategy and Maintaining the Leading Position in Chinese Fertilizer Industry

**Product Operations:** Strengthening cutting edges of all products



**Potash**

Consolidating the leading position of the Company with over 50% of market share



**Nitrogen**

Maintaining the Company's status as the largest nitrogen distributor in China



**Phosphate and compound fertilizer**

Becoming the largest phosphate and compound fertilizer distributor in China with more contribution to the Company's sales volume and profit



**Agrichemicals and seeds**

Promoting profit contribution leveraging fertilizer-agrichemicals linkage based on the advantages of comprehensive agricultural production input platform



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

