



中化化肥控股有限公司
SINO FERT HOLDINGS LIMITED

Nurturing China's Agricultural Sector

2010 Annual Report

March 24, 2011



Disclaimer

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Contents

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



2010 Annual Results: Recovered from Losses on YoY Basis

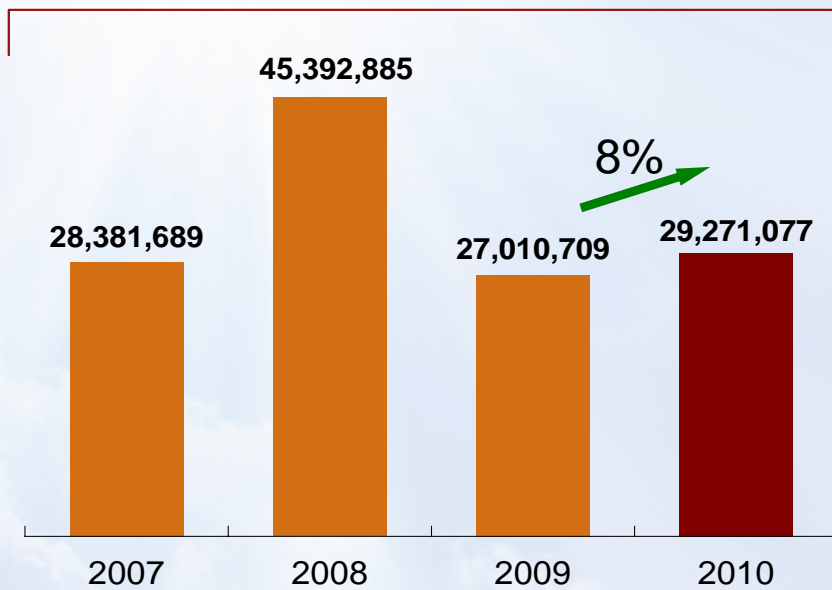
(RMB million)	2010	2009	YoY change
Sales Volume (million tons)	15.51	15.23	2%
Turnover	29,271	27,011	8%
Gross profit	1,491	-563	—
Net profit	536	-1,444	—
Net profit (excluding the impact of changes in fair value of convertible bonds) (Note1)	437	-1,494	—
EPS (RMB 0.01) (Note 2)	7.63	-20.59	—

■Note 1: The changes in fair value of derivative component of convertible bonds led to an increase of RMB 98,327,000 of net profit for 2010.

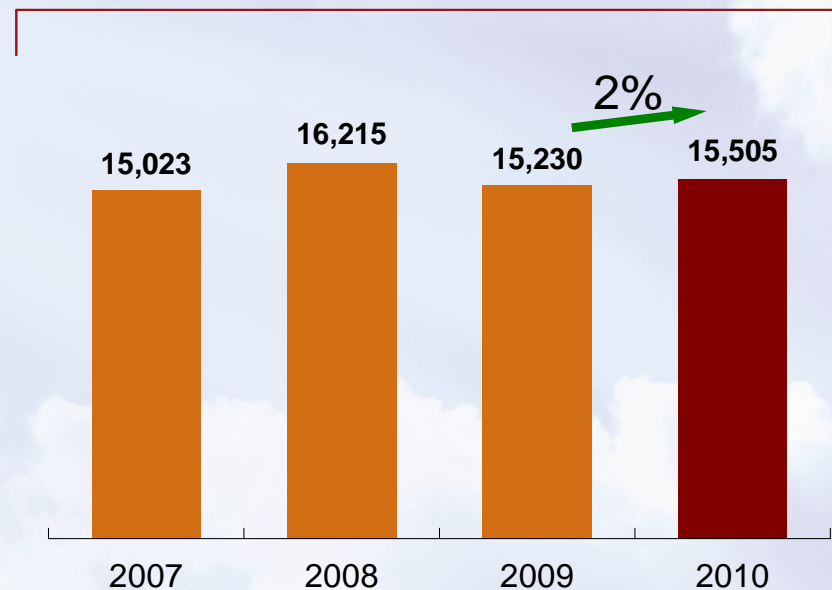
■Note 2: The weighted average number of shares for 2010 was 7,019,206,000.

Business Scale: Remained Stable

Turnover (RMB 1,000)



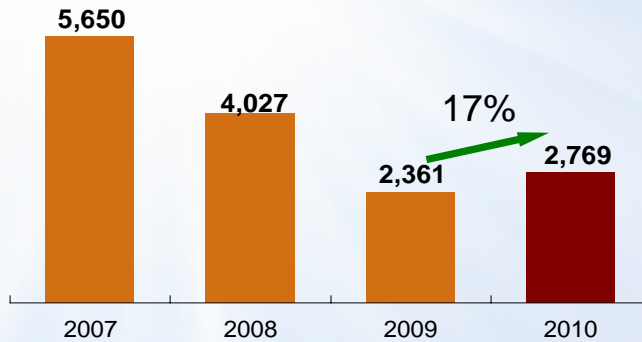
Sales Volume (1,000 tons)



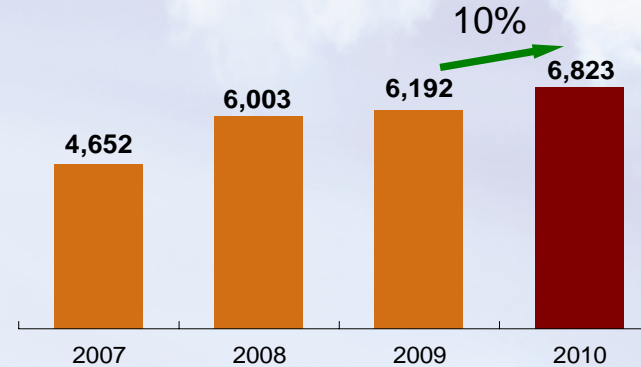
- Turnover increased by 8% YoY and sales volume increased by 2% YoY.

Business Scale: Remained Stable (continued)

Potash (1,000 tons)



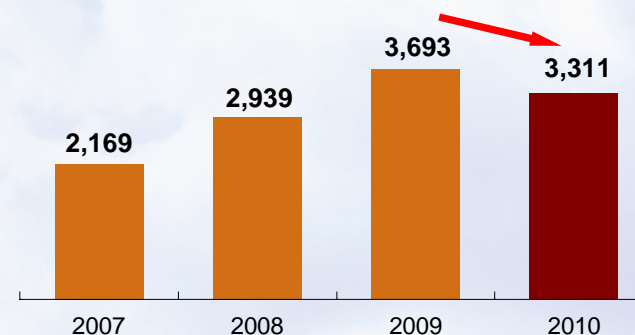
Nitrogen (1,000 tons)



Compound fertilizer (1,000 tons)



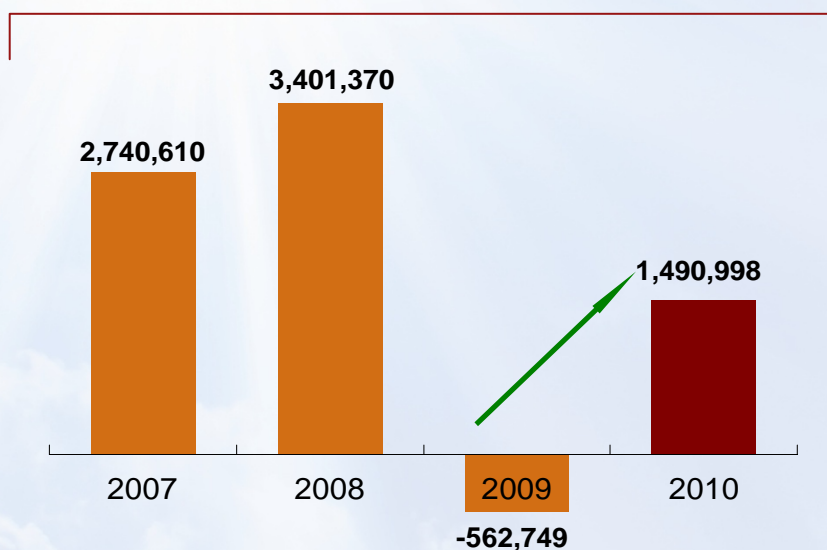
Phosphate (1,000 tons)



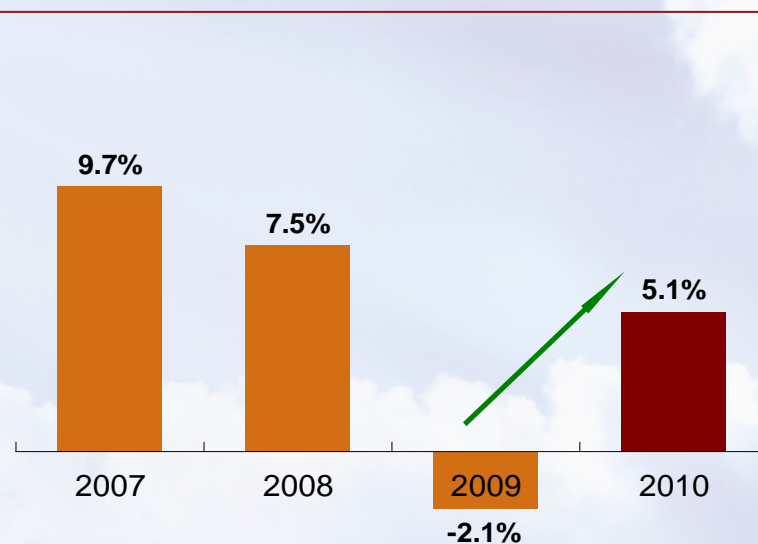
■ Sales volume of potash and nitrogen increased by 17% YoY and 10% YoY, respectively; sales volume of compound fertilizer was on a par with that in 2009 and sales volume of phosphate decreased by 10% YoY.

Profitability: Reversed the Trend of Losses with Recovered Margin

Gross profit (RMB 1,000)



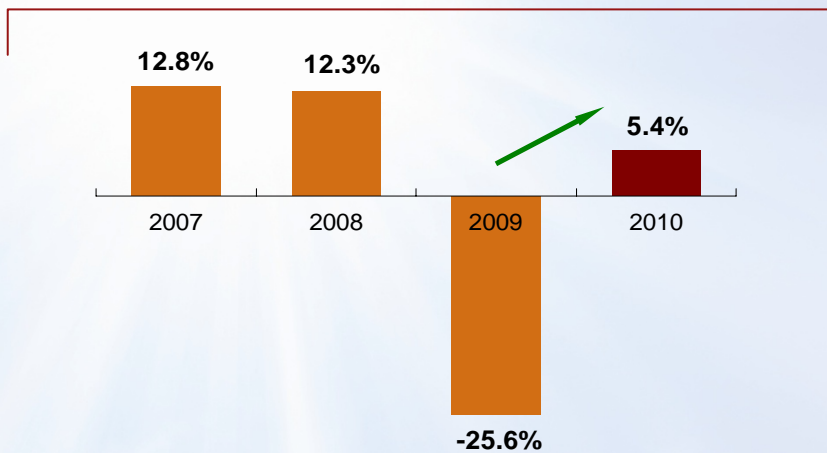
Gross margin



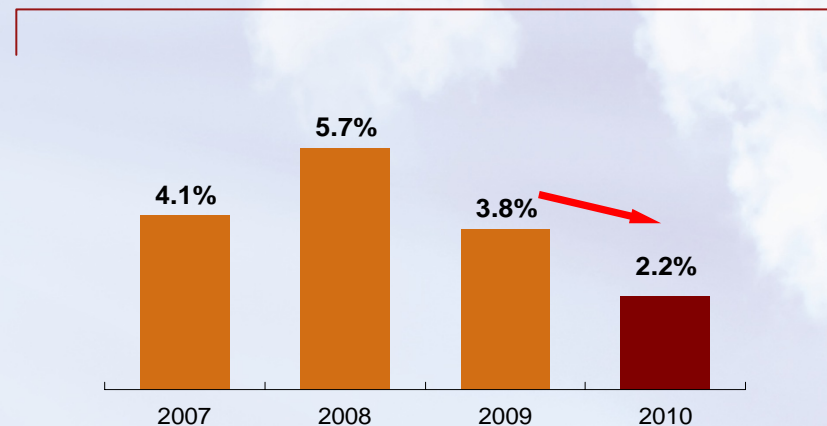
- Both gross profit and gross margin recovered from losses on YoY basis.

Profitability: Reversed the Trend of Losses with Recovered Margin (continued)

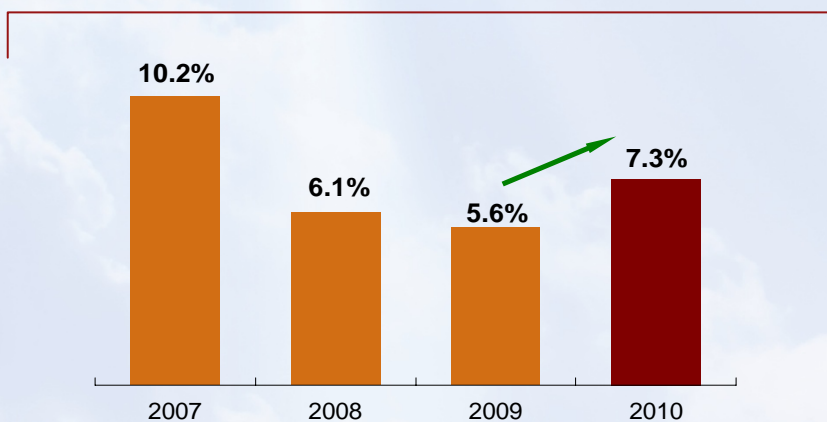
Potash



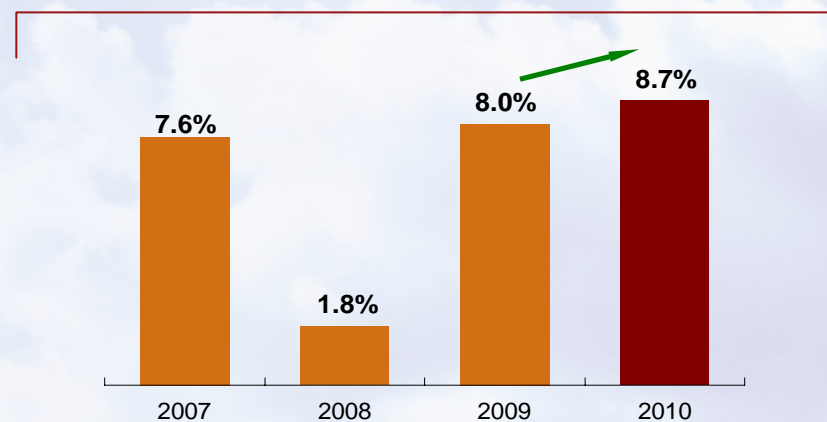
Nitrogen



Compound fertilizer



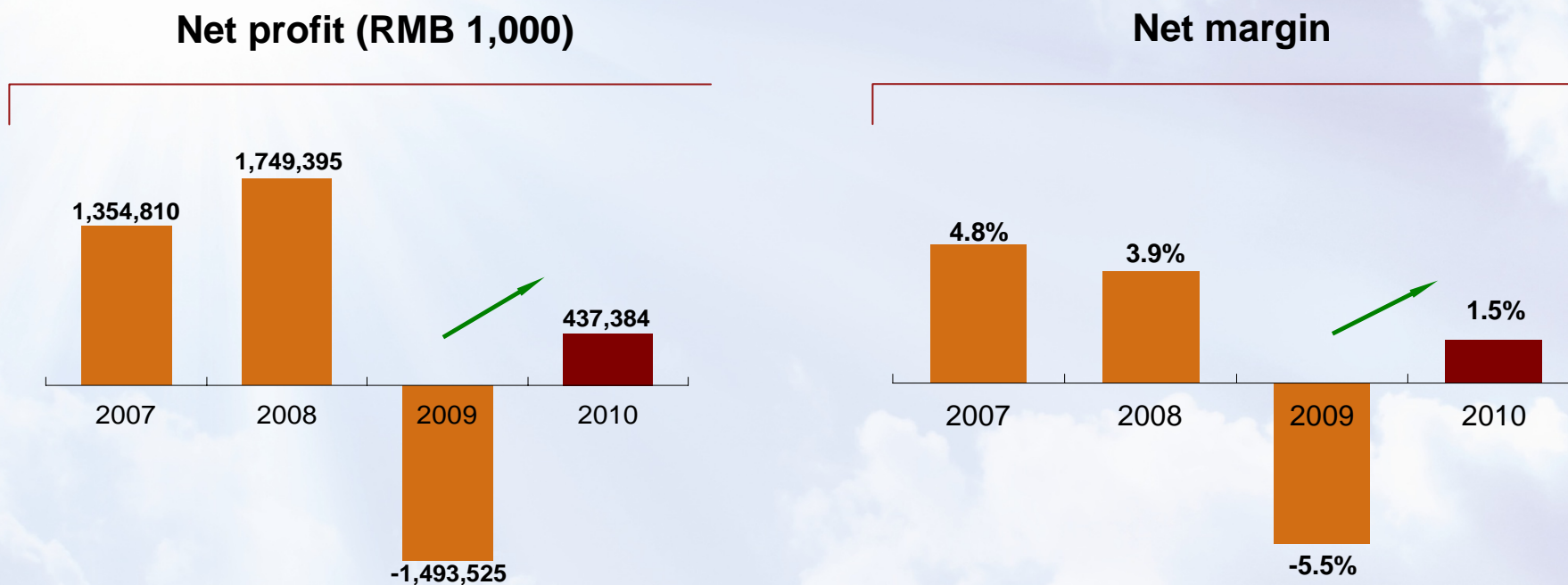
Phosphate



■ Gross margin of potash reversed and gross margin of compound fertilizer and phosphate increased on YoY basis, reaching record high while that of nitrogen decreased on YoY basis.



Profitability: Reversed the Trend of Losses with Recovered Margin (continued)

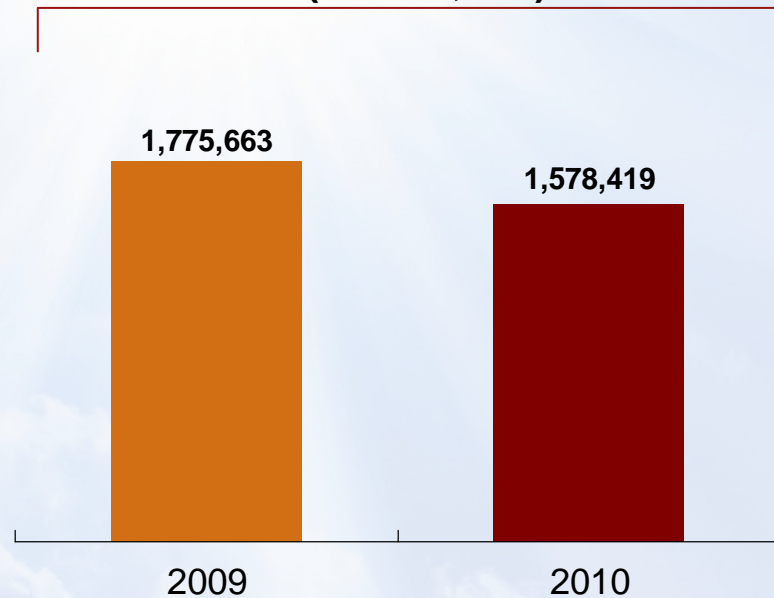


Note: Data above excluded the impact of changes in fair value of derivative component of CB.

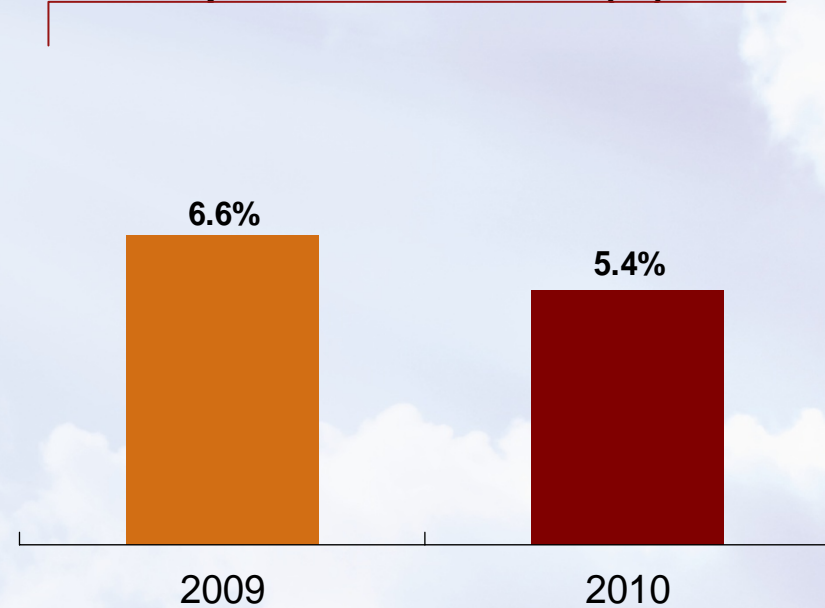
- Both net profit and net margin recovered from losses on YoY basis.

Operation Performance: Efficiency Improved on YoY basis

**Selling, admin and finance expenses
(RMB 1,000)**



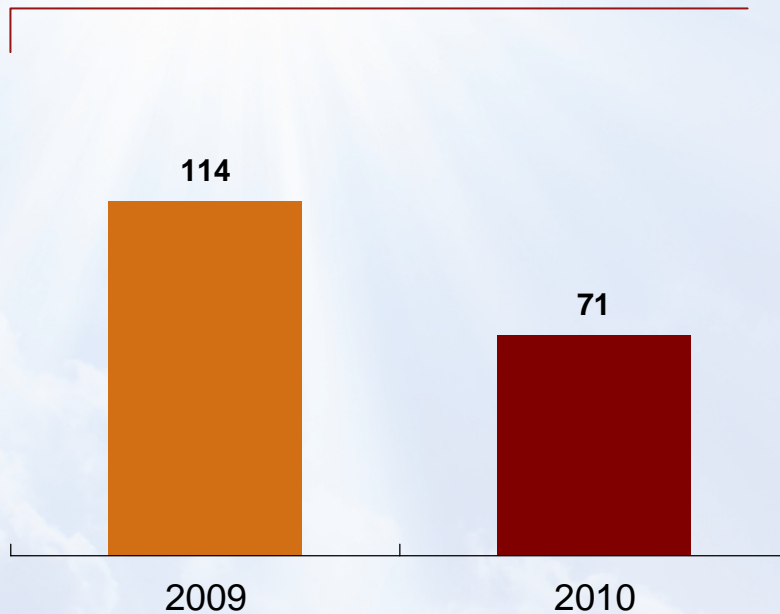
**Ratio of selling, admin and finance
expenses to turnover (%)**



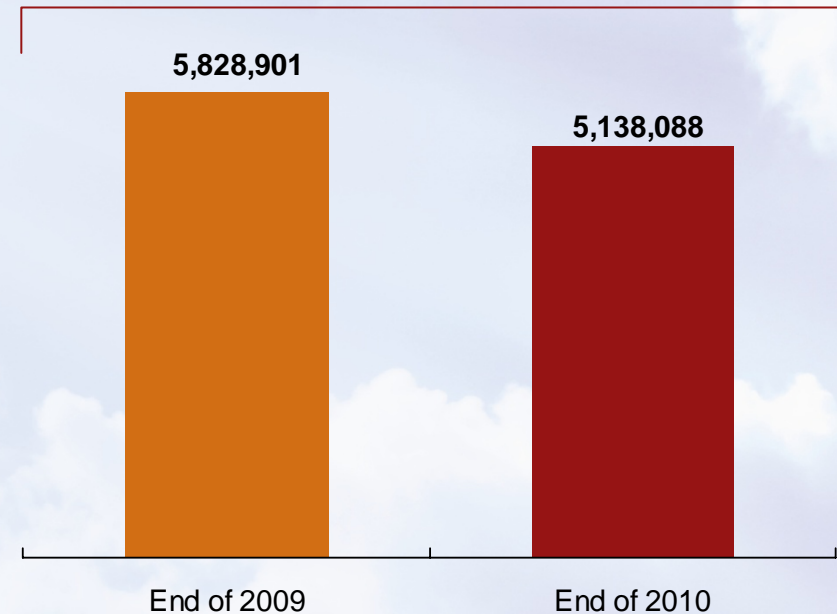
- Both selling, admin and finance expenses and Ratio of selling, admin and finance expenses to turnover dropped on YoY basis.

Operation Performance: Inventory Turnover Accelerated on YoY basis with Slightly Decreased Inventory

Inventory turnover days



Inventory (RMB 1,000)

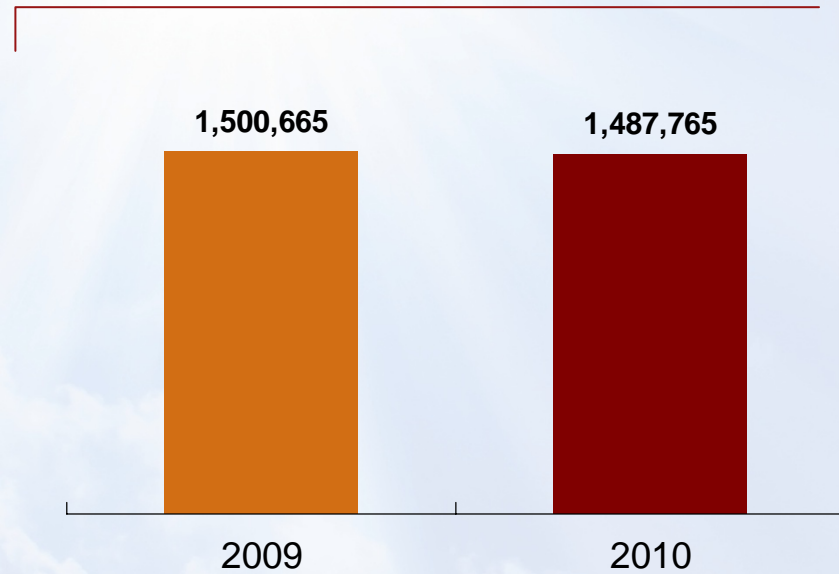


- Inventory turnover days dropped significantly on YoY basis with improved efficiency.
- Inventory as at December 31, 2010 dropped slightly on YoY basis.

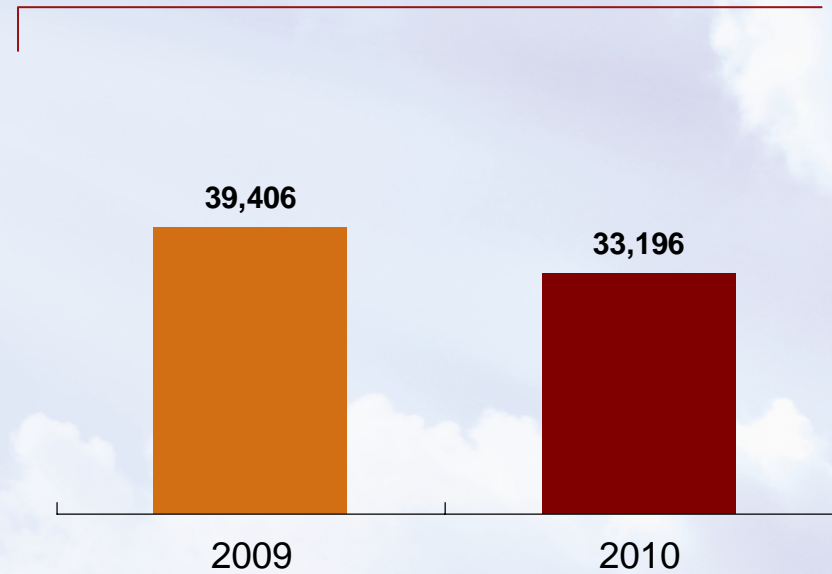


Operation Performance: Cash Flow Remaining Stable

Net operating cash flow
(RMB 1,000)



Net cash flow (RMB 1,000)

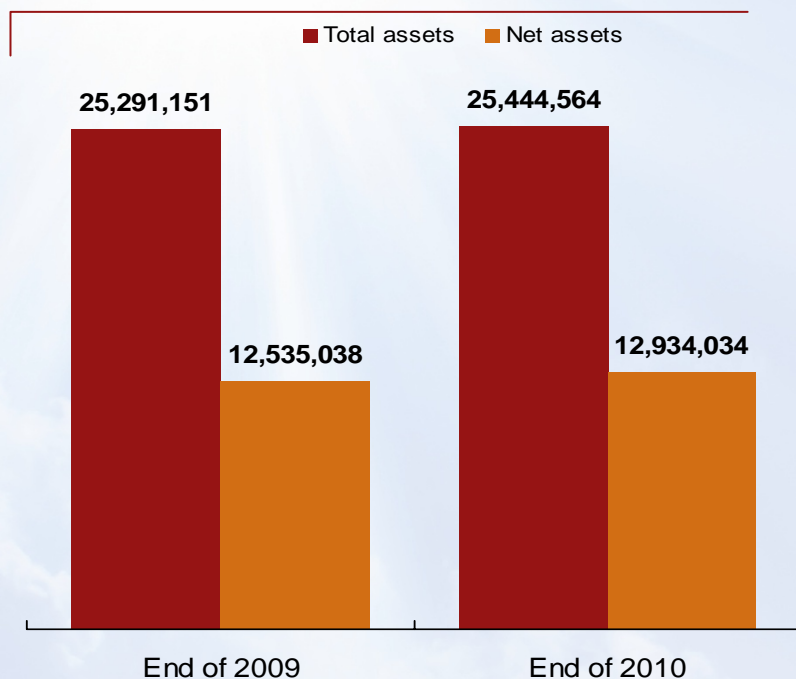


- Keeping stable operating cash inflow.



Assets Structure: Both Assets Scale and Solvency Keeping Stable

Total assets (RMB 1,000)



- Both total assets and net assets remained stable. Debt to equity ratio, liabilities to assets ratio and current ratio maintained within a reasonable range.



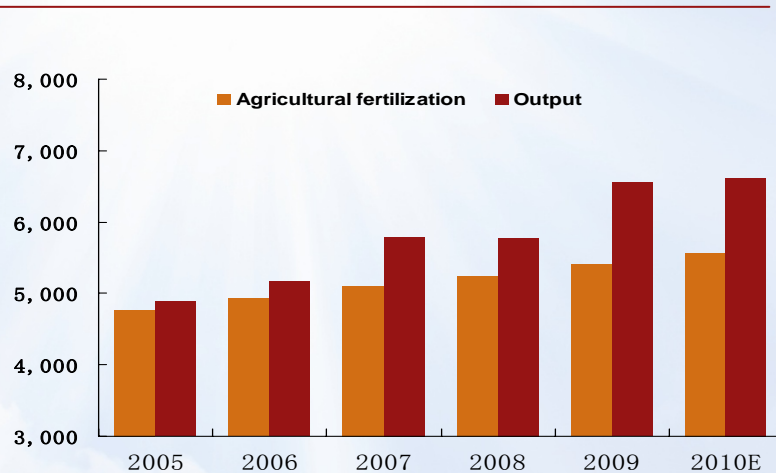
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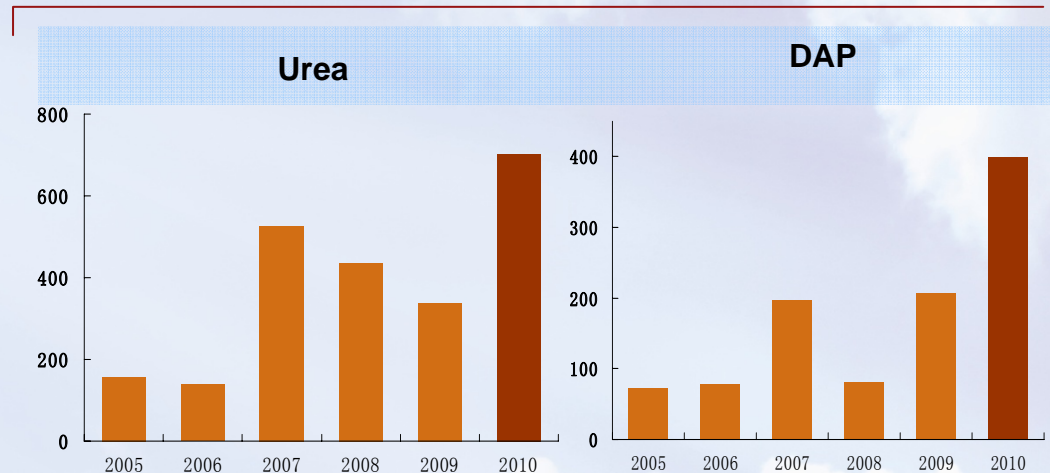
Market Environment: Domestic Fertilizer Market was still Imbalanced

Supply/demand in domestic fertilizer market
(in nutrient, 10,000 tons)



Information source: State Statistics Bureau

Export volume (10,000 tons)



Information source: China Customs

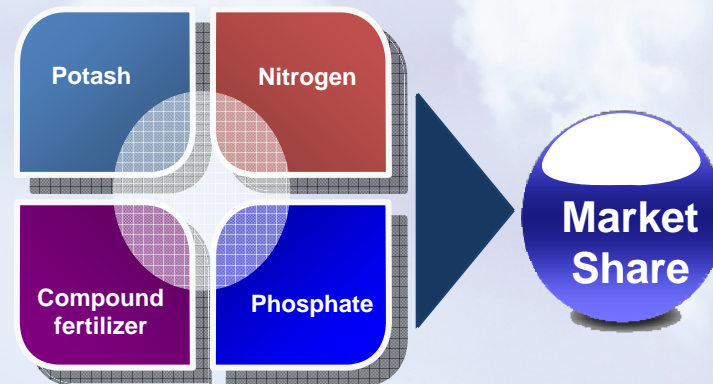
- The domestic fertilizer demand showed a rising trend generally in 2010 with relatively big growth in export volume on YoY basis, however, domestic market maintained oversupplied due to large domestic output. Meanwhile, fertilizer prices were volatile significantly during the year due to impacts of multi-factors including weather, raw material cost and global fertilizer market.



Operation Measures: Strengthening Product Operation and Enhancing Competitiveness of Production Subsidiaries

Strengthened product operation, maintaining No.1 market share position

- Strengthened analysis and research on market information, adopted well-targeted marketing measures and enhanced terminal sales ability, consolidating brand image.
- Expanded direct sales, accelerating inventory turnover.



Improved competitiveness of production subsidiaries through strengthening technology innovation and upgrade

- Strengthened technology innovation, production subsidiaries, especially compound fertilizer production subsidiaries, paid more attention on new types of fertilizers with high value-added and the investment in Sinochem Yantai who produced new types of fertilizers was increased.
- Continuously improved technology to decrease energy consumption per unit; average coal consumption dropped by 4% YoY and electricity consumption dropped by 5% YoY for nitrogen production subsidiaries.
- Further enhanced overseas and domestic resource procurement including potash mine, phosphoric mine and coal mine.



Operation Measures: Consolidating International Cooperation while Further Improving Domestic Supplier System

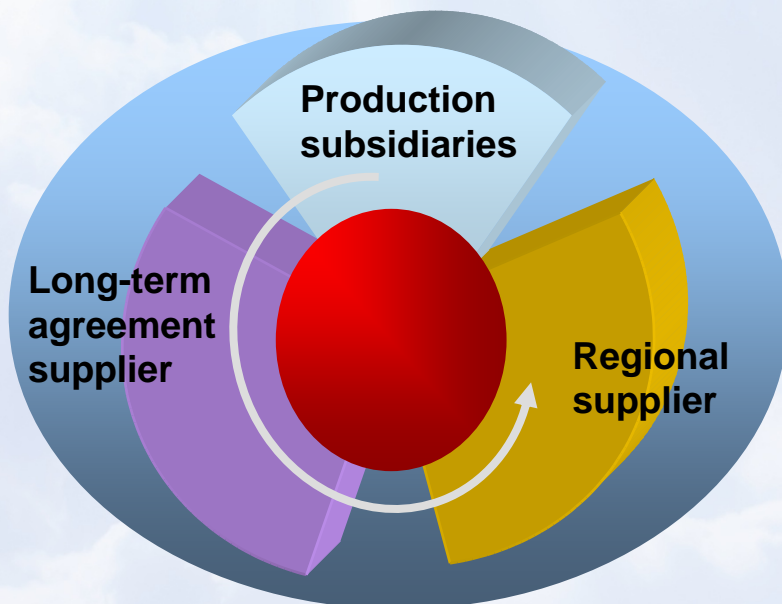
Consolidated international cooperation to guarantee stable supply

- Signed three-year potash import MOU with Canpotex and APC.
- Signed 2011 annual agreement with major international suppliers for traditional compound fertilizer including YARA and K+S; extended exclusive agency agreements with OCP and GCT.



Kept stable and multi-layered domestic supply system

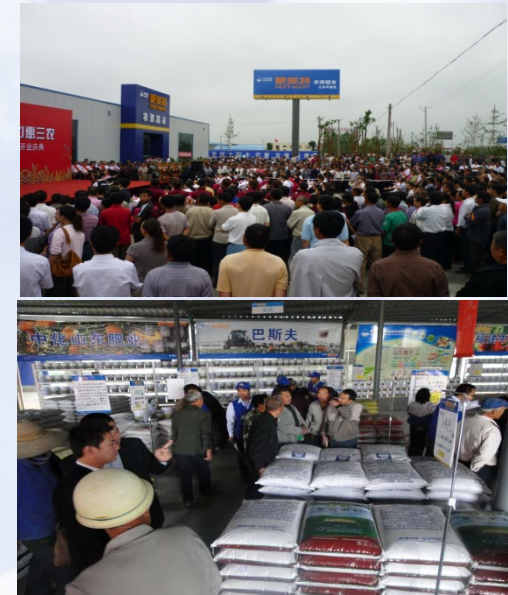
- Based on stable supply from production subsidiaries, the Company kept on strengthening cooperation with long-term agreement suppliers and enhanced flexible procurement in local regions, catering to different demand of customers with the Company's strong distribution ability.



Operation Measures: Optimizing Distribution Network and Improving Value Added Service

Optimized distribution network and explored new development model

- Aggressively developed Southwest market to expand coverage of distribution network and improved existing distribution network with higher competitiveness.
- Explored new development model with supermarkets commenced business in Pingdu City, Shandong Province and Jinhua City, Zhejiang Province, providing one-stop service for terminal customers.



Improved value added service oriented on customers

- Implemented customer-oriented marketing to improve customer contribution and expanded number of terminal customers.
- Issued Sinofert-ABC co-branded card together with Agricultural Bank of China, improving support of financing service to value-added distribution network.
- Persisted on carrying out agrichemical service. Number of activities including agrichemical lectures, market promotion, field demonstration and store promotion totaled 3,500 in a year.



Operation Measures: Implementing Highly-efficient Management with Strict Control on Operation Risks to Guarantee Sustainable Development

Structure and Process

Reviewed the Company's business model and organizational structure and improved management and systems and processes.

Operation Efficiency

Streamlined specialization and cooperation on industrial chain and carried out strict expense control through lean management.

Risk Management

Strengthened comprehensive monitoring, regular analysis and warning on operation, goods and credit, ensuring operation security of the Company.



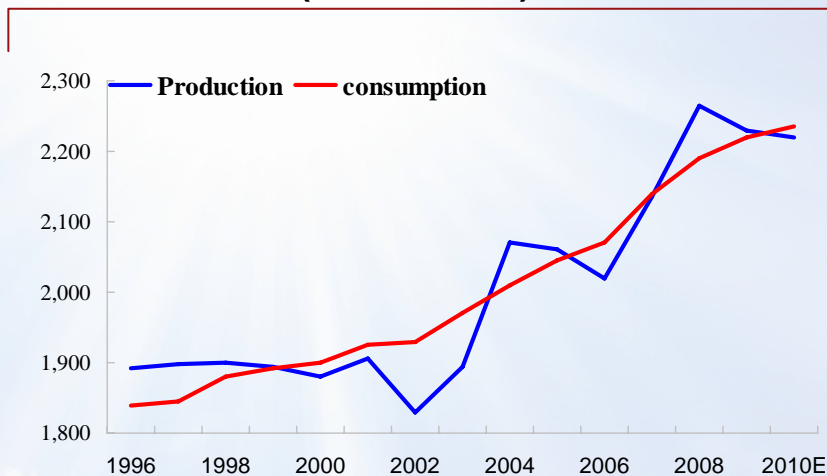
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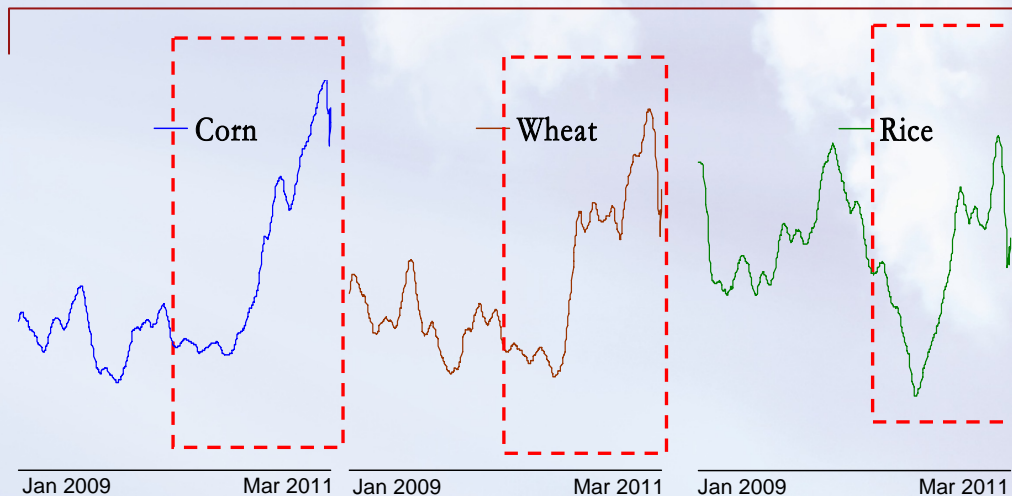
Tight Grain Supply in Global Market and Inelastic Demand Lead to Fertilizer Demand Growth in a Long Run

Global grain production and consumption (million tons)



Information source: FAO

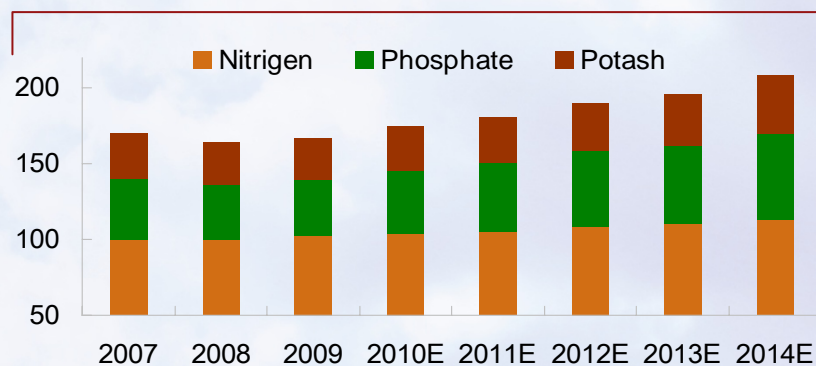
Prices of major crops in global market



Information source: CBOT

- **Tightened grain supply in global market:** IFA estimated that grain production would reduce globally in 2010 and grain output would be less than demand for the first time since 2007.
- **Grain prices increased dramatically since 2H10:** international corn and wheat futures increased by more than 50% YoY.
- **Global inelastic grain demand pushed fertilizer demand up in a long run.**

Global fertilizer demand (in nutrient, million tons)



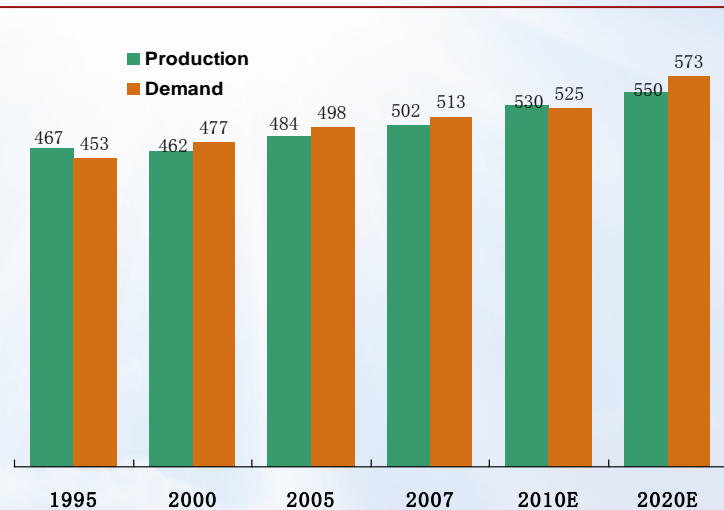
Information source: Agriculture Committee on IFA



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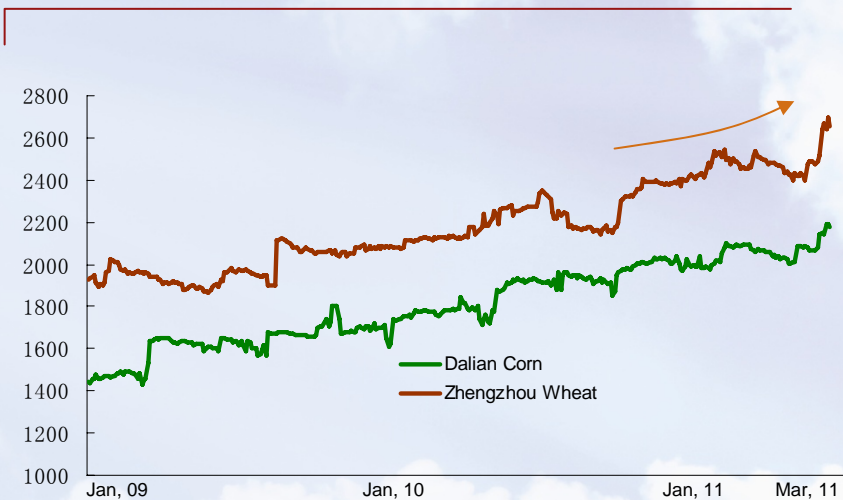
Tight Balance of Supply/demand in China in a Long Run

China's grain production and demand (million tons)



Information source: FAO, State Statistics Bureau

Prices of major crops in domestic market (RMB/ton)



Information source: Dalian and Zhengzhou Future Exchanges

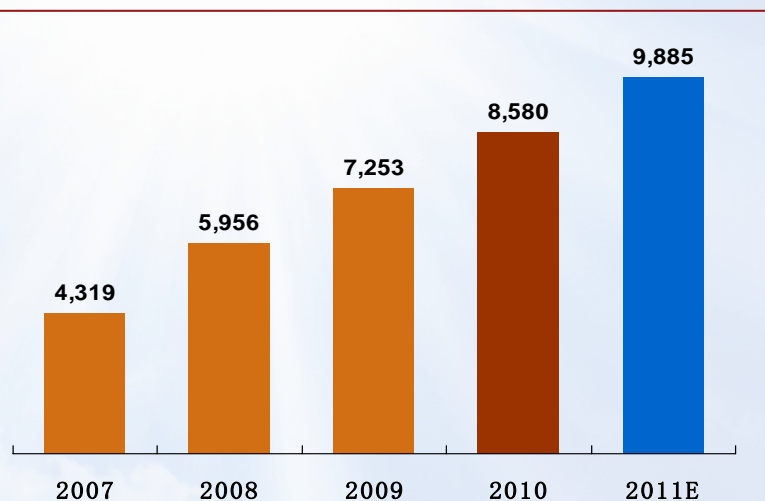
■ Tight grain supply in Chinese domestic market

- **Arable land drops continuously while grain price keeps rising:** reduction of arable land intensifies disparity between supply and demand, factors including unfavorable weather and inflation directly push prices of agricultural production material products up, and grain price keeps rising.
- **Grain imports increased on YoY basis:** imports of wheat, corn and rice of China has substantially increased in 2010, and for the first time China became the largest agricultural products importer of U.S.

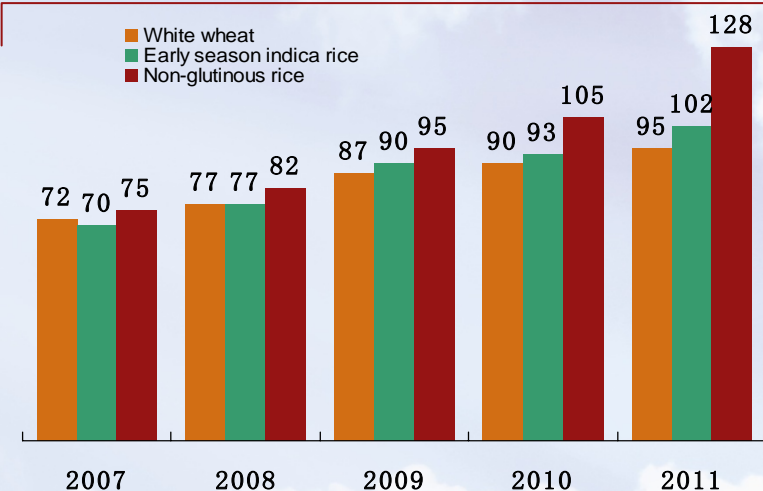


Agriculture Is Continuously Supported by the Chinese Government to Promote Grain Output in a Long Run

Fiscal support on “Agriculture, Farmers and Rural Area ” (RMB 100 million)



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



Information source: Ministry of Finance, NDRC

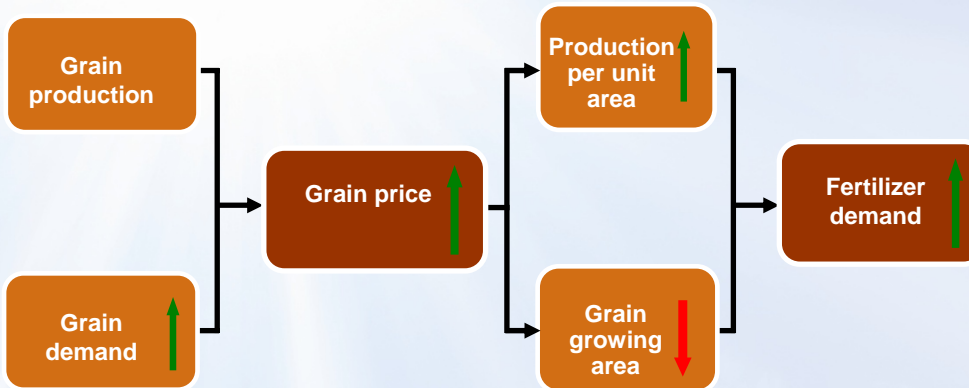
■ **The central government further increased investment in “Agriculture, Farmers and Rural Area ” and grain purchase prices kept rising:**

- In 2011, the central government plans to invest RMB 988.5 billion in agriculture, farmers and rural area, increasing by 15% over that of RMB 130.5 billion in 2010.
- According to latest release from NDRC, minimum purchase prices of major grains will be further increased in 2011 to enhance farmers’ planting initiatives and promote production.

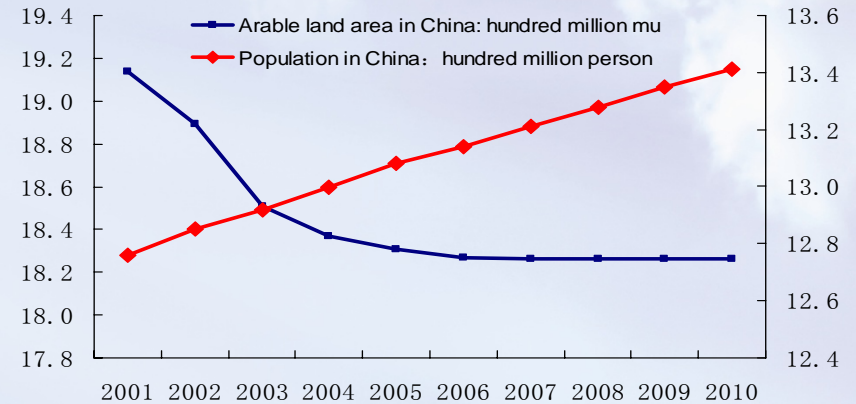
■ **The 2010 report on the work of the government gives top priority to “Agriculture, Farmers and Rural Area ” and promotes agriculture modernization together with industrialization and urbanization, ensuring long-term and stable development of agriculture industry.**

Grain Demand Directly Boosts Domestic Fertilizer Demand Expectation

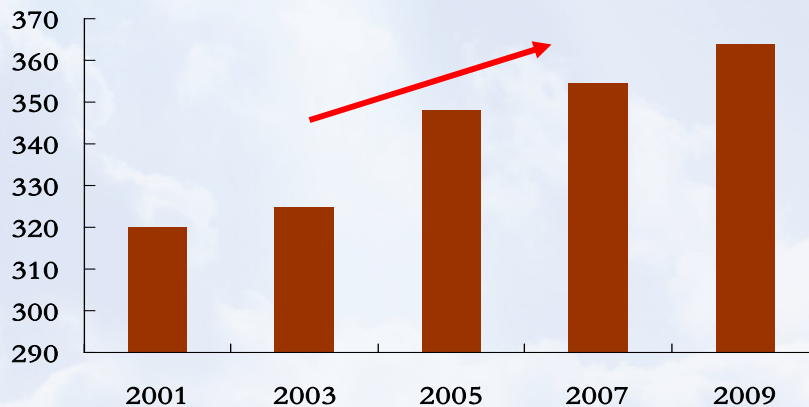
Impact of grain price on fertilizer demand



Arable land and population in China



Grain production per mu (kg)



Information source: State Statistics Bureau

- **Change in grain supply and demand boosts fertilizer demand in the future:** more population and less arable land in China require more grain output per unit area, driving fertilizer demand up.
- **Fertilizer application volume keeps rising:** Since 2003, fertilizer demand in China has increased with CAGR over 3%, it is expected that domestic fertilizer demand will keep rising in the future.

More Potential Opportunities in Domestic Fertilizer Market

Accelerated industrial consolidation

Improve business scale and industry centralization through mergers and capacity replacement in fertilizer industry, especially in nitrogen industry

More focus on energy-saving, emission-reduction and Technology Innovation

The central government will provide support on technology innovation and technique application and promotion in fertilizer companies with extended coverage of energy saving and emission reduction requirement

Rising new types of fertilizer

Promoting new types of fertilizer and improving efficiency with less evaporation and emissions are crucial for China to push forward agriculture modernization and sustainable development

Large scale agricultural production

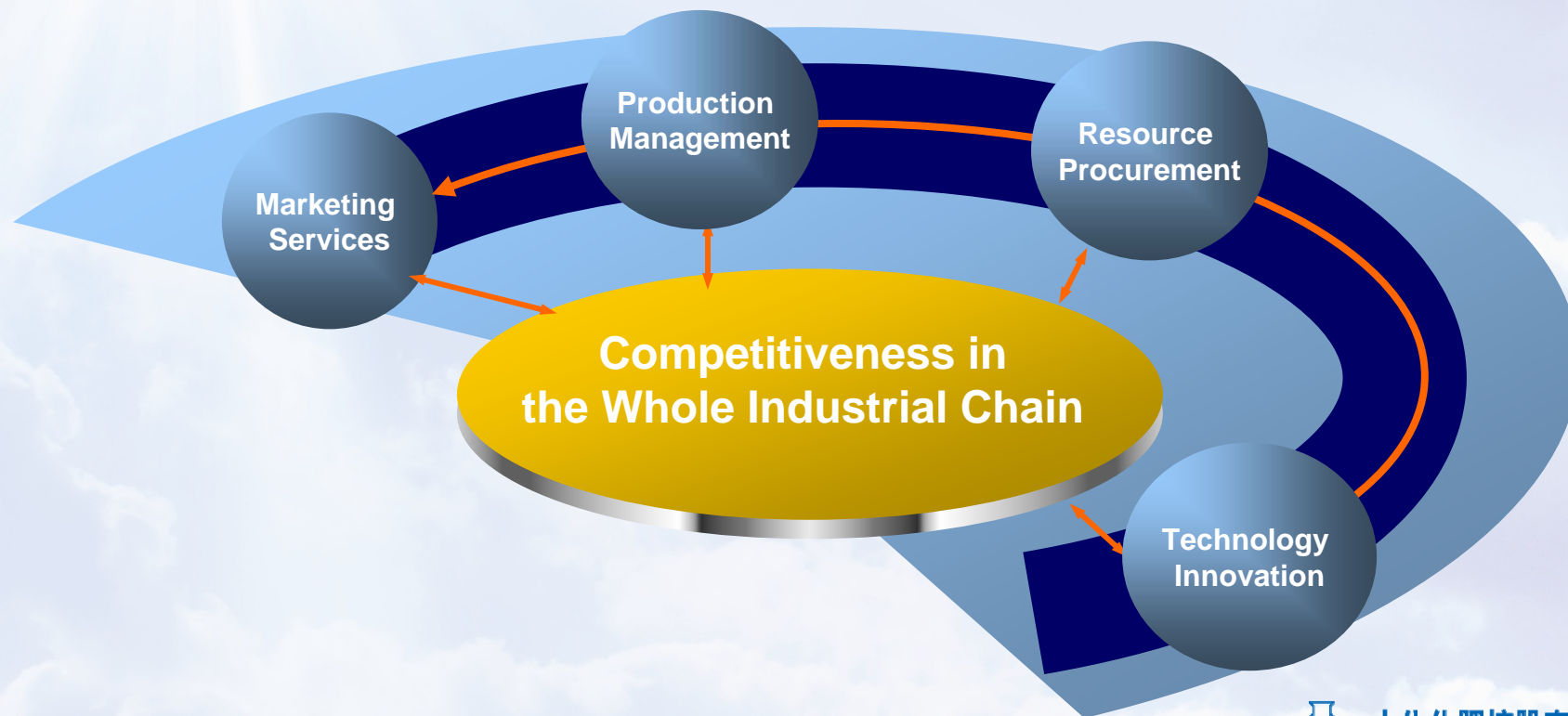
Land concentration and large scale agricultural production has become the trend.

Large scale growers need a package of products and service with high quality



Pushing forward Strategy Transformation to Ensure Sustainable and Healthy Development Based on Existing Cutting Edges

The Company will stick to robust development strategy, highlight core strengths, push forward strategy transformation to fully enhance competitiveness in the whole industrial chain and to ensure sustainable and healthy development.



Enhancing Supply and Distribution System Construction with Improved Marketing Ability and Brand Image

Further consolidated and optimized global and domestic supply system

- Global supply system: maintained stable cooperation with overseas suppliers and actively sought for new cooperation opportunities to ensure supply with high quality and competitive purchase cost and to further consolidate the Company's market position as China's largest fertilizer importer.
- Domestic supply system: consolidated and optimized supply system composed of self-owned capacity and external suppliers.

Improved core competitiveness of distribution network with consolidated leading position in the industry

- Further perfected agriculture production material distribution network through multiple ways including self construction, franchising and M&A , consolidating the leading position as the largest distributor in China with enhanced control over distribution channels.
- Further optimized distribution network layout with customer orientation and improved operation efficiency.

Promoted sales and enhanced brand image by agrichemical service

- Provided different agrichemical services with sustainable and standardized agrichemical service system construction and carried out packaged service for large scale growers and high-end customers.
- Improved brand image through the way of "service + promotion", building No.1 brand in Chinese agricultural production material industry.



Striving to Enhance Industry Position and Competitiveness of Production Subsidiaries

Implemented low cost strategy

- Upgraded technology to reduce material and energy consumption and improve productivity per capita.
- Lowered production cost and improved efficiency on the course of deepening lean management, realizing low consumption and safety production.
- Strengthened raw material supply chain management, reducing comprehensive purchase cost.

Optimized production capacity layout

- Pushed forward compound fertilizer production subsidiary consolidation and implemented integrated operation with focuses on procurement, production, sales and human resource.

Actively expanded cooperation with industry leading companies

- Promoted comprehensive strategy cooperation with industry leading companies based on the platform of existing JVs.

Production subsidiary location



Built Technology Supporting System and Strengthened Resource Procurement with improved Sustainable Development Ability

Built technology supporting system with technological commanding height, leading development direction of the industry

- Built R&D platform and established research institute; strived to undertake major national science and technology development projects
- Cleared technology innovation direction with the most advanced technologies in the world; occupied the leading position in terms of technology innovation and energy saving and emission reduction; formed collecting and promoting mechanism of new technology and process.
- Carried out R&D for new product, introduced high value-added products, enhancing supporting capability of new products for the industry.



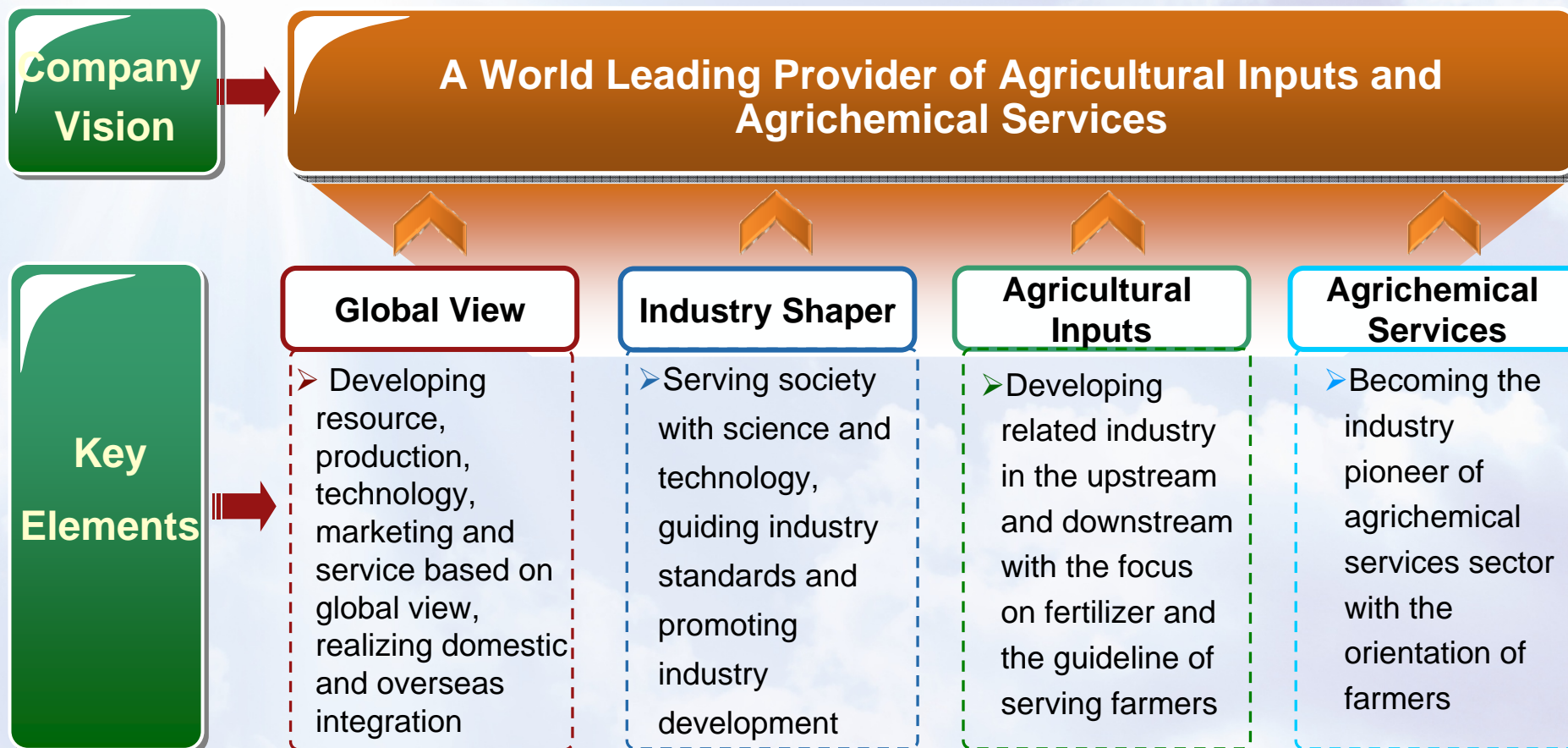
Enhanced global resource procurement of coal, phosphate and potash

- Paid close attention on domestic and overseas resources with breakthroughs made in natural resource procurement in terms of coal, potash and phosphate, providing resource reserve for the Company's sustainable development.



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Continuously Enhancing Core Competitiveness to Become A World Leading Provider of Agricultural Inputs and Agrichemical Services



Q & A

