



中化化肥控股有限公司

SINO FERT HOLDINGS LIMITED

**Nurturing China's Agricultural Sector**

# 2010 Interim Report

***August 26, 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.



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- **Operation Results**
- **Review on Business Operations**
- **Outlook**



# Interim Results for 1H10

(RMB million)	1H 2010	1H 2009	Change YoY
Sales volume ('000 tons)	7,438	6,349	17%
Turnover	13,246	12,505	6%
Gross profit	648	679	-4%
Net profit	340	-828	—
Net profit (excluding the impact of changes in fair value of convertible bonds) Note 1	230	-852	—
EPS (RMB 0.01) Note 2	5	-12	—

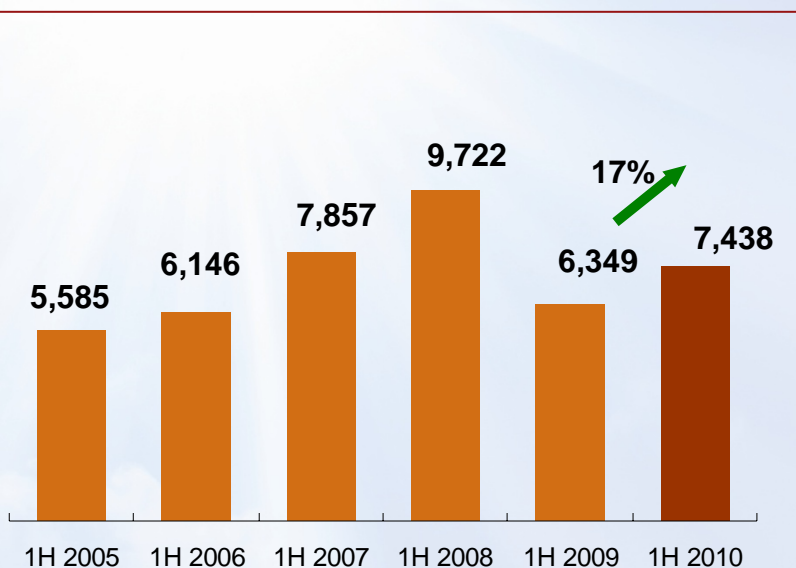
■ Note 1: The changes in fair value of convertible bonds led to an increase of RMB 109,751,584 of net profit for 1H10

■ Note 2: The weighted average number of shares for 1H10 was 7,018,343,000

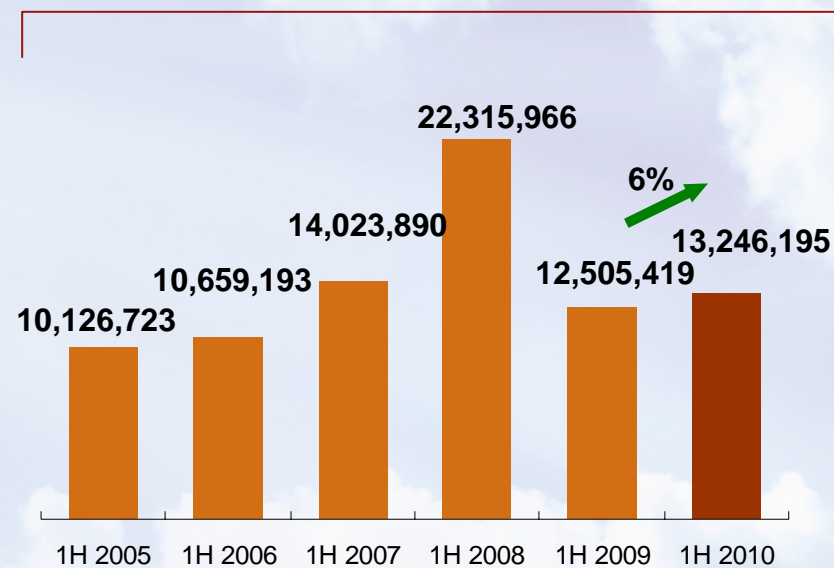


# Business Scale

## Sales Volume ('000 tons)



## Turnover (RMB '000)

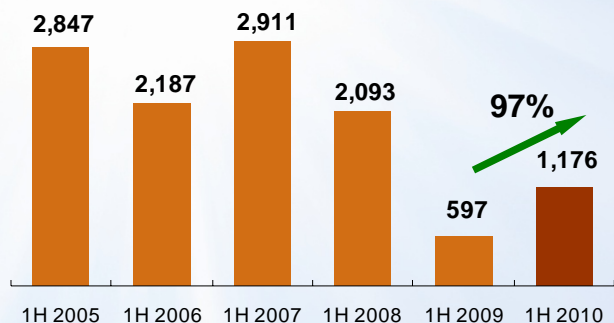


- Sales volume increased by 17% YoY and turnover rose by 6% YoY though average selling price dropped by 10% YoY.

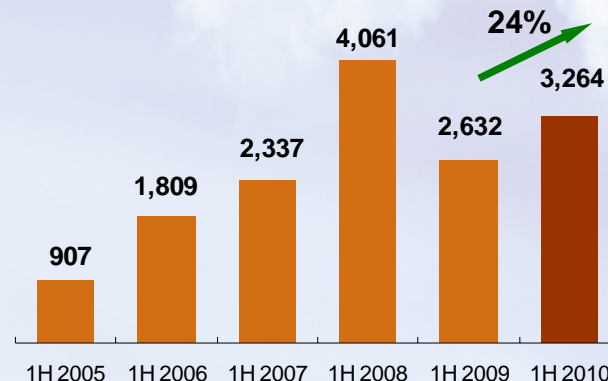


# Business Scale (continued)

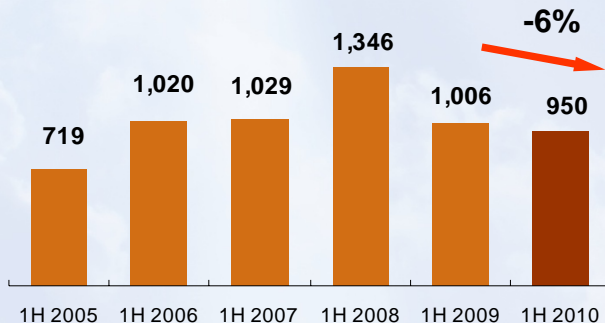
## Potash ('000 tons)



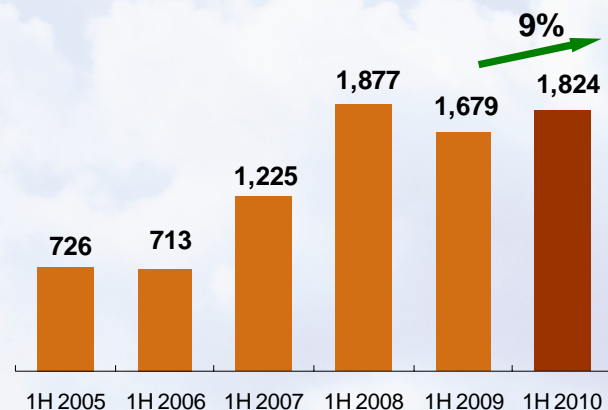
## Nitrogen ('000 tons)



## Compound Fertilizer ('000 tons)



## Phosphate ('000 tons)



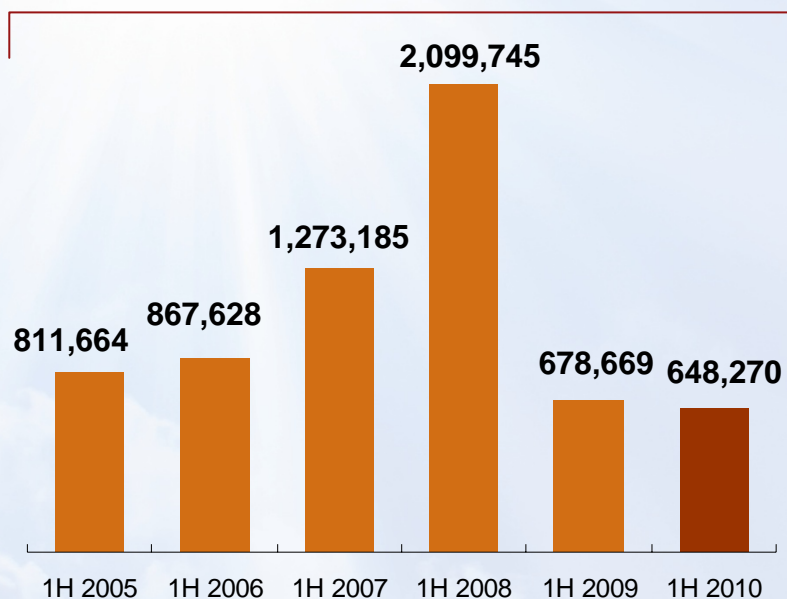
■ Sales volume of potash, nitrogen and phosphate increased by 97%, 24% and 9% YoY, respectively, while sales volume of compound fertilizer decreased by 6% YoY.



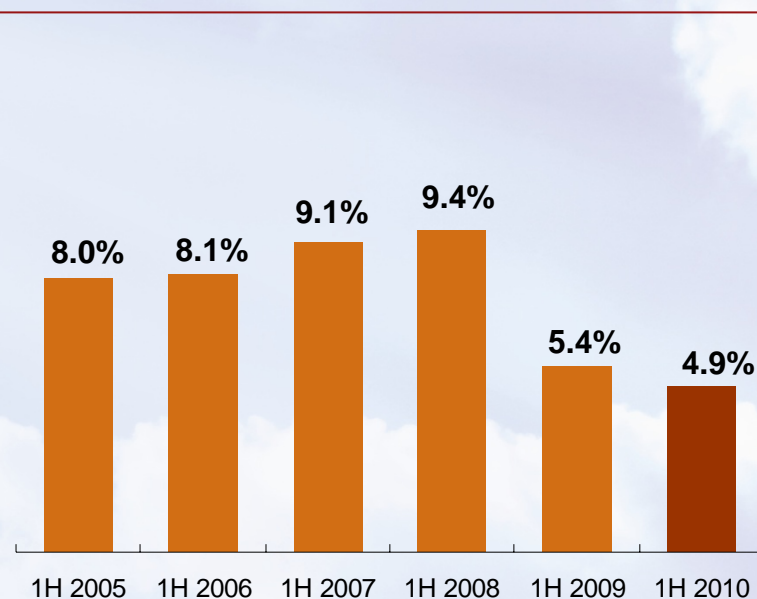


# Profitability

## Gross Profit (RMB '000)

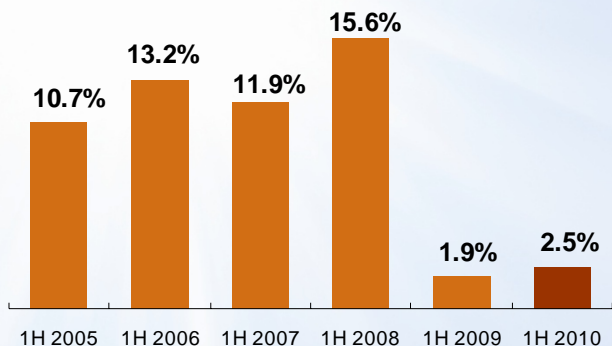


## Gross Margin

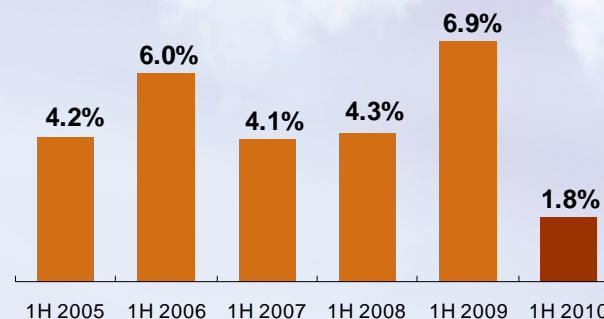


# Profitability (continued)

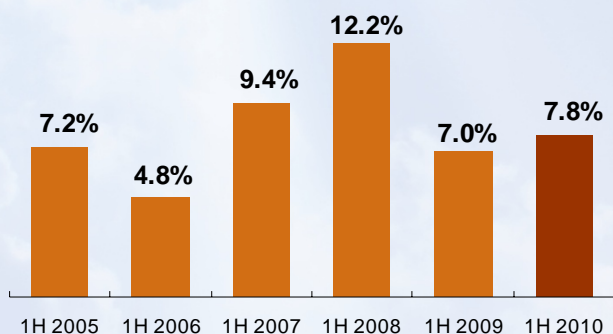
## Potash



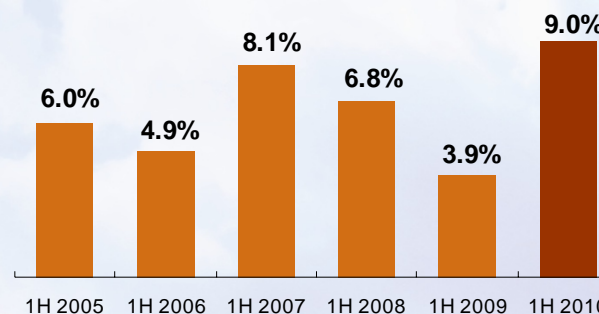
## Nitrogen



## Compound Fertilizer



## Phosphate



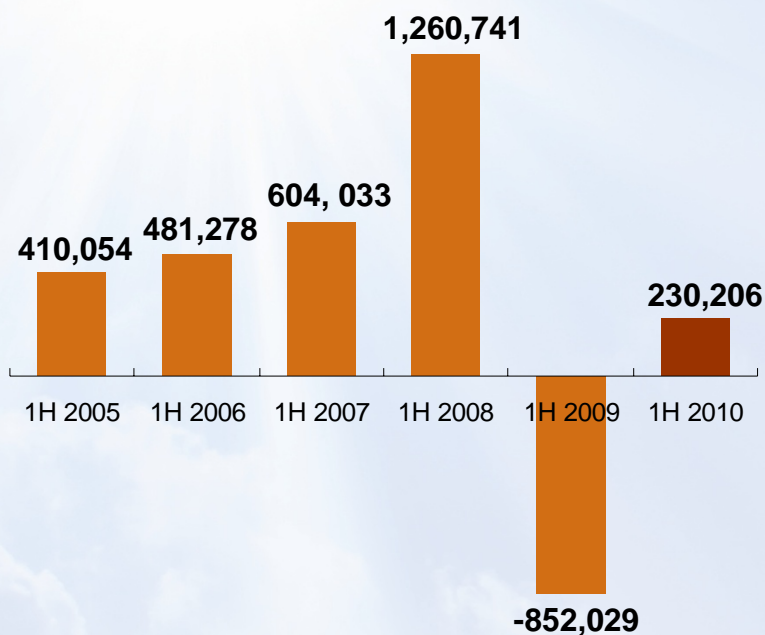
- Gross margin of phosphate and compound fertilizer approached its historic peak; gross margin of potash increased on YoY basis while that of nitrogen dropped.



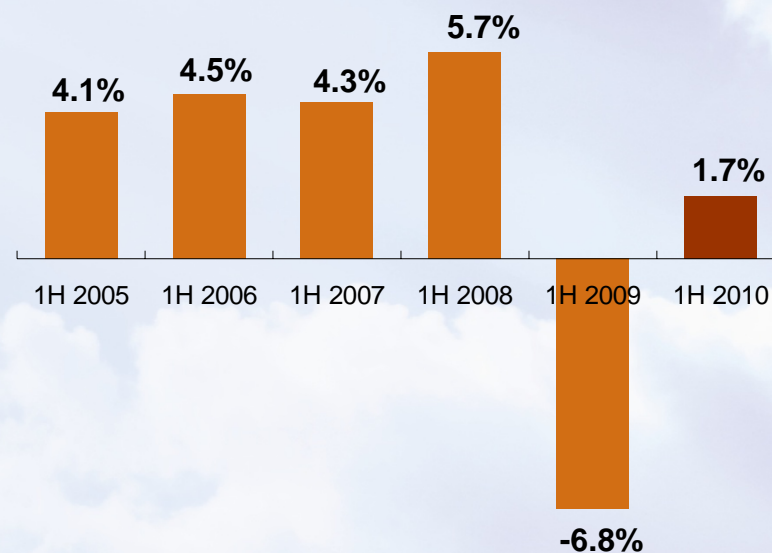


# Profitability (continued)

## Net Profit (RMB '000)



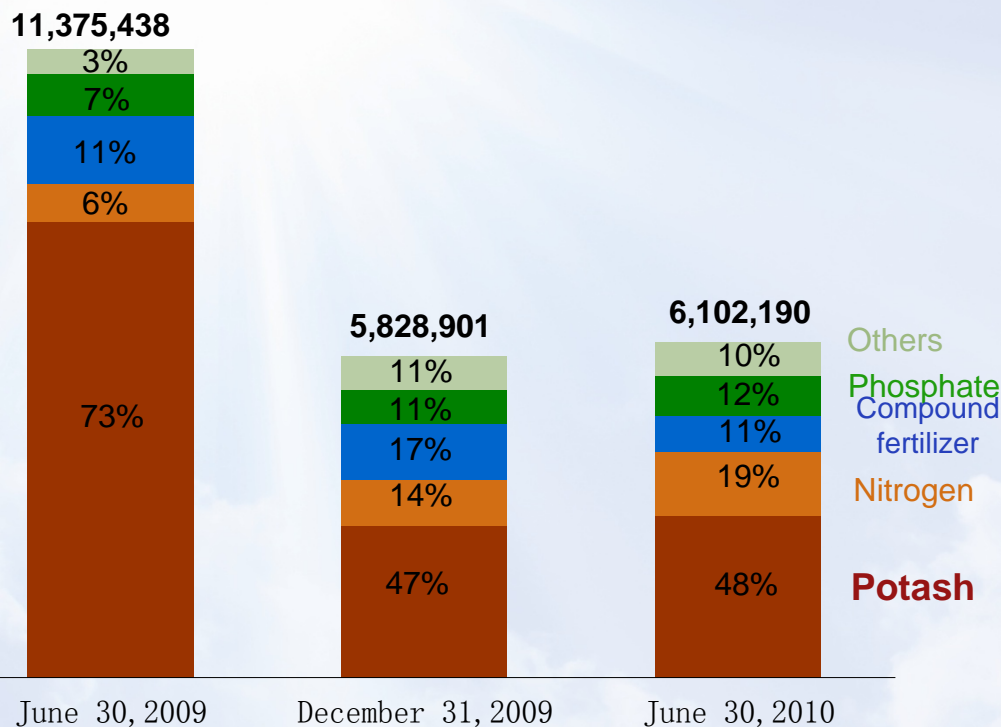
## Net Margin



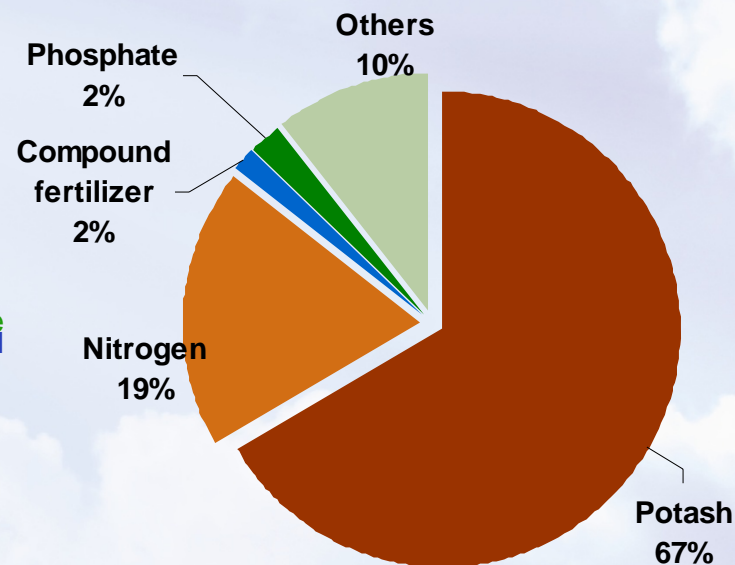
Note: Figures above excluded the impact of fair value change of convertible bonds.

# Inventory and Inventory Provision

## Inventory Breakdown by Product (RMB '000)



## Inventory Provision

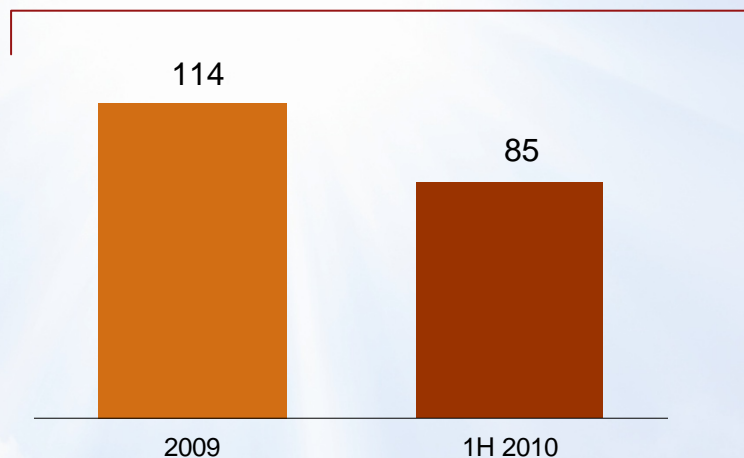


■ Inventory as at June 30, 2010 dropped significantly on YoY basis, however, it climbed slightly as compared with that as at December 31, 2010.

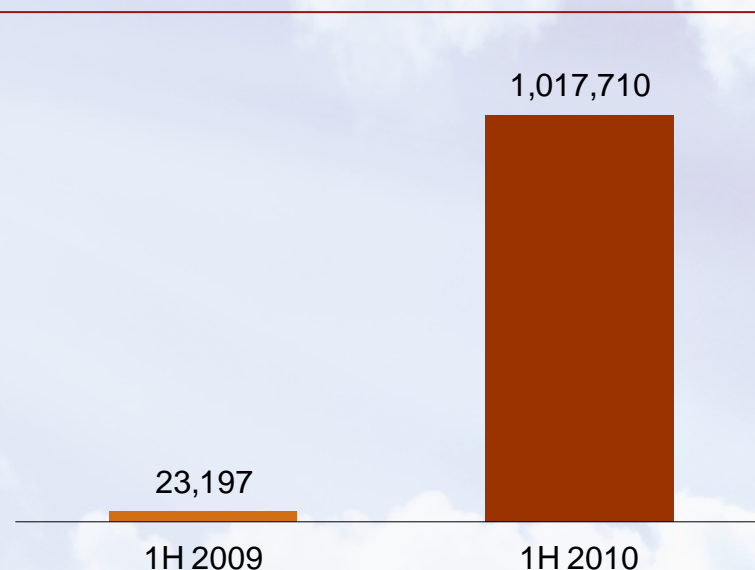
■ Inventory provision as at June 30, 2010 was RMB 177,249,000, among which potash accounting for 67% which had been made in 2009 and not been sold yet.

# Operation Efficiency and Operation Cash Flow

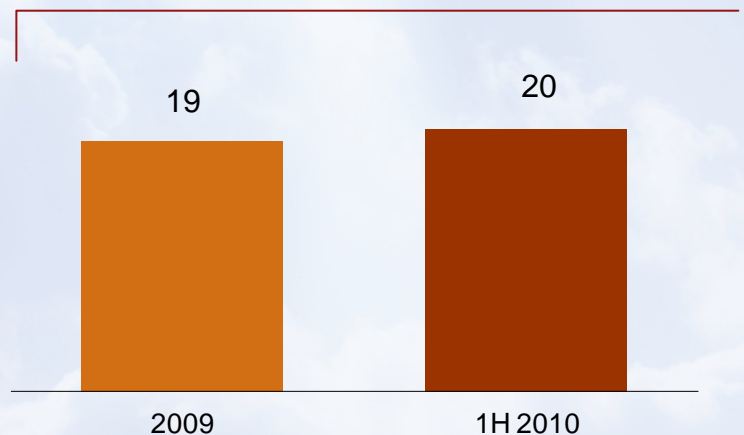
## Inventory Turnover Days



## Operation Cash Flow (RMB '000)



## Account Receivables Turnover Days

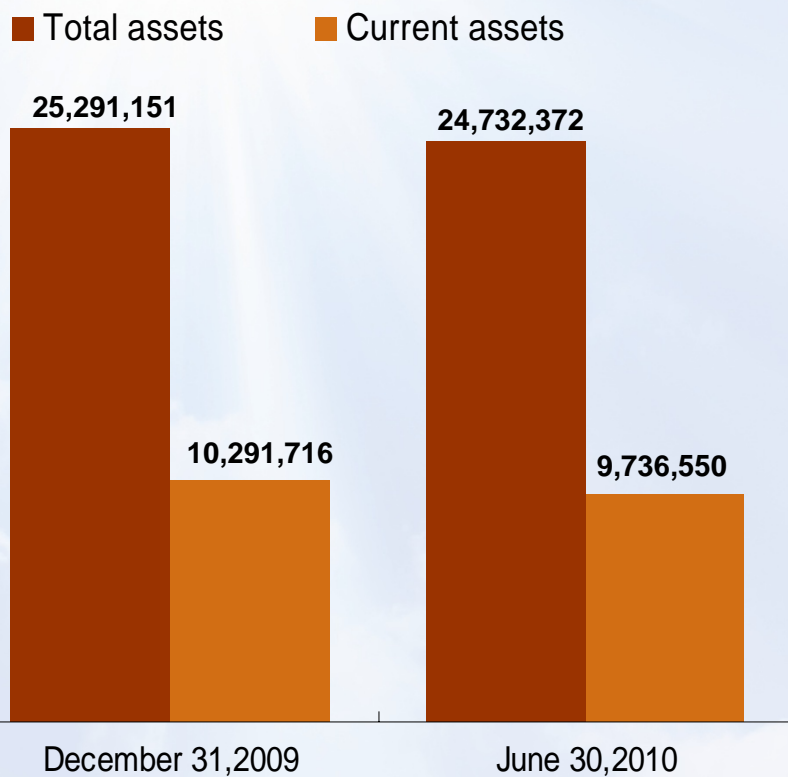


- Inventory turnover days decreased to 85.
- Account receivables turnover days remained flat.
- Operation cash flow improved significantly on YoY basis with cash inflow of RMB 1,017,710,000 for 1H10.

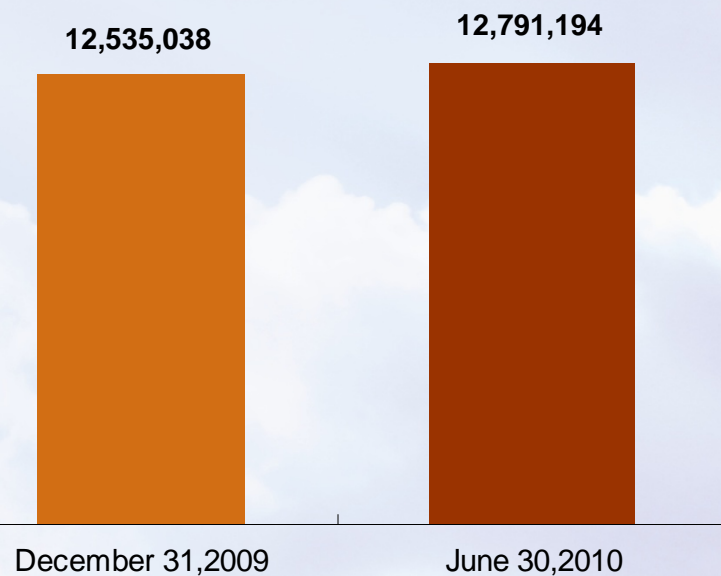


# Assets Scale

## Total Assets (RMB '000)

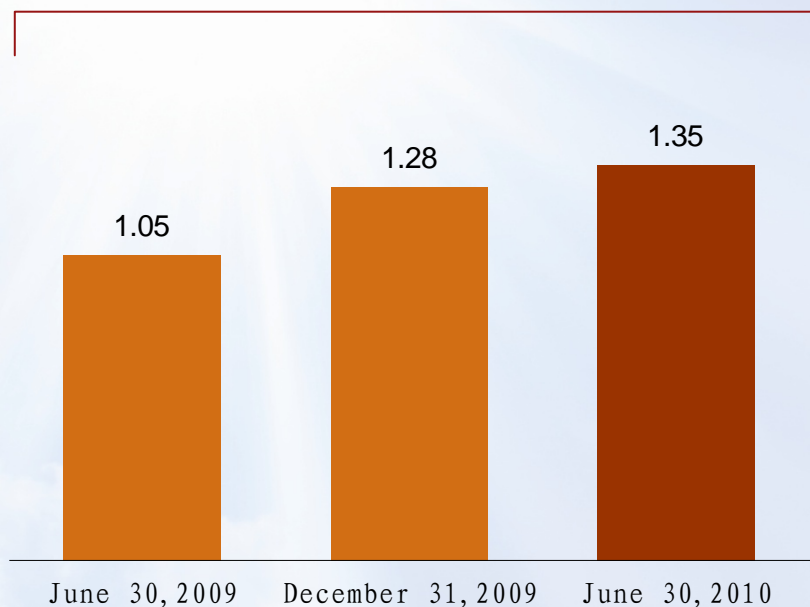


## Net Assets (RMB '000)

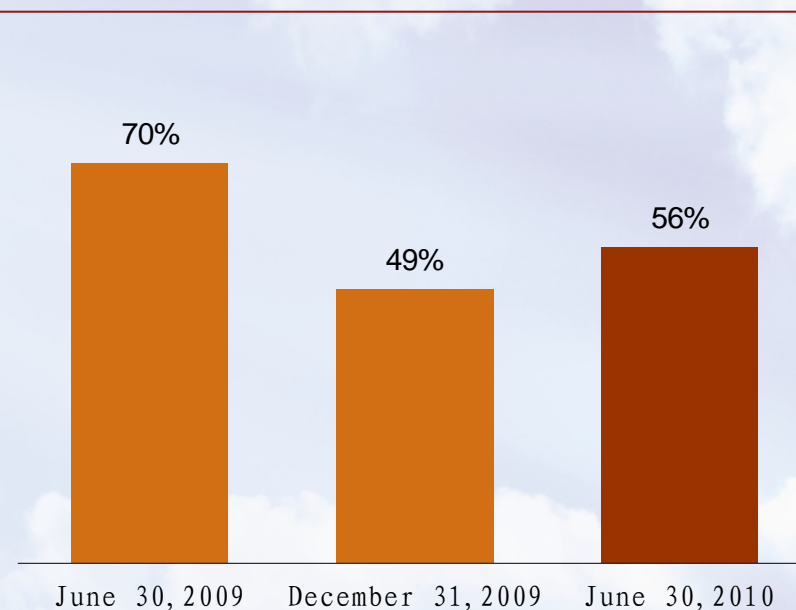


# Solvency

## Current Ratio



## Debt-to-equity Ratio



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

- As at June 30, 2010, current ratio was 1.35 and debt-to-equity ratio was 56%, which were within reasonable range.

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- Operation Results

- Review on Business Operations

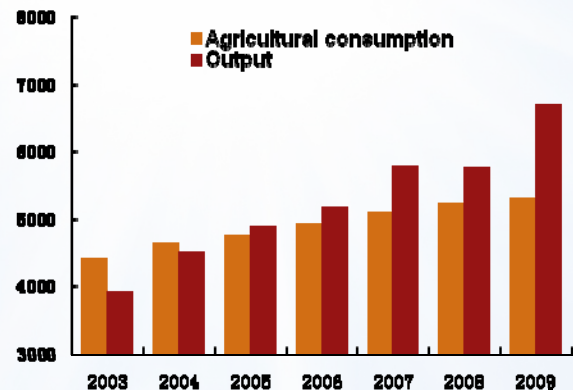
- Outlook





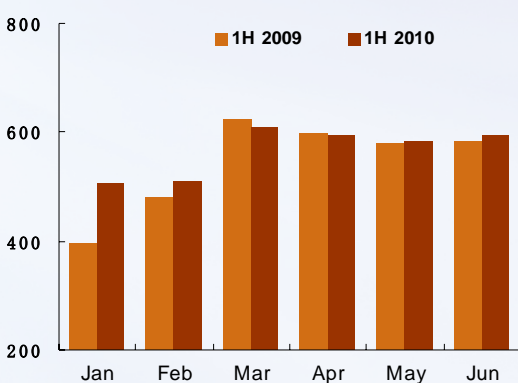
# Market Environment: Oversupply and Unfavorable Weather in China Dampened Domestic Market

Supply/demand in Domestic Fertilizer Market (in nutrient, 10,000 tons)



Information source: National Bureau of Statistics of China

Domestic Fertilizer Output in 1H10 (in nutrient, 10,000 tons)



Information source: National Bureau of Statistics of China

Weather Conditions in China in 1H10

Cold

Temperatures in Spring fertilization period in Northeast China was 3-6°C lower than the normal ones

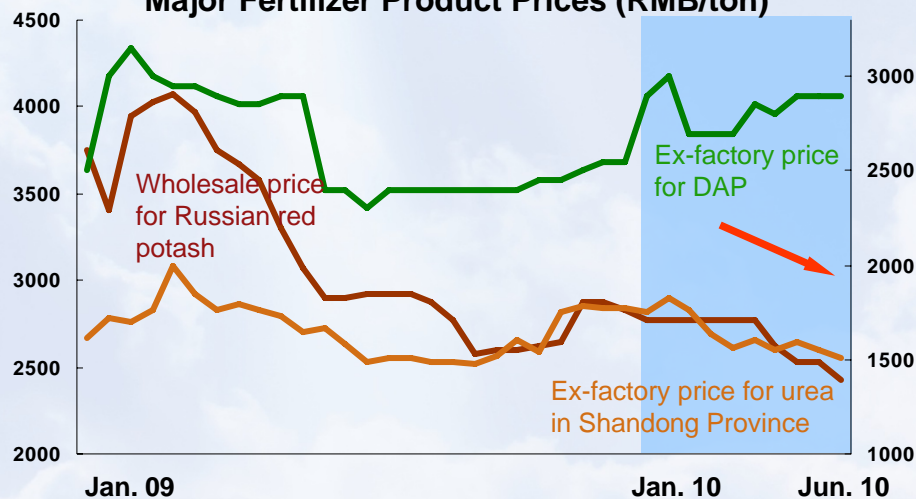
Drought

High temperature and little rainfall in five provinces in Southwest China lasted from last winter to this spring. The drought situation is the most serious in the past 100 years in some areas.

Flood

Guangdong and Guangxi provinces saw historically heavy rains since May, 2010

Major Fertilizer Product Prices (RMB/ton)



Information source: www.china-fertinfo.com.cn

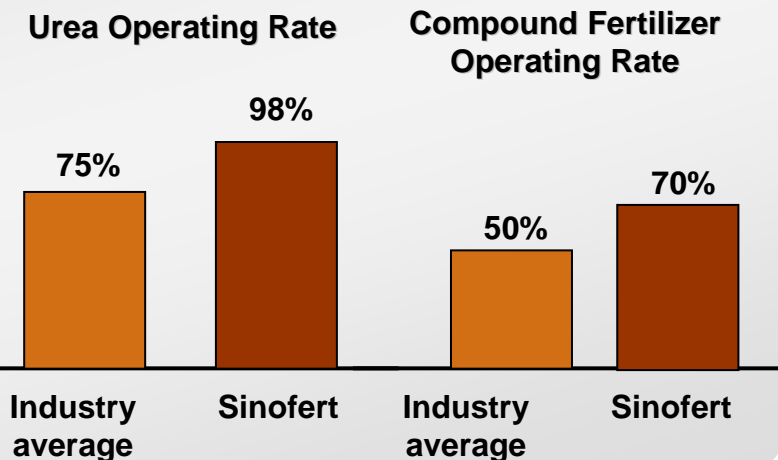
- Fertilizer capacity kept expanding rapidly with the growth rate higher than that of demand in 2010. Unbalance between supply and demand was further deteriorated by unfavorable weather in China.
- Ex-factory price for urea decreased by 15% at the end of June as compared with that at the beginning of the year; wholesale price for Russian red potash decreased by 10% as compared with that at the beginning of the year.

# Operation Measures: Consolidating Business Fundamentals to Enhance Comprehensive Competitiveness

Under the tough market situation in 1H10, the Company adhered to the marketing strategy of “prudent operation, quick-buy-and-quick-sale and risk control” to respond to the market actively. Meanwhile, the Company pushed forward the strategy of integrated production and distribution, enhanced every chain of the strategy and consolidated business fundamentals to improve the Company’s core competitiveness.

Maintained relatively high operating rate and promoted energy saving and consumption reduction to improve product competitiveness

- Leveraging marketing ability of the distribution network, production subsidiaries kept relatively high operating rate. Average operating rate of urea and compound fertilizer plants was 98% and 70%, respectively, both higher than the industry average.
- Unit production consumption of major inputs was reduced and cost competitiveness was improved through technological innovations in respect of energy saving and consumption reduction.



## Pushed forward the allocation of natural resource

- Signed strategic cooperation framework agreement for the construction of Ningdong nitrogen production base. Further work would be carried out provided that coal resource needed for the project is secured

# Operation Measures: Enhancing Cooperation with Global and Domestic Suppliers

## Global Supply

### Signed import contracts with major international suppliers, securing supply

- Signed potash import contracts for 2010 with Canpotex , BPC, APC and PCS
- Signed exclusive agreements for high-concentrated SOP based compound fertilizer with Yara, K+S



## Domestic Supply

### Diversified domestic supply system with various cooperation approaches to achieve a win-win situation

- Expanded supplier base with long-term contracts and fortified cooperation with manufacturers with cutting edges of resource ; catering for grass-roots market demand based on competitive edges of regional suppliers
- Adopted cooperation approaches including tentative pricing with manufacturers to reduce market risk and realize a win-win situation

Supply base with controlling interest

Supply base with minority interest

Strategic alliances through capital market arrangement

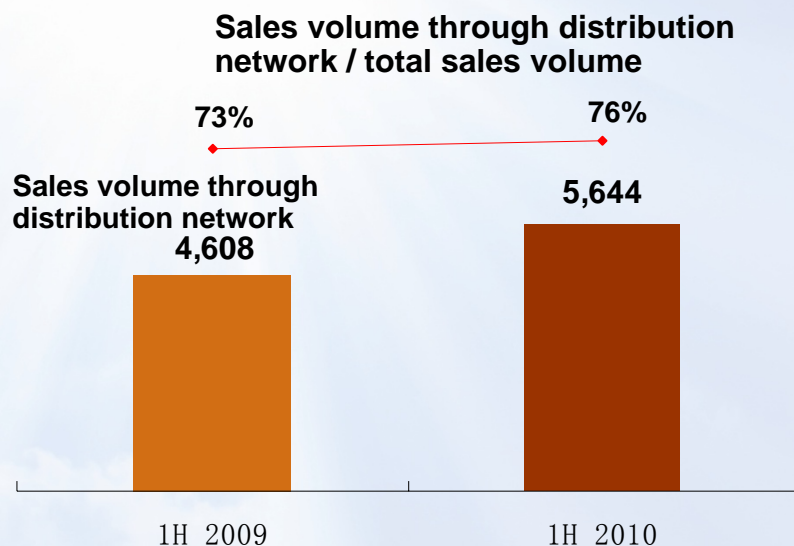
Long-term contract suppliers

Regional suppliers



# Operation Measure: Extending Sales to End-users and Improving Marketing Abilities of distribution Network

Sales Volume through Distribution Network ('000 tons)



Six Major Functions of Distribution Network



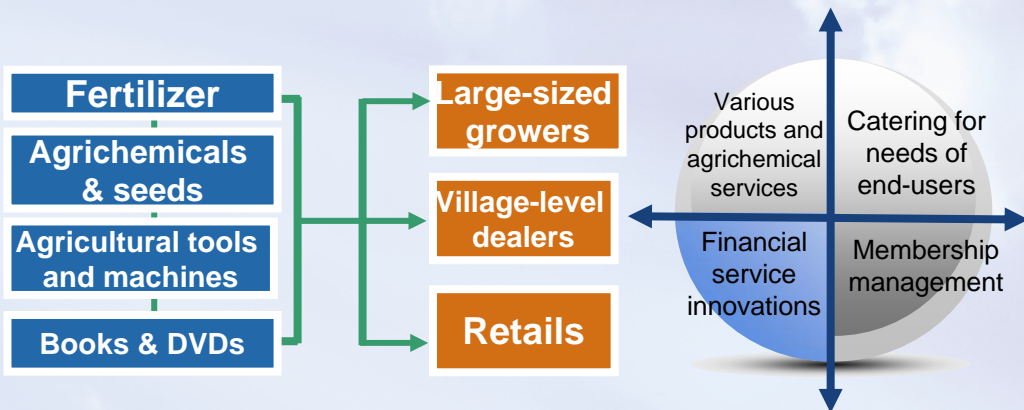
- **Extended sales to end-users:** Sales volume through distribution network accounted for 76% of total sales volume in 1H10, up by 3 percentage points on YoY basis. Total number of distribution outlets reached 2,105 with an addition of 69 in 1H10, further improving distribution network layout.
- **Improved marketing abilities of distribution network to enhance comprehensive competitiveness:** The Company strengthened functions of distribution network including product sales, channel maintenance, agricultural services and information collection & analysis to enhance the influence of the brand and products among end-users and to realize the shift of distribution network from scale expansion to quality improvement

# Operation Measure: Create New Marketing Model

Fert-Mart Supermarket in Pingdu City, Shandong Province  
Opened Successfully



Profit Model and Core Competitiveness  
of Fert-Mart



- **Catering for needs of end-users with one-stop-shopping service:** On June 18, the first Fert-Mart supermarket opened in Pingdu City, Shandong Province, providing sales of various products including fertilizer, agrichemicals, seeds and agricultural tools and machines and diversified agricultural services to end-users directly
- **Financial service innovation:** Signed strategic cooperation agreement with Agricultural Bank of China and introduced financial service to the distribution network, enhancing the value of distribution network

# Keeping Healthy Assets Structure and Strengthening Risk Management and Control System Construction

## Healthy assets structure with affluent bank credit line

- Optimized financial structure with multiple measures to keep capital structure healthy
- Maintained good cooperation relationship with several banks, total credit line about RMB40 billion, sufficient to support rapid and sustainable development of the business

## Strengthened risk management and control system construction

- Implemented stringent cargo management with regular inspection on warehouses at ports and inland to ensure inventory security
- Prevented credit granting risks: implemented dynamic checks on customer's credit granting and paid close attention on customer's credit standing to prevent risks related to cargo ownership and promoted domestic credit insurance implementation with diversified insurance means to prevent risks related to payment
- Further improved various risk management processes and systems including cargo ownership management and credit granting management





# Core Cutting Edges: Complete Industry Chains Laid a Solid Foundation to Improve the Company's Sustainable Competitiveness

In the tough market in 1H10, the company took various measures to further boost the cutting edges of integrated strategy of “centering on marketing and distribution and expanding both production and network distribution”

- Ten-million-ton Production capacity covered potash, nitrogen, phosphate and compound fertilizer
- Global and domestic strategic alliance with suppliers guaranteed supply of high quality products



- Distribution network covering over 90% of arable land in China catered for demand in grass-rooted level, supporting long-term and stable growth in sales volume

- Leading market position with outstanding abilities in both market operations and marketing





# Core Cutting Edges: Market Position, Sinochem Brand and Marketing and Service System Provided Continuous Growth Momentum

## Market Position

- kept leading market position based on market operation abilities in both domestic and international markets

Maintaining the largest market share

Comprehensive production line

Excellent supply system

Strong marketing ability

Nitrogen, phosphate, potash and compound fertilizer

## Sinochem Brand

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



## Marketing and Service System

- The unique marketing system of Sinofert comprised agricultural services with Sinofert characters, outstanding logistics and supply system and innovated financial service model



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# Coexistence of Challenges and Opportunities in 2H10

## ■ Challenges in 2H10

—**Oversupply in domestic market :**  
Especially for nitrogen and phosphate products

—**Higher prices for raw materials add pressures on cost:** Long-term price increase for raw materials including coal and natural gas for nitrogen manufactories drove manufacturing cost up and squeezed profit in bear market

—**Insufficient market confidence:**  
Confidence in domestic market was insufficient after a long-term slump

## ■ Opportunities in 2H10

—**Expectation on grain price increase:**  
Fertilizer contributed highly to the Chinese grain production, grain price growth would drive fertilizer consumption up

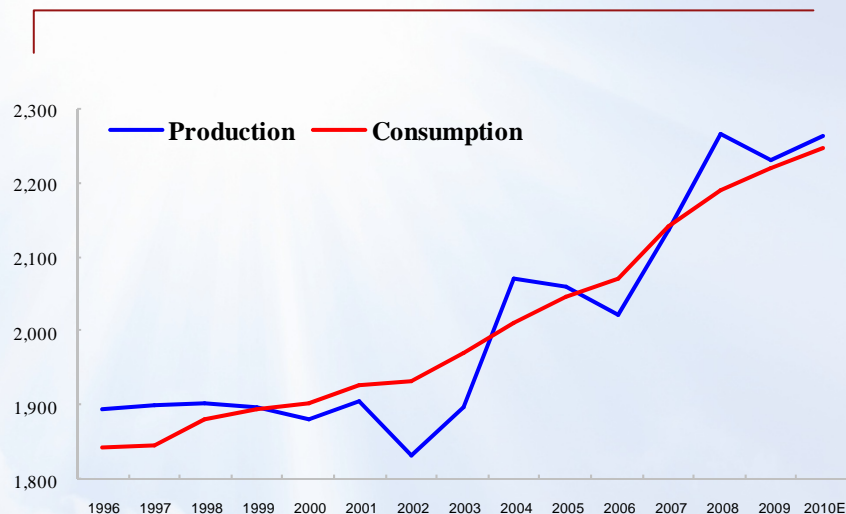
—**Autumn sales and national commercial off-season stockpiling:** Fertilizer consumption in autumn and winter and national commercial off-season stockpiling spurs sales in 2H10; low export tariff for five months in 2H10 will relief pressures on domestic high inventory, supporting domestic price

—**Potash demand recovers steadily:**  
Potash demand recovers steadily due to higher operating rate in compound fertilizer manufactories, restocking in fertilizer dealers and higher demand in end-users



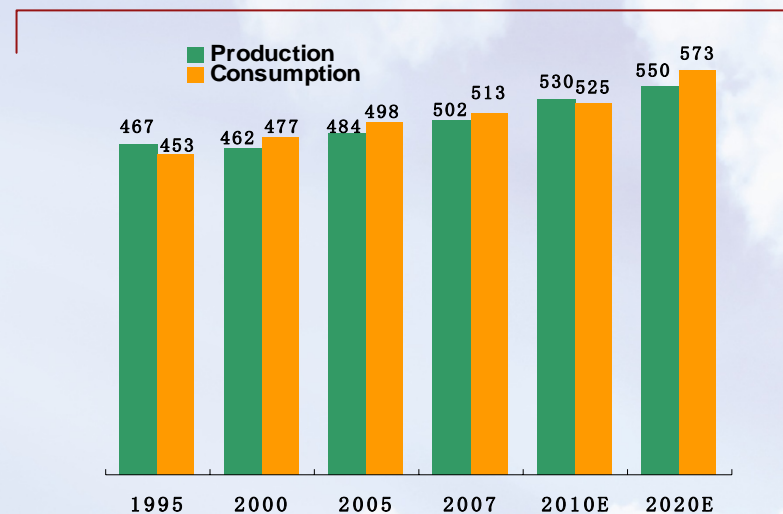
# Global Grain Supply/demand in Tight Balance in the Long Run

**Global Grain Production and Demand (million tons)**



Information source: FAO

**China's Grain Production and Demand (million tons)**



Information source: FAO and National Bureau of Statistics of China

## ■ Global grain supply/demand is in tight balance in the long run

It is expected global grain output and consumption in 2010 to be 2,260 million tons and 2,250 million tons, respectively, which shows a tight balance. Recent unfavorable weather in the Black Sea, European Union and majority areas in Canada brings negative impacts on outlook for 2010/11 global grain output

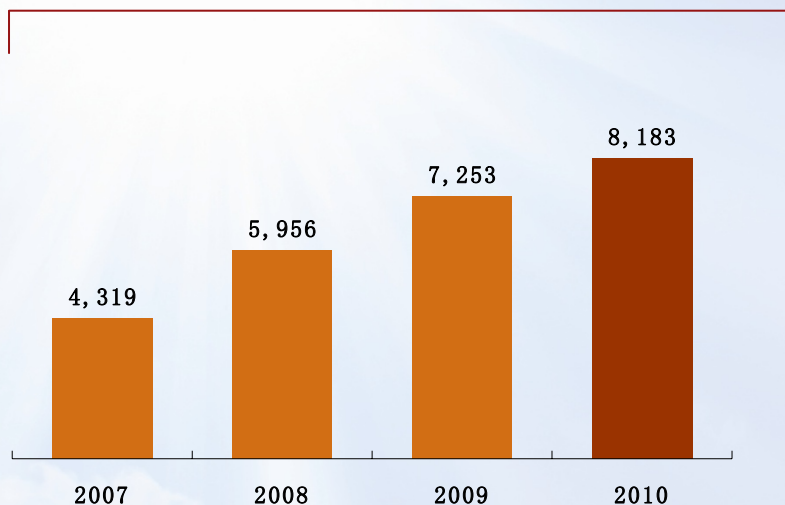
## ■ Tight balance of supply/demand for grain in China

The rapid development of Chinese economy, population growth and higher protein in daily diet makes grain supply/demand remain tight in China. Nationwide natural disasters occurred frequently in 1H10, summer grain harvest saw an output decline for the first time for the last 7 years and autumn grain production is of uncertainties. Generally speaking, grain supply/demand is to be tight in China

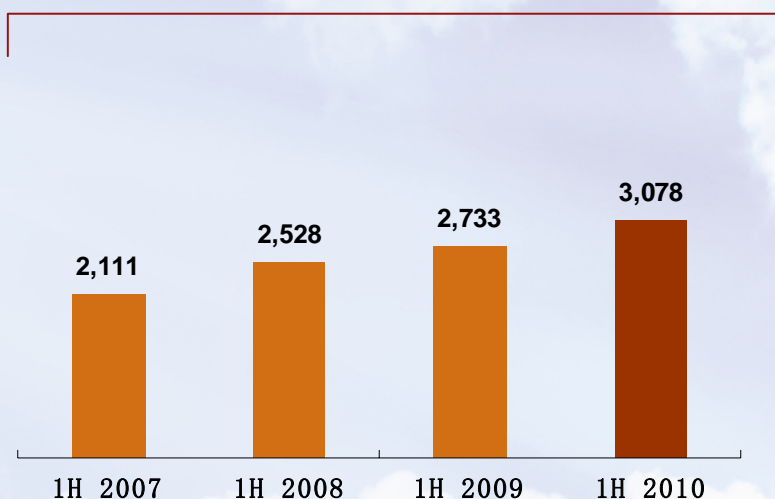


# Food Security and Increasing Grain Output and Farmers' Income are Top Priorities of the Chinese Government

Fiscal Support on "Agriculture, Farmers and Rural Areas (RMB100 million)



Farmer's Per Capita Income for 1H10 (RMB)

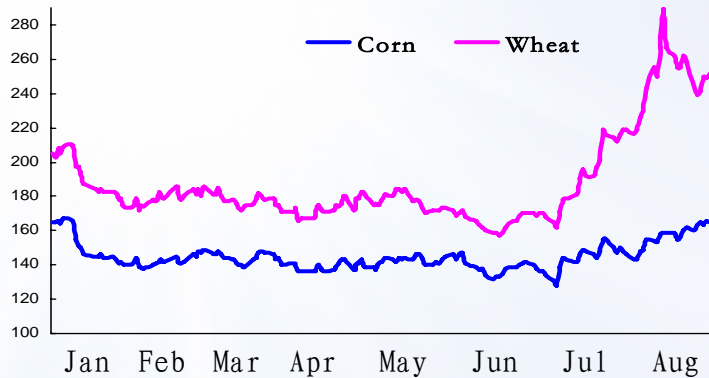


Information source: National Bureau of Statistics of China

- The Center government issued No.1 Document on the issues concerning agriculture, rural area and farmers for seven consecutive years, showing the great attention on issues of the government
- Total investment on agriculture, rural area and farmers reaches RMB 818,300 million by the Chinese government in 2010, up by 13% YoY. Improvement of the agricultural subsidiary policy, extension of the subsidiary coverage and growth of the subsidiary provide a favorable environment for more grain output and rural income and help to enhance farmers' planting initiatives and fertilization.
- On August 11, the State Council decided that the Finance Ministry arrange subsidies of RMB1,100 million to increase fertilization, promote plant maturity and prevent pests in southern and northeast China and to support late rice and autumn grain production, securing the realization of grain output target for the whole year.

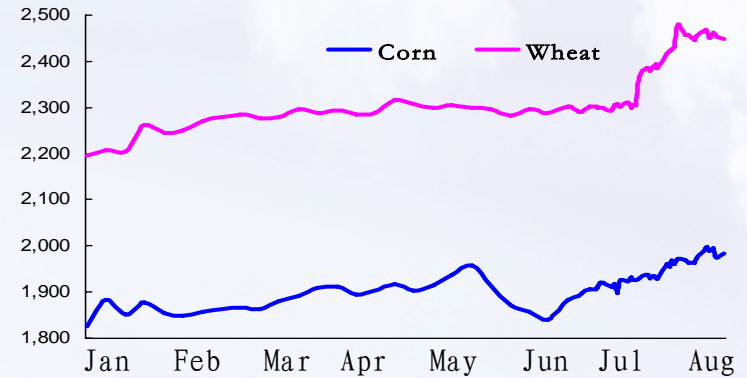
# Expectation of Higher Domestic Grain Prices Drove Fertilizer Demand up

Global Major Agricultural Product Prices (US\$/ton)



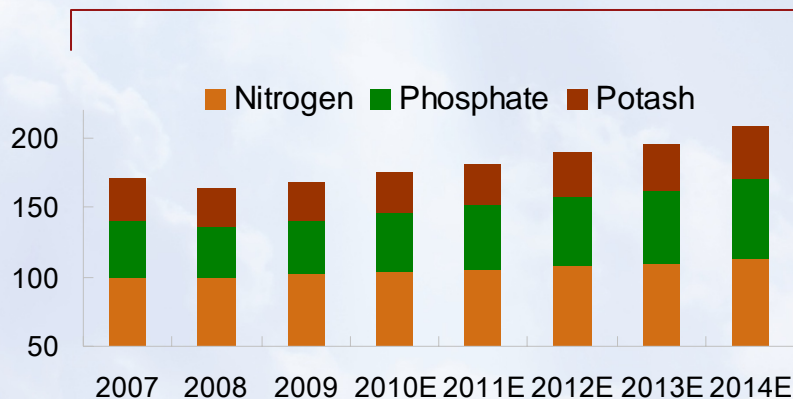
Information source: CBOT

Major Agricultural Product Prices in China (RMB/ton)



Information source: Dalian, Zhengzhou Commodity Exchanges

## Global Fertilizer Demand (in nutrient, million tons)



Information source: IFA Agriculture Committee

### Higher grain price in international market pushed expectation for higher domestic grain price up

- The US wheat futures prices surged more than 60% since mid-June

- Domestic wheat and corn prices increased due to higher global grain prices and the expectation of lower grain output resulted from disasters

- According to the predictions of United Nation Food and Agricultural Organization that global grain, oilseeds and cotton stock will not increase significantly in the next 5 years, the prices in the international market will remain strong

### Fertilizer demand recovered

Agricultural market showed an upturn as global economy recovered and agricultural product prices became stable. It is expected that global fertilizer demand will increase by 4.8% in 2010/11 to 170 million tons (in nutrient)

# 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

Maintaining the company's leading position in the fertilizer industry of China

### Resource Acquisition

Pay close attention to the resource projects both at home and abroad and make breakthrough on acquiring potash, coal and phosphate resources, laying a good foundation in terms of resource reserve for long-term of the Company

### Production Management

Enhance competitiveness through production management, cost reduction, labor productivity and technological upgrading and lean management

### Product Operation

Consolidate strategic alliances with international suppliers and improve domestic supplier system with more cooperation models ; Innovate business model and further push forward diversified product operation to cater for customer’s need and cultivate high quality of SINOCHEM brand

### Network Distribution

Shift the distribution network from scale expansion to quality improvement with better value-added, and promote the building of Fert-Mart supermarket as scheduled

### Technological Innovation

Boost production technological progress, and develop fertilizer products with high value-added to cater for various needs of the customers; lay the foundation in terms of technology for the sustainable development of the Company





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

**Q & A**