中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability) Stock Code: 297

Nurturing China's Agriculture Sector

2017
Annual Report

SINOFERT HOLDINGS LIMITED

Contents

COMPANY PROFILE AND CORPORATE INFORMATION

COMPANY PROFILE

Sinofert Holdings Limited (the "Company") successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries in July 2005, and became a listed company (Stock code: 297) on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It is now a comprehensive fertilizer enterprise centering on distribution services and vertically integrating production and network distribution.

Major businesses of the Company and its subsidiaries (the "Group") include the production, import and export, distribution and retail of fertilizer raw materials and finished products, provision of technological research and development and services relating to the fertilizer business and products, exploration and exploitation of phosphate mine, and production of monocalcium/dicalcium phosphate.

Benchmarked by the turnover of 2017, the Group is:

- one of the largest fertilizer distribution service provider in China;
- the largest supplier of imported fertilizers in China;
- one of the largest fertilizer manufacturers in China.

The Group's competitive strengths are mainly reflected in:

- its business model of centering on distribution services and integrating production and distribution;
- the largest self-owned and self-run distribution network of agricultural inputs in China;
- its abilities to produce and distribute the most complete varieties of fertilizer products, including nitrogen, phosphate, potash, compound fertilizers and new fertilizers;
- its strategic alliances with major international suppliers;
- its comprehensive agrichemical service system directly reaching the farmers;
- one of the largest phosphate resource owners in China and one of the largest feed-grade calcium hydrogen phosphate manufacturers in Asia.

The Group strives to become China's most competitive comprehensive service provider of modern agriculture. The Group constantly aspires to achieve sustainable, stable and rapid growth, to deliver value and returns to the shareholders, and to be committed to social responsibilities.

The ultimate controlling shareholder of the Company is Sinochem Group Co., Ltd. ("Sinochem Group"), which is one of China's earliest qualifiers of Fortune Global 500, and qualified for the 27th time by ranking the 143rd in 2017. The second largest shareholder of the Company is Nutrien Ltd., which is the largest potash producer in the world.

CORPORATE INFORMATION

Board of Directors

Non-Executive Director
Mr. ZHANG Wei *(Chairman)*

Executive Directors
Mr. QIN Hengde *(Chief Executive Officer)*
Mr. Harry YANG

Non-Executive Director
Mr. YANG Lin

Independent Non-Executive Directors
Mr. KO Ming Tung, Edward
Mr. LU Xin
Mr. TSE Hau Yin, Aloysius

Members of Committees

Audit Committee
Mr. TSE Hau Yin, Aloysius *(Chairman)*
Mr. KO Ming Tung, Edward
Mr. LU Xin

Remuneration Committee
Mr. LU Xin (re-designated as Chairman on 28 March 2018)
Mr. KO Ming Tung, Edward (ceased to be Chairman on 28 March 2018)
Mr. TSE Hau Yin, Aloysius
Mr. YANG Lin (appointed as a member on 28 March 2018)

Nomination Committee
Mr. KO Ming Tung, Edward *(Chairman)*
Mr. LU Xin
Mr. TSE Hau Yin, Aloysius
Mr. Harry YANG

Corporate Governance Committee
Mr. QIN Hengde *(Chairman)*
Mr. Harry YANG
Ms. CHEUNG Kar Mun, Cindy
Ms. CAO Jing

Chief Financial Officer

Mr. GAO Jian

Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

Company Secretary

Ms. CHEUNG Kar Mun, Cindy

Auditors

KPMG

Legal Adviser

Latham & Watkins LLP

Principal Bankers

Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Agricultural Bank of China
China Everbright Bank
Bank of Tokyo-Mitsubishi
Rabobank International
The Hongkong and Shanghai Banking Corporation

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

Unit 4705, 47th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Share Registrars and Transfer Offices

Bermuda (Principal office)
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong (Branch)
Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Company Website

www.sinofert.com

Share Listing

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 297

Investor Relations

Hong Kong

Telephone	:	(852) 3656 1588
Fax	:	(852) 2850 7229
Address	:	Unit 4705, 47th Floor Office Tower, Convention Plaza 1 Harbour Road Wanchai, Hong Kong

Beijing

Telephone	:	(10) 5956 7902
Fax	:	(10) 5956 9095
Address	:	Level 10, Central Tower Chemsunny World Trade Centre 28 Fuxingmennei Street Beijing 100031, PRC

FINANCIAL HIGHLIGHTS

(RMB'000 except for sales volume and basic loss per share)

	2017	2016
Sales volume *(in 10,000 tons)*	**1,021**	913
Revenue	**17,643,812**	14,959,092
Gross profit	**1,371,623**	241,162
Loss before taxation	**(2,269,946)**	(4,817,805)
Loss attributable to owners of the Company	**(2,207,504)**	(4,635,885)
Basic loss per share *(RMB)*	**(0.3143)**	(0.6600)
Return on equity *(Note 1)*	**(28.96%)**	(43.26%)
Debt to equity ratio *(Note 2)*	**77.23%**	72.96%

Note 1: Calculated on the basis of loss attributable to owners of the Company for the reporting period divided by the average equity attributable to owners of the Company as at the beginning and the end of the reporting period.

Note 2: Calculated on the basis of total interest-bearing debt divided by total equity as at the end of the reporting period.

CHAIRMAN'S STATEMENT

Growing With China's Modern Agriculture

In 2017, the fertilizer industry continued to be challenged by excess capacity and intensified competition, yet the sign of a gradual recovery was achieved with the efforts in agricultural supply-side structural reform. The Group was steadfast in carrying out its strategies set forth at the beginning of the year by actively adopting effective measures and grasping market opportunities. As a result, satisfactory progress was made in all work fronts. During the year the Group re-organized its internal structure by integrating various straight fertilizer departments into the Basic Fertilizers Division, and all fertilizer units for agricultural use into the Distribution Division. Meanwhile, all the branch companies were restructured into trading and distribution according to the classification of the customers being served by each division, so as to implement specialized channel building for different target markets. The Basic Fertilizers Division focused on core suppliers, carried out strategic procurement, and at the same time set up a direct selling system for straight fertilizers to increase the ratio of direct selling. In 2017, sales volume attributable to the Basic Fertilizers Division increased by 9%, achieving RMB579 million in profit before tax, which is a big increase year on year. The Distribution Division consolidated the building of its 18 specialized distribution platform branches, and newly recruited 102 agrotechnicians for the agrochemical service team, whose technological service capabilities were sharpened through various agrotechnological contests. At the same time, the Group improved the synergy of the production and marketing sectors by optimizing the supply chain, streamlined the grades and specifications of strategic products, and fully promoted the DTS channel building strategy (D for distribution, T for technology promotion and S for straight service) in line with market segmentation of agricultural customers. In 2017, the sales volume of strategic products attributable to the Distribution Division increased by 75%, and the profitability of the Group's compound fertilizer factories turned to positive from being in red a year ago. Great emphasis was also attached in optimizing the operation of subsidiaries, associates and joint ventures and assets disposal, with Sinochem Yunlong Co., Ltd. achieving RMB48.81 million in profit before tax and Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. ("Sinochem Fuling") and Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. regaining profitability. In addition, the goal for the restructuring and optimization of Sinochem Jilin Changshan Chemical Co., Ltd. was clearly defined. The Group also initiated reforms in the remuneration policy to implement the precision incentive scheme and successfully enhanced the efficiency and enthusiasm of the operating units and staff and members. In 2017, the Group's total sales volume reached 10.21 million tons, up by 12% year on year; total sales income was RMB17,644 million, up by 18% year on year and achieved a big reduction in loss.

Despite the challenges of the market, the board of directors of the Company has always adhered to the goal of maximizing shareholder value, continuously improving corporate governance and optimizing the management system. In accordance with the Corporate Governance Code of The Stock Exchange of Hong Kong Limited, the Company's Board of Directors held four regular meetings in 2017 at which the Company's annual report, interim report and major investment projects were reviewed and approved. Meanwhile, the Board also reviewed other issues such as major investments and connected transactions. The Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee had all fulfilled their respective duties and rights as entrusted by the Board on such issues as improving internal control, optimizing the remuneration and motivation system and perfecting corporate governance structure.

In 2018, China's fertilizer industry remains difficult, but the central government is always attaching great importance to agricultural modernization. On 4 February 2018, the latest Circular No. 1 titled "Opinion of the CPC Central Committee and the State Council on Implementing the Rural Revitalization Strategy" was officially released. The above document, which outlined the full implementation of the Rural Revitalization Strategy, is the 20th of its kind since the country's reform and opening up and the 15th of its kind since the beginning of the new century. This new national strategy will bring about important opportunities for the Group's business innovation and in-depth transformation.

During the year 2018, the Group will center on the nation's Rural Revitalization Strategy, follow the trend of agricultural supply-side reform and the rapidly changing agricultural structure, aim at structural transition and upgrading, take root in modern agriculture, keep streamlining business structure and renovating business model so as to achieve stable and sustainable growth. The Group will continue to push forward the strategy of in-depth channel building, with the Basic Fertilizers Division further consolidating the building of core supplier system, optimizing strategic procurement and strengthening team building to improve marketing abilities. Meanwhile, the Distribution Division will implement unified management of brand planning, product mix and marketing promotion strategies to streamline the product structure for agricultural-use fertilizers. It is also extremely important for the Distribution Division to vigorously push forward the DTS channel building strategy, streamline the channel levels, and forge a "business commonwealth" with core distributors. The Group will also actively explore the construction of a modern agricultural platform (MAP) for cash crop, which is a brand-new business model to farming entities of scale. Moreover, the Group will increase its input in R&D to enhance the technological level, including the building of a high standard R&D center in Linyi. More efforts will also be made to uplift the management level of the production enterprises to improve efficiency while lowering cost, speed up industrial layout readjusting through re-locating the production sites of Sinochem Fuling and Sinochem Oriental Fertilizer Co., Ltd., and constantly promote the awareness of risk control and safety management to ensure operating safety.

Last but not the least, on behalf of the Board of Directors, I would like to take this opportunity to extend our most sincere appreciations to the shareholders and customers of the Group. We hope to have your continuous concern and support in the future, and expect the management and employees of the Company to bear in mind our original mission and keep working harder to make ever greater contributions to the growth of the Group.

Zhang Wei
Chairman of the Board

Hong Kong, 28 March 2018

Management Review and Prospect

Business Environment

In 2017, global economic recovery and expansion continued and the Chinese economy maintained steady growth. Through continuous implementation of the supply-side reform, the adaptability and flexibility of the supply system continued to be promoted, and the quality of supply also continued to be improved.

In the reporting period, China's agriculture faced unprecedented opportunities for change. Under the drive of the supply-side reform, advanced production capacity was steadily developed, high-quality supplies was accelerated and backward production capacity was gradually phased out. Grain output saw a year-on-year increase of 0.3%, the production capacity remained stable and the structure was continuously optimized. With the adjustment of the agricultural planting structure, crop planting area decreased by 0.7% year on year, and the agricultural planting structure was more reasonable. China's economy moved from a high-speed growth stage to a high-quality development stage, which was a tough but critical period for transforming the development mode, optimizing the economic structure and shifting the growth momentum. China was pushing forward key agricultural policies and initiatives such as "agricultural supply-side structural reform", "new type of professional farmers across China", "crop rotation and fallow system", agricultural e-commerce, subsidy programs for crop protection drones and agricultural PPP, providing a powerful guarantee for "improving quality and efficiency in different ways; stabilizing food production and increasing income in a sustainable manner". The reform of the agricultural industry had a profound impact on the fertilizer industry, which was under tremendous pressure from transformation and upgrading as well as reform and development.

In the year 2017, the growth of global fertilizer demand slowed down, the fertilizer prices on the domestic market recovered, while excess capacity still existed. Due to the continuous implementation of environmental protection policies, the operating rate of fertilizer plants significantly decreased and fertilizer production declined compared to the same period in 2016. In terms of import and export,

in spite of the zero-tariff policy on the export of nitrogen and phosphate, the competitiveness of China's fertilizer in the international market declined and the volume of imports and exports significantly decreased. With the rising price in the fertilizer industry, fertilizer producers saw better profitability. In particular, many nitrogen fertilizer enterprises turned losses into profits. However, the situation of excess capacity had not yet been completely changed, fertilizer and traditional chemical industries were still facing great pressure to survive. Domestic enterprises accelerated the transformation and upgrading one after another and expanded their presence in upstream and downstream industry chains, started to provide farmers with new agricultural comprehensive services and aimed to achieve agricultural sustainable development and green development of the fertilizer industry.

Against the backdrop of positive global economic development, in order to effectively cope with the huge market challenges and ensure the Company's leading position in the industry, the Group, under the leadership of the Board of Directors, continued to deepen strategic transformation and carry out reforms and was committed to becoming the most competitive comprehensive service provider of modern agriculture in China.

Financial Highlights

For the year ended 31 December 2017, the Group's revenue reached RMB17,644 million, representing a year-on-year increase of 17.95%. Loss attributable to owners of the Company amounted to RMB2,208 million, with a year-on-year decrease of RMB2,428 million.

Resource Guarantee

In 2017, Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary of the Group, optimized phosphate mining schemes and mined 332,200 tons of phosphate rock. In respect of mine construction, Sinochem Yunlong implemented the construction of capacity continuing project of 600,000 tons/year for Mozushao production as planned, built a mechanized, automated, digital and intelligent mine through such measures as compliant production outsourcing and eliminating backward production equipment, ensured the sustainable use of resources, and continuously expanded the advantages in phosphate resources, in order to further support the sustainable development of the Group's phosphate and phosphorus chemical industry.

Manufacturing

In 2017, the Group's subsidiaries, associates and joint ventures, continued to implement the basic work in production enterprises, conducted cost management, centralized procurement and quality management, implemented technological innovation, production process optimization, scientific innovation and automation building, and carried out cost reduction and efficiency improvement, further explored the potential of existing facilities and promoted the production and operation efficiency of the enterprises.

Sinochem Chongqing Fuling Chemical Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, produced 1.05 million tons of phosphate, compound fertilizers and other products in 2017. Sinochem Fuling carried out in-depth cooperation with the Basic Fertilizers Division in off-take, seized the market opportunities, and achieved notable results in increasing income, reducing cost, and improving efficiency through implementing economic responsibility system, turning from deficits to profit.

Due to the unstable operation of its equipment, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, produced 261,000 tons of urea and compound fertilizers in 2017. In oder to enhance the competitiveness of its plants, make full use of its geographical advantages, and promote the compound fertilizer business, Sinochem Changshan actively adjusted its product mix and promoted the upgrading of its technology and equipment. In 2017, a 150,000-ton urea-based compound fertilizer production line was newly built and successfully put into operation at the end of the year.

Sinochem Yunlong, a subsidiary of the Group, produced 306,000 tons of Monocalcium/Dicalcium Phosphate (MDCP) in 2017. Under the principle of paying great attention to safety in production, cost reduction and efficiency improvement, and with a market orientation, Sinochem Yunlong increased its market share through continuous quality improvement and differentiated product development. Through full workflow management including production process innovation, quality control, equipment and technological transformation, it ensured the "safe, stable, long-term, full and high-quality" operation of its plants with an average one-off pass rate of more than 99.48%, and its product quality reached an internationally advanced level.

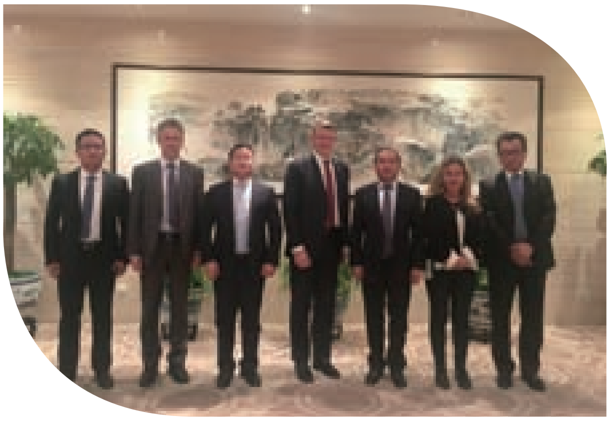
Marketing Services

Taking into consideration the characteristics of China's agriculture, the Group continued to lay a solid foundation for its business operation through institutional reform and business model innovation, achieved a sales volume of 10.21 million tons throughout the year, and maintained its leading market position and influence.

Potash operations: In 2017, the potash fertilizer business achieved a sales volume of 2.26 million tons and its operation scale grew by 9% year on year. The Group strengthened its strategic cooperation with core suppliers, renewed strategic cooperation agreement, and obtained domestic and overseas high-quality products. The Group further consolidated its strategic cooperation with Qinghai Salt Lake Industry Co., Ltd., with the trading volume increased substantially, and the influence of domestic potash enhanced in regions where the Group was the exclusive agency; expanded the core customer system for industrial potash, maintained a stable source of supply and in particular, guaranteed the supply of goods for its subsidiaries; strengthened information analysis, improved scientific decision-making mechanism, formulated differentiated sales strategies, and enhanced market influence; and continued to build its proprietary brand of potash for agriculture, strengthened channel customer management, optimized sources of supply and logistics arrangement, and stabilized sales volume of potash for agriculture.

Nitrogen Operations: Sales volume of nitrogen fertilizer amounted to 2.92 million tons in 2017. The overall scale of nitrogen operation was increased by 16% year on year. The Group continued to strengthen the supplier system building and consolidated cooperation with core suppliers, improved resources supply capacity, and strengthened the foundation of cooperation; achieved stable profit by controlling open-end products, accelerating direct sales and increasing the turnover rate against the background of more frequent fluctuations in market price; improved the stability of sales volume and profit of industrial nitrogen; and sped up new products development and cultivation and further improved the contribution of sales volume and profit of urea coated with seaweed polysaccharides.

Phosphate Operations: Sales volume of phosphate fertilizer amounted to 1.84 million tons in 2017. The overall scale of phospate operation was increased by 2% year on year. Through scale operation, the Group constantly deepened strategic cooperation, ensured steady supply of high-quality products and gained sound profit from procurement. The Group also built the I + S symbiotic platform to link the upstream strategic suppliers and downstream core customers through consolidated customer base and business model innovation, provided comprehensive solutions centering on the pain points in demand and made contributions to the transformation and upgrading of the company. In addition, the Group introduced Meilinmei, a new phosphate product that met the demand trend, to gain market share, consolidated its leading position in domestic phosphate fertilizer trading, and achieved stable profit and customer value enhancement.



Compound Fertilizer Operations: Sales volume of compound fertilizers amounted to 2.19 million tons in 2017. The overall scale of compound fertilizer operation was increased by 33% year on year. The Group continued to deepen distribution channels, promote product upgrading, enhance technical competence and improve the coordination of production and marketing, and all the efforts paid off. Through implementing the DTS channel building strategy (D for Distribution, T for Technology promotion and S for straight service), the market share was further increased; through enhancing product R&D and the transformation of technological fruits, the Group's product competitiveness was increasingly strengthened; through participating in the formulation of "Chelate Fertilizer Quality Standard", which was adopted by the National Technical Committee on Fertilizers and Soil Conditioners of Standardization Administration as a national product standard, the Group's industrial influence was enhanced; the Group continuously improved the business management system in which production and marketing were coordinated and strengthened the management of routine operation, and as a result, the operating rate of production enterprises was significantly improved, the production cost was effectively managed and the product mix was optimized, which effectively ensured the rapid growth of the compound fertilizer operations.

Monocalcium/Dicalcium phosphate ("MDCP") Operations: Despite of the severe challenges such as environmental protection pressures, rising price in raw materials and capacity release from competitors, Sinochem Yunlong achieved the pre-tax profit budget through "stabilizing production, strengthening marketing, controlling procurement and reducing expenditure". Key indicators grew steadily year on year against an unfavorable backdrop. Sales volume of MDCP amounted to 300,000 tons in 2017. Meanwhile, the brand switch was successful.

The Group attached great importance to the quality enhancement of distribution channels, and continuously consolidated traditional in-depth distribution channels. By the end of 2017, the Group co-built or upgraded more than 8,500 distribution outlets across the country. Meanwhile, through continuously increasing the coverage of distribution outlets in agricultural counties and carrying out agrichemical activities such as "Sinochem Dedicating to Rural Prosperity", the Group enhanced the SINOCHEM brand awareness and product recognition among farmers.

The Group actively responded to the rural revitalization strategy put forward at the 19th Communist Party of China National Congress, conformed to the development trend of agricultural modernization in China, and enhanced the full lifecycle field tracking and crop management through establishing agricultural technical service centers and developed multiple crop planting solutions. The Group focused on the promotion of applied technology of planting, provided effective guidance for professional farmers in establishing scientific fertilization concepts and skills, so as to contribute to the sound and sustainable development of modern agriculture in China. In order to implement the program of zero-growth in fertilizer consumption, the Group started from transforming fertilization methods and increasing fertilizer utilization, accelerated the implementation of water and fertilizer integration and intelligent fertilizer mixing projects, built 95 intelligent fertilizer mixing stations in 2017, which laid a solid foundation for the expansion of technology-oriented marketing and service mode.

Internal Control and Management

The Group's internal control and risk management system was built according to the "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter referred to as "COSO") in the United States and the "Internal Control and Risk Management – A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants, and was in reference to the "Basic Rules of the Enterprise Internal Control" and its referencing guidelines issued by five ministries and commissions of China's central government. Under the principle of "high priority, daily monitoring and mainly diverting", the Group paid attention to improving the risk and internal control management mechanism in line with the strategic development, conducted risk identification, assessment and response, implemented a whole-process risk alarming management mechanism and adopted corresponding measures for material risks.

In 2017, in the context of corporate management innovation, with the goal of enhancing the capacity of business divisions and under the principle of "simplification, high efficiency, clear rights and responsibilities, authorization and under control", the internal risk control at the headquarters was allocated to all basic-level departments, the primary responsibility of business units was strengthened, and new departments such as Basic Fertilizers Division and Distribution Division started to enhance their own internal control and management. Meanwhile, the Group attached high importance to enhance the universal risk control awareness, ensured that the business operations were carried out in a standard and orderly manner, further promoted the internal control system building and consolidated the fundamental work as well as met the compliance requirements from the domestic and overseas regulatory organizations through streamlining the right and responsibility system, improving the mechanism construction, optimizing the business processes and carrying out the differentiated monitoring and evaluation for operation risks.The above efforts provided reasonable protection for the Group to cope with the changing market and operational environment, serve its strategic transformation and ensure the shareholders' interests, asset safety, business performance and strategic implementation.

Corporate Social Responsibility

The Group actively brought into play its influence and leading status in the industry, directly provided agricultural inputs to the grass-root level and ensured steady supply of products through its comprehensive agricultural inputs distribution and service network covering above 95% of China's arable land during the key period of spring planting and autumn sowing season. In 2017, the Group focused on free soil testing service, field guidance, seminars for farmers, and anti-counterfeiting and together with the National Agricultural Technology Extension and Service Center, built pilot demonstration fields and launched training programs for new type of occupational farmers. By the end of 2017, more than 30,000 activities were carried out, including over 9,000 field guidance and soil testing and formula fertilizer activities, over 6,000 anti-counterfeiting activities, over 3,000 training programs for farmers, over 1,000 demonstration seminars, more than 1,000 pilot demonstration fields were built and more than 30,000 copies of promotional materials were distributed, which benefited more than 1,000 villages and towns and over 2 million farmers.

In 2017, Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer"), a subsidiary of the Group, deepened its cooperation with the Department of Crop Production, Ministry of Agriculture and the National Agricultural Technology Extension and Service Center, focused on the implementation of fertilizer application reduction, the use of bio-organic fertilizers in the production of fruits, vegetables and tea instead of chemical fertilizers and green planting, etc., explored new mode of scientific fertilization and actively fulfilled its social responsibility. Sinochem Fertilizer launched large-scale demonstration field tours of formula fertilization in provinces such as Anhui, Shandong and Hainan, explored a new mechanism for the cooperation between the Ministry of Agriculture and enterprises, brought into full play the role of new operation entities and provided impetus for fertilizer application reduction and efficiency improvement through demonstration; and coordinated with local agricultural technology extension centers to promote advanced application technology and production model and led farmers to use new products and new technology.

In 2017, the Group fulfilled its corporate social responsibility, carried out the "Spring Breeze Action" by taking more than 50 targeted measures in poverty alleviation, launched poverty alleviation activities in Xundian County of Yunnan Province, Liaocheng City of Shandong Province, Weixian County of Hebei Province, Weichang County of Chengde City, Hebei Province and Changfeng County of Anhui Province. The Group focused on establishing and developing the self-development capability of the poverty-striken population, and combined poverty alleviation with morale boost and wisdom improvement. The Group provided specialized agricultural technology services to the poor areas, and donated fertilizer, fertilizer application equipment and stationeries amounting to more than RMB600,000.

In the future, the Group will continue to focus on the requirement of modern agriculture development and strive to serve farmers, center on the goal of fertilizer and pesticide application reduction, deepen the cooperation with the Chinese government, scientific institutions, colleges and universities, put emphasis on key projects such as scientific fertilization, integration of water and fertlizer, new farmers' training and social agricultural comprehensive services, pool the internal and external resources, constantly make innovations in terms of service measures and continue to provide high-quality, professional and high-efficiency comprehensive service for Chinese farmers.

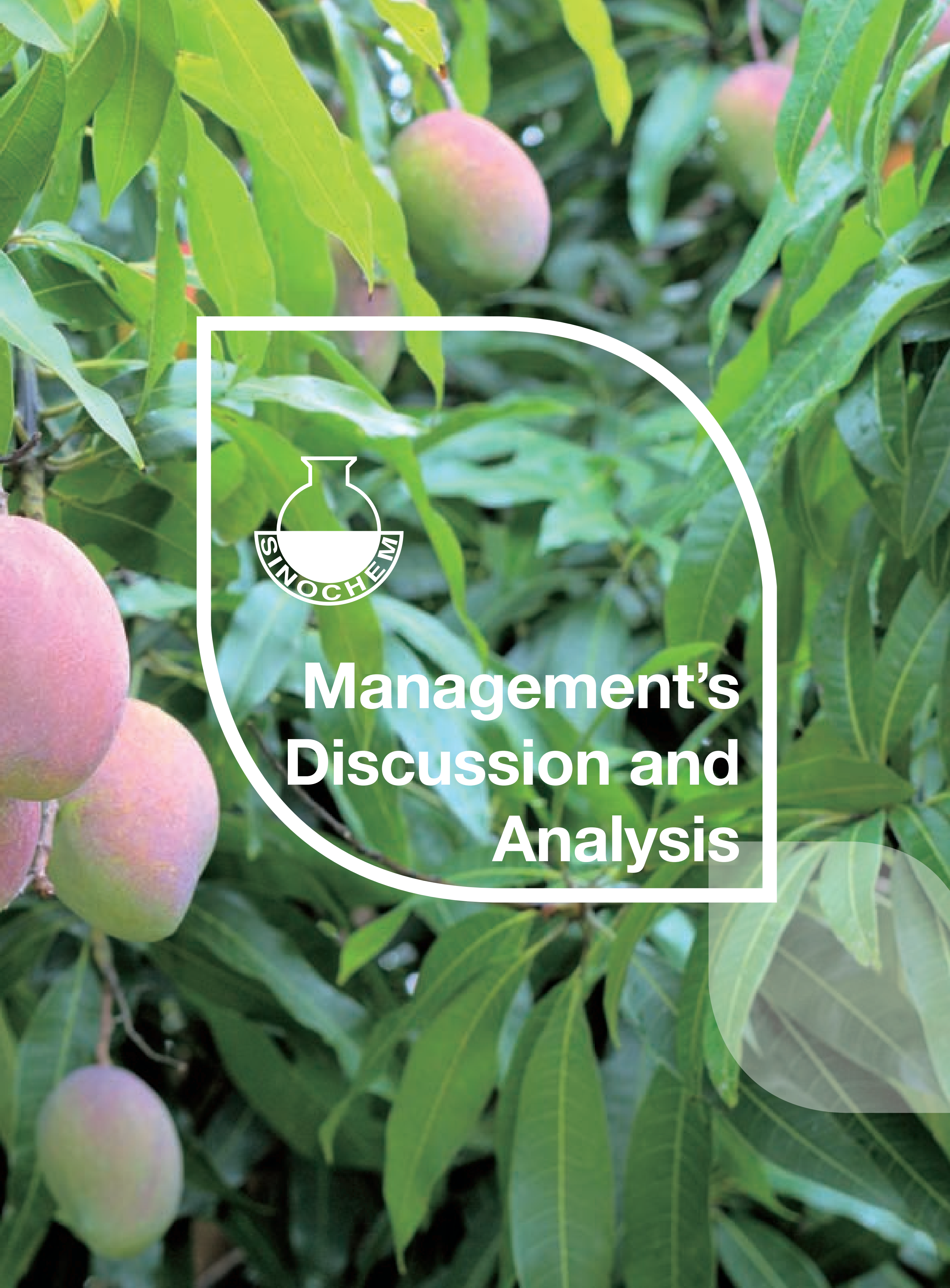
The Group insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, continuously reduced waste emission through technological transformation, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. The Group actively built an enterprise featuring intrinsic safety and environmental friendliness. In 2017, the Company fully completed its energy-saving and emission reduction targets. In particular, the emissions of SO_2, COD, NH-N and NOx was down by 225.41 tons, 9.10 tons, 2.51 tons and 40.88 tons, respectively.

Outlook

With the acceleration of global economic growth and the simultaneous expansion of major economies, China will maintain its economic growth momentum in the future. Meanwhile, the Chinese government will continue to push forward the supply-side reform, and carry out five major tasks, namely, cutting overcapacity, destocking, deleveraging, reducing costs and identifying growth areas, so as to achieve sustained and steady economic and social development. At present, the internal and external environment of the agricultural industry is constantly changing, which brings about enormous challenges and opportunities. The foremost challenges include scattered agricultural production, inefficient use of technology in agricultural production, the requirement for reform in the government acquisition model to support the market price, the aging of the rural population, and the carrying capacity of the agricultural production environment. The Chinese government requires full implemention of the Rural Revitalization strategy, improvement of the Division of Three Rights of Rural Land, moderate scale operation of agriculture in various forms, and cultivation of new agricultural operation entities, and improvement of agricultural social service system so as to gradually achieve agricultural modernization in China.

China's modern agriculture is still in the early stages of development, the oversupply situation on the fertilizer market still persists, the fertilizer industry is gradually becoming centralized, backward production capacity is phased out, the number of preferential policies for the fertilizer industry is decreasing and the fertilizer industry is more and more market-oriented. With the advancement of China's agricultural supply-side reform, large-scale operation entities are emerging, new format of operation in agricultre is taking shape, and mechanization, automation and intelligence are the future development trend of agriculture. As a leading fertilizer company in China, the Group will shoulder the tasks of promoting the agricultural modernization and the sound development of the fertilizer industry in China. While consolidating and enhancing the marketing of basic fertilizers, the Group will focus on crops and products and promote the DTS, and accelerate the transition from trading agents to service providers, and build a strong fertilizer distribution system. Based on a differentiated product portfolio of compound fertilizer, special fertilizer and core master batch of blended fertilizer, the Group will speed up and strengthen the builidng of distribution capabilities, carry out integrated operation of production and marketing, enhance comprehensive agricultural service capabilities, and provide optimal agricultural production data and high quality services to the Chinese farmers.

The Circular No. 1 of the Chinese central government in 2018 was issued and the rural rejuvenation strategy has become the direction of development for the nation and agricultural enterprises. The year of 2018 will be a year of opportunities and the market situation will continue to improve. The Group will make use of its own advantages to promote cooperation in various forms, unite the farmers to enable moderate scale farming, continue to promote zero-growth in the application of fertilizer, and develop green agriculture. Meanwhile, the Group will also further create value for the shareholders through reinvigorating the existing production capacity, integrating upstream and downstream resources, optimizing supply chain management system, enhancing operational efficiency, intensifying the ability to acquire resources and enhancing overall competitiveness.



Management's Discussion and Analysis

For the year ended 31 December 2017, sales volume of the Group was 10.21 million tons and revenue was RMB17,644 million, up by 11.83% and 17.95%, respectively, over the corresponding period in 2016.

For the year ended 31 December 2017, gross profit of the Group was RMB1,372 million, up by 469.29% over the corresponding period in 2016; loss attributable to owners of the Company was RMB2,208 million. Excluding major non-recurring expenses and losses, the Company suffered a loss of RMB 380 million, a reduction in loss by RMB1,062 million year-on-year.

I. OPERATION SCALE

1. Sales volume

For the year ended 31 December 2017, sales volume of the Group was 10.21 million tons, up by 11.83% over the corresponding period in 2016. In 2017, market conditions picked up, but there was no change in the oversupply situation, the Group grasped market opportunities and reformed organizations and incentives, made inventory business consolidation and restructuring, carried out business collaboration, pooled resources to upgrade varieties and differentiated products, and greatly stimulated business vitality, which resulted in the increase of sales volume of major fertilizers compared to the previous year. Sales volume of domestically produced fertilizers amounted to 7.17 million tons, up by 15.27% year on year. Sales volume of imported fertilizers was 3.04 million tons, up by 4.47% year on year.

In terms of product mix, agricultural supply-side reform continues to promote the optimization of agricultural planting structure. As a result, sales volume of compound fertilizers, potash, nitrogen and phosphate increased by 32.73%, 9.18%, 16.33% and 2.22%, respectively year on year. Under the severe market conditions, the Group still maintained a relatively high market share through strengthening strategic partnership with core domestic and overseas suppliers and vigorously promoting differentiated products.

2. Revenue

For the year ended 31 December 2017, the revenue of the Group amounted to RMB17,644 million, increased by RMB2,685 million or 17.95% year on year. The increase rate of the revenue was higher than that of sales volume (11.83%), which was mainly attributable to the rising selling price of fertilizer products, and the average selling price increased by 5.47% year on year.

Table 1:

	For the year ended 31 December			
	2017		2016	
	Revenue *RMB'000*	As percentage of total revenue	Revenue *RMB'000*	As percentage of total revenue
Potash fertilizers	3,904,676	22.13%	3,629,552	24.26%
Nitrogen fertilizers	3,573,177	20.25%	2,610,677	17.45%
Compound fertilizers	4,822,852	27.33%	3,981,643	26.62%
Phosphate fertilizers	3,573,724	20.26%	3,371,433	22.54%
Monocalcium / Dicalcium phosphate (MDCP)	776,679	4.40%	775,542	5.18%
Others	992,704	5.63%	590,245	3.95%
Total	17,643,812	100.00%	14,959,092	100.00%

3. Revenue and results by segment

The Group made strategic adjustment in 2017 and changed the segment division. The operating segments of the Group are divided into Basic Fertilizers Segment (sourcing and trading of straight fertilizers such as nitrogen, phosphate and potash), Distribution Segment (building of distribution channels, sourcing and selling of compound fertilizers and new type of fertilizers) and Production Segment (production and sales of fertilizers and MDCP).

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 December 2017 and for the year ended 31 December 2016. Certain comparative amounts in the segment information have been adjusted to confirm the current year's presentation:

Table 2:

2017

	Basic Fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue					
External revenue	11,182,845	4,534,380	1,926,587	–	17,643,812
Inter-segment revenue	457,668	831	1,419,806	(1,878,305)	–
Total	11,640,513	4,535,211	3,346,393	(1,878,305)	17,643,812
Segment gross profit	793,110	386,110	192,403	–	1,371,623
Segment profit / (loss)	579,158	(33,122)	(1,327,327)	–	(781,291)

2016

	Basic Fertilizers *RMB'000*	Distibution *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue					
External revenue	9,780,487	3,746,587	1,432,018	–	14,959,092
Inter-segment revenue	380,992	852	1,345,770	(1,727,614)	–
Total	10,161,479	3,747,439	2,777,788	(1,727,614)	14,959,092
Segment gross profit	(25,908)	226,644	40,426	–	241,162
Segment loss	(329,515)	(100,690)	(952,881)	–	(1,383,086)

Segment profit/(loss) represents the profit/(loss) earned by each segment without taking into account unallocated expenses and income, share of results of associates and joint ventures and financing cost. Such information was reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment.

For the year ended 31 December 2017, the external revenue increased by RMB2,685 million over 2016, which was attributable to the increase in the sales volume and selling price of fertilizer products year on year.

For the year ended 31 December 2017, the segment loss of the Group was RMB781 million. In particular, the Basic Fertilizers Segment focused on core suppliers to implement strategic procurement, and further reduced procurement cost. It also increased the direct sales to industrial customers and explored the potential of the core customers, and made a profit of RMB579 million, a big increase compared to the loss of RMB330 million in 2016. The Distribution Segment strengthened channel construction, deepened the degree of integration, and strengthened the coordination of production and marketing, but suffered a loss of RMB33 million in 2017. Excluding major non-recurring expenses and losses, the Distribution Segment made a profit of RMB5 million, a big progress compared to the loss of RMB101 million in 2016. Production enterprises strengthened management, promoted cost reduction and efficiency improvement, expanded sales channels, and innovated logistics models to enhance their current performance. However, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, whose inconsistent production led to an inversion between production cost and selling price, and suffered losses. For prudent purpose, the Group recognized the impairment loss of RMB880 million on property, plant and equipment of the Production Segment. As a result, the Production Segment suffered a loss of RMB1,327 million. Excluding major non-recurring expenses and losses, the Production Segment suffered a loss of RMB295 million which was significantly better compared to that in 2016.

II. PROFIT

1. Gross profit

For the year ended 31 December 2017, gross profit of the Group amounted to RMB1,372 million, increased by RMB1,131 million over 2016.

The Group undertook different strategies for different products. In terms of potash, the Group strengthened strategic partnership with core domestic and overseas suppliers, and secured constant and steady supply of competitive products, with a significant decline in unit cost for new potash procurement contracts signed in 2017, and as high-cost inventory dried up, potash fertilizers realized a gross profit of RMB407 million, which completely reversed the negative margin situation in 2016. Phosphate fertilizers kept stable operation, and promoted cost reduction and efficiency improvement. Due to higher market prices, its gross profit increased by four times compared to 2016. As for nitrogen fertilizer products, the sales volume and prices were both increased, and gross profit grew by four times compared to 2016. In terms of compound fertilizers, the Group continuously promoted in-depth marketing, and took full advantage of the integration of production, supply and marketing, enhanced the utilization of the production capacity, improved channel marketing, tapped terminal demands, and the gross profit was almost doubled compared to 2016.

In summary, the recovery of the fertilizer market led to the current increase in gross profit. Facing the severe market situation, the Group actively carried out the transformation of business modes, implemented technological reform, improved management and strove for sustainable development.

2. Share of results of joint ventures and associates

Share of results of joint ventures: For the year ended 31 December 2017, the share of results of joint ventures of the Group was a profit of RMB14 million, increased by RMB116 million from a loss of RMB102 million for the corresponding period of 2016. This was mainly due to the fact that share of results of Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") was a profit of RMB8 million because of the decrease in purchasing cost and the implementation of incentive system reform for better performance.The profit represents an increase of RMB107 million compared to a loss of RMB 99 million in 2016,

Share of results of associates: For the year ended 31 December 2017, the share of results of associates of the Group was a loss of RMB171 million, increased by RMB163 million over the corresponding period in 2016. This was mainly attributable to the loss of Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake"), an associate of the Group. Considering the Equity Transfer Agreement signed between the Group and Sinochem Group Co., Ltd. ("Sinochem Group") at the end of October 2017, the Group's investment loss increased by RMB210 million compared to 2016. Excluding the impact of loss of Qinghai Salt Lake, the share of results of associates of the Group was a profit of RMB20 million for the year ended 31 December 2017.

3. Income tax

For the year ended 31 December 2017, income tax expense of the Group was RMB11 million, up by RMB6 million from RMB5 million over 2016. This was mainly due to the increase in taxable profits of various subsidiaries resulted from the market recovery in 2017.

The subsidiaries of the Group are mainly registered in Mainland China, Macao and Hong Kong, respectively, where profit tax rates vary. Among them, the tax rate of Mainland China is 25%, the Group's profit derived from Macao is exempted from profit tax, while Hong Kong profit tax rate is 16.5%. The Group strictly complies with the taxation laws of the respective jurisdictions and pays taxes accordingly.

4. Loss attributable to owners of the Company and net loss margin

For the year ended 31 December 2017, loss attributable to owners of the Company was RMB2,208 million. Facing a tough marketing environment, the Group actively took various operational measures, kept promoting the guideline of cost reduction and efficiency improvement, carried out a series of technical reform and scientific and technological innovations, and constantly deepened business transformation. Due to the market slump and for prudent purpose, an impairment loss on property, plant and equipment and other non-current assets of RMB968 million and a provision for onerous contract in relation to the disposal of interests in Qinghai Salt Lake of RMB711 million were recognised, which led to a heavy loss suffered by the Group for the year ended 31 December 2017.

For the year ended 31 December 2017, the net loss margin was 12.51%, which was calculated based on loss attributable to owners of the Company divided by revenue.

III. EXPENDITURES

For the year ended 31 December 2017, the three categories of expenses amounted to RMB1,981 million, increased by RMB124 million or 6.68% from RMB1,857 million over the corresponding period in 2016.

Selling and distribution expenses: For the year ended 31 December 2017, selling and distribution expenses amounted to RMB815 million, increased by RMB61 million or 8.09% from RMB754 million over the same period in 2016. The increase was mainly attributable to the fact that the Group adjusted the compensation structure for sales personnel to fully mobilize their enthusiasm, actively carried out business promotion, promoted strategic products, and improved distribution capabilities, which resulted in the increase of freight, loading and discharging, labour and publicity cost year on year.

Administrative expenses: For the year ended 31 December 2017, administrative expenses amounted to RMB825 million, increased by RMB62 million or 8.13% compared to RMB763 million for the year ended 31 December 2016. This was mainly due to the provision for personnel optimization expenditure of RMB152 million of Sinochem Changshan, a subsidiary of the Group. Excluding the impact mentioned above, administrative expenses was decreased by RMB90 million or 11.80% compared to the corresponding period in 2016. This was mainly due to institutional reforms and the streamlining of functional departments and personnel of the Group.

Finance costs: For the year ended 31 December 2017, finance costs amounted to RMB341 million, which was basically the same as the RMB340 million for the year ended 31 December 2016.

IV. OTHER INCOME AND GAINS

For the year ended 31 December 2017, the Group's other income and gains amounted to RMB241 million, increased by RMB7 million or 2.99% from RMB234 million over the same period in 2016. This consisted of interest income, government subsidy income and sales of semi-product, raw materials and scrapped materials.

V. OTHER EXPENSES AND LOSSES

For the year ended 31 December 2017, the Group's other expenses and losses amounted to RMB1,743 million, decreased by RMB1,568 million from RMB3,311 million over the corresponding period in 2016. This was mainly attributable to the impairment loss of RMB2,830 million on the interests in Qinghai Salt Lake and RMB364 million on property, plant and equipment. For prudent purpose, the Group recognized the impairment loss of RMB968 million on property, plant and equipment and other non-current assets, and a provision for onerous contract in relation to the disposal of interests in an associate – Qinghai Salt Lake, which amounted to RMB711 million.

VI. INVENTORY

As at 31 December 2017, the inventory balance of the Group amounted to RMB5,433 million, increased by RMB958 million or 21.41% from RMB4,475 million as at 31 December 2016. The Group continued to strengthen the connection between procurement and marketing and downsize the inventory scale. However, the Group expanded the business scale in 2017, and made corresponding procurement to cope with the arrival of the sales season at the end of the year. At the same time, inventory turnover was sped up, and the inventory turnover days decreased from 132 days in 2016 to 110 days(Note) in 2017.

Note: Calculated on the basis of average inventory balance as at the end of the reporting period divided by cost of goods sold, and multiplied by 360 days.

VII. TRADE AND BILLS RECEIVABLES

As at 31 December 2017, the balance of the Group's trade and bills receivables amounted to RMB236 million, increased by RMB83 million or 54.25% from RMB153 million as at 31 December 2016, which was mainly due to that the increase in sales settled by bank notes resulted in an increase in the balance of trade and bills receivables at the end of the year compared to the end of 2016.

The average balance of trade and bills receivables of the Group was RMB195 million, decreased by RMB56 million or 22.37% year on year. This was mainly due to that the Group prevented credit risk and strictly controlled the scale of credit. The trade and bills receivables turnover day was 4 days(Note) in 2017, 2 days faster than 6 days in 2016.

Note: Calculated on the basis of average trade and bills receivables balance excluding bills discounted to banks as at the end of the reporting period divided by turnover, and multiplied by 360 days.

VIII. INTERESTS IN JOINT VENTURES

As at 31 December 2017, the balance of the Group's interests in joint ventures amounted to RMB386 million, increased by RMB12 million or 3.21% from RMB374 million as at 31 December 2016, which was mainly due to the fact that the fertilizer market was picking up in 2017, and the performance of joint ventures was improved. In particular, the share of results of Three Circles-Sinochem was a profit of RMB8 million calculated by equity method, the share of results of Gansu Wengfu Chemical Co., Ltd. was a profit of RMB5 million.

IX. INTERESTS IN ASSOCIATES

As at 31 December 2017, the balance of the Group's interests in associates amounted to RMB510 million, decreased by RMB8,197 million or 94.14% from RMB8,707 million as at 31 December 2016. Among them, the share of results of Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") was a profit of RMB15 million, and the share of results of Qinghai Salt Lake was a loss of RMB191 million. Qinghai Salt Lake was listed on Shenzhen Stock Exchange (stock code: 000792), and was mainly engaged in potash fertilizers manufacturing. It is currently the biggest production base of the Chinese potash industry, and also one of the Group's important potash suppliers. The Group signed the Equity Tansfer Agreement with Sinochem Group on 24 October 2017, and transferred all 381 million shares of Qinghai Salt Lake shares to Sinochem Group, and classified investment in Qinghai Salt Lake from interests in associates to assets held for sale, which led to a decrease of RMB8,017 million in the Group's interests in associates.

X. AVAILABLE-FOR-SALE INVESTMENTS

As at 31 December 2017, the balance of the Group's available-for-sale investments amounted to RMB447 million, decreased by RMB51 million or 10.24% from RMB498 million as at 31 December 2016. The stock price of China XLX Fertiliser Limited held by the Group increased as at 31 December 2017, which led to an increase of RMB29 million in available-for-sale investments, and an impairment loss of RMB77 million on investment in Shanxi Jinmei Tianyuan Chemical Co., Ltd. was recognized at the same time.

XI. INTEREST-BEARING LIABILITIES

As at 31 December 2017, the Group's interest-bearing liabilities amounted to RMB5,118 million, decreased by RMB915 million or 15.17% from RMB6,033 million as at 31 December 2016. In particular,

(i) Borrowings

As at 31 December 2017, the balance of the Group's borrowings amounted to RMB5,118 million, including a corporate bond with an aggregate principal amount of RMB2.5 billion with a maturity of 10 years and a medium-term notes of RMB1 billion with a term of three years, and Sinochem Group entrusted loans of RMB1.5 billion. The balance increased by RMB1,085 million or 26.90% from RMB4,033 million as at 31 December 2016.

(ii) Short-term Commercial Paper

The Group repaid over RMB2 billion of short-term commercial paper due on schedule in the current year.

XII. TRADE AND BILLS PAYABLES

As at 31 December 2017, the balance of the Group's trade and bills payables amounted to RMB3,453 million, decreased by RMB1,122 million or 24.52% from RMB4,575 million as at 31 December 2016, which was mainly due to that the Group strengthened the synergy of internal integration, increased the proportion of internal procurement as well as the percentage of settlement by bill, thus leading to the decrease in the balance of trade and bills payables.

XIII. OTHER FINANCIAL INDICATORS

The Group uses earnings per share and return on equity (ROE) to evaluate profitability, current ratio and debt-to-equity ratio to evaluate solvency, and the trade and bills receivables turnover days and inventory turnover days to evaluate operating capacity (see the inventory and trade and bills receivables part of Management's Discussion and Analysis). By analyzing financial indexes such as profitability, liquidity and capital adequacy as well as operating capacity, financial standing and operating results can be fully summarized and evaluated, the performance of the management can be effectively assessed and the maximum interest of the owners of the Group can be achieved. Basic loss per share for the year ended 31 December 2017 amounted to RMB0.3143 and ROE for the year ended 31 December 2017 was -28.96%, both lower than those in 2016, which was mainly due to that the Group seized the opportunity of market and the product margin increased.

Table 3:

	2017	2016
Profitability		
Loss per share (RMB) *(Note 1)*	**(0.3143)**	(0.6600)
ROE *(Note 2)*	**(28.96%)**	(43.26%)

Note 1: Calculated based on loss attributable to owners of the Company for the reporting period divided by weighted average number of shares for the reporting period.

Note 2: Calculated based on loss attributable to owners of the Company for the reporting period divided by the average equity attributable to owners of the Company as at the beginning and the end of the reporting period.

As at 31 December 2017, the Group's current ratio was 1.61, and the debt-to-equity ratio was 77.23%. The Group enjoyed relatively high banking facilities, was rated BBB+ by Fitch Ratings and had diversified fund-raising methods. The Group maintained a stable financial structure through actively taking operating measures while domestic funding conditions remained tight.

Table 4:

	As at 31 December	
	2017	2016
Liquidity and Capital adequacy		
Current ratio *(Note 1)*	**1.61**	0.73
Debt-to-Equity ratio *(Note 2)*	**77.23%**	72.96%

Note 1: Calculated based on current assets divided by current liabilities as at the reporting date.

Note 2: Calculated based on interest-bearing debt divided by total equity as at the end of the reporting period.

XIV. LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of financing included cash, bank loans and proceeds from the issue of bonds. All the financial resources were primarily used for the Group's trading and distribution, production, repayment of liabilities and for related capital expenditures.

As at 31 December 2017, cash and cash equivalents of the Group amounted to RMB287 million, which was mainly denominated in RMB and US dollar.

Below is the analysis of interest-bearing liabilities of the Group:

Table 5:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Short-term commercial paper	**–**	2,000,000
Borrowings from Sinochem Group	**1,500,000**	–
Borrowings from Sinochem Finance Co., Ltd.	**–**	540,000
Other borrowings	**122,000**	–
Bonds		
Principal amount	**3,500,000**	3,500,000
Less: unamortized transaction costs	**(4,465)**	(6,815)
Total	**5,117,535**	6,033,185

Table 6:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Carrying amount repayable		
Within one year	**122,000**	2,540,000
More than one year, but within five years	**4,995,535**	3,493,185
Total	**5,117,535**	6,033,185

Table 7:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Fixed-rate borrowings	**5,117,535**	6,033,185
Variable-rate borrowings	**–**	–
Total	**5,117,535**	6,033,185

As at 31 December 2017, the Group had banking facilities equivalent to RMB19,144 million, including US$1,355 million and RMB10,290 million, respectively. The unutilized banking facilities amounted to RMB16,652 million, including US$1,204 million and RMB8,787 million, respectively.

The Group planned to repay the above loan liability with internal resource.

XV. OPERATION AND FINANCIAL RISKS

The Group's major operation risks include the following: the global economy was undergoing deep adjustment and recovery, all kinds of potential risks were intertwined; China's economy was going from high-speed growth to medium-speed growth; with the resumption of value-added tax, the preferential rail freight for fertilizer phased out and environmental protection requirements more strict, the pressure from industrial restructuring and competition was further increased. Those were big challenges for the Group's production and management, and the performance of the Group was improved over the previous year, which increased business confidence. On one hand, the Group promoted strategic transformation, conducted a series of organizational reform and resource integration, and optimized production structure; on the other hand, the Group explored and did researches on modern agricultural service platform, pooled relevant resources in the industry, expanded the direction of agricultural development, improved sustainability, enhanced overall competitiveness, and reduced the unfavorable impact of operating risk on financial performance of the Group.

The Group's major financial risks include: market risk, credit risk and liquidity risk.

Market risk

Market risk includes currency risk, interest rate risk and other price risk. Currency risk represents unfavourable change in exchange rate that may have an impact on the Group's financial results and cash flow; interest rate risk represents the unfavourable change in interest rate that may lead to changes in the fair value of fixed rate borrowings and other deposit; and other price risk represents the Group's risk related to the value of equity investments, which mainly derived from investments in equity securities. The Group performed sensitivity test on currency risk, interest rate risk and other price risk, see note 34(a) for more details.

Majority of the Group's assets, liabilities and transactions are denominated in RMB, US dollar and HK dollar. Due to the presence of a certain scale of import and export business of the Group, the exchange rate fluctuations will have an impact on the cost of import and export prices, the management of the Group adopted prudent foreign exchange forward measures all the time and continued to monitor and control the above risks so as to mitigate the potential negative impact on the Group's financial performance.

Credit risk

The biggest credit risk of the Group was subject to that the counterparties might fail to carry out their obligations with regard to the book value of all types of financial assets confirmed and recorded in the comprehensive financial statement by counterparties on 31 December 2017. Once the management about credit risks is missing, bad debt losses may affect the normal running of the Group as a result of uncollectible accounts and unavailable inventory after advance payment. The Group had adequate monitoring procedures and corresponding measures in respect of granting credit, credit approval and other related aspects, reinforced credit process monitoring, investigated overdue risks and paid close attention to the production and operation activities of credit customers, attached higher importance to strategic and core customers and suppliers and allocated more credit resources to products with higher profit margin so as to ensure the timely follow-up of overdue debt; meanwhile, the Group checked individual trade loan recoveries at every settlement date to ensure adequate bad debt provision of unrecoverable accounts so as to mitigate the credit risk.

Liquidity risk

Liquidity risk may lead to inadequate capital to meet the demand of daily working capital and repayment of maturing debt. Therefore, the Group took the following measures:

Regarding the management of liquidity risk, the management strengthened position management of ready cash, forecasted and strictly executed the fund plan to monitor and keep enough cash and cash equivalents, increased the scale of advance received in sales season to maintain adequate operating cash flow; reasonably allocating short and long-term demands, optimized capital structure to meet the demand of working capital and repayment of matured bonds. The Group carried out sensitivity test on liquidity risk, see note 34(a) for more details.

XVI. CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no contingent liabilities.

XVII. CAPITAL COMMITMENT

Table 8:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Contracted but not provided for		
– Property, plant and equipment	**24,408**	75,917
Authorized but not contracted for		
– Property, plant and equipment	**1,770,125**	331,399
– Others	**–**	500,000
Total	**1,794,533**	907,316

The Group plans to finance the above capital expenditure by internal and external resources, and has no plans for other material investment or capital expenditures.

XVIII. MATERIAL INVESTMENTS

During the reporting year ended 31 December 2017, the Group had no material investments.

XIX. HUMAN RESOURCES

As at 31 December 2017, the Group had about 5,601 full-time employees (including those employed by the Group's subsidiaries), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration. For details of the remuneration policy of the Group, please refer to the "Corporate Governance Report" of this annual report on page 51.

JANUARY 2017

◇ Sinochem Fuling Chemical Co., Ltd., a subsidiary of the Group, was awarded "Outstanding Supplier in the Asia-Pacific Region in 2016" by Johnson Controls of the USA.

◇ Mr. Qin Hengde, CEO of the Company, met with Mr. Matt J. Albrecht, senior vice president of Canpotex Limited, for business discussions and exchanges of ideas on economic aspects in international and Chinese markets, trends in global agriculture and fertilizer industry, as well as on future opportunities and challenges for the Company.

◇ Sinochem Fertilizer Company Limited ("Sinochem Fertilizer"), a subsidiary of the Group, signed an agreement on strategic cooperation with Henan XLX Fertilizer Co., Ltd.

FEBRUARY 2017

◇ Sinochem Fertilizer was awarded the Prize for Outstanding Contributions at the 4th China Potato Farm Owners Conference.

MARCH 2017

◇ At the proposal of the Ministry of Agriculture, Sinochem Fertilizer became the founding council member of the National Tech Innovation Alliance for Reducing Fertilizer Use by Enhancing Fertilizer Efficiency.

◇ International rating agency Fitch Ratings rated the Group as BBB+.

APRIL 2017

◇ Sinochem Fertilizer signed an agreement on strategic cooperation with China Bluechem Co., Ltd..

◇ Mr. Qin Hengde, CEO of the Company, was interviewed by "Economic 30 Minutes" program of China Central Television, on the topic of tackling oversupply in the fertilizer industry.

MAY 2017

◇ The Group was honored to be one of China's Top 50 brand names in 2017, and the No. 1 brand name in the agricultural input industry, by Xin Hua Net.

◇ Sinochem Fertilizer promoted the technique for "deep soil side dressing in paddy field" in Jiansanjiang of Heilongjiang Province, as part of the Group's efforts in "Sinochem Dedicating to Rural Prosperity". This technique enables fertilizer application at the same time of planting, and also helps to reduce fertilizer use by improving efficiency, as well as enhance rice quality and output.

JUNE 2017

◇ The Group was awarded No. 1 in China's Top 10 Best Quality Fertilizers.

JULY 2017

◇ During the Third Meeting of the 2017 APEC Business Advisory Council (ABAC), Mr. Frank Ning, Chairman of the Board of Sinochem Group, proposed the report of Promoting the Sustainable Development of Agriculture through Water and Fertilizer Integration written by the Group. The proposal was approved in the ABAC Meeting and the influence of Sinochem was thus further enhanced.

◇ The Chinese potash buying consortium, of which the Group was a member, reached an agreement with Uralkali Trading Company on the 2017 seaborn potash import contract.

AUGUST 2017

◇ The Basic Fertilizers Division of the Group set up 8 industrial and trade areas, thus realizing specialized operation of the trade and distribution business.

◇ The annual trading volume of domestic compound fertilizers exceeded 1 million tons for the first time after over 10 years of distribution and the status of the Group in the industry was steadily improved.

OCTOBER 2017

◇ On behalf of Sinochem, Mr. Qin Hengde, CEO of the Company, signed a five-year Memorundum of Understanding (2017-2021) with OCP Group, which marked the resumption and further expansion of the strategic cooperation between the two parties.

NOVEMBER 2017

◇ The standards for the chemical industry — Compound Fertilizers with Chelated Trace Elements passed the review of the Standard Comission and became the first product specification standard of its kind both at home and abroad.

◇ The Group signed a new three-year Memorandum of Understanding with EuroChem and Yara, key suppliers of import compound fertlizers, and continued to be the exclusive channel for 15-15-15 products including Mikla from Yara and NITROPHOSKA from EuroChem.

DECEMBER 2017

◇ Mr. Feng Mingwei, Director and General Manager of Sinochem Fertilizer Macao Commercial Offshore Limited, and Mr. Ken Seitz, President and Chief Executive Officer of Canpotex Limited, signed a new three-year (2018-2020) Memorandum of Understanding.

◇ With the approval of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the Special General Meeting of the Company, the Group transferred its equity interests in Qinghai Salt Lake Industry Co., Ltd. to Sinochem Group.

◇ The relocation scheme of Sinochem Fuling Chongqing Chemical Industry Co., Ltd., a subsidiary of the Group, was approved.

◇ The volume of trade between the Group and Qinghai Salt Lake Industry Co., Ltd. reached a new record high of 711,000 tons, up by 51.4% year on year.

◇ Sinochem Shandong Fertilizer Co., Ltd., a subsidiary of the Group, was awarded a national-level certification, the "Protect & Sustain" (P&S) Product Stewardship Certification, by the International Fertilizer Association (IFA).

DIRECTORS

Mr. ZHANG Wei – Chairman of the Board and Non-executive Director

Mr. ZHANG Wei, aged 49, was appointed as the Chairman of the Board and a Non-executive Director of the Company in December 2016. Mr. Zhang graduated from the Chemical Engineering Department of Tsinghua University with a master's degree in biochemical engineering in 1995, and obtained an EMBA from China Europe International Business School in 2005. Mr. Zhang has worked in many subsidiaries of Sinochem Group, the ultimate controlling shareholder of the Company. He held various positions successively, including deputy general manager of Sinochem Fertilizer Co., Ltd., deputy general manager of Sinochem International Industry Co., Ltd., president of Total-Sinochem Oil Company Ltd., president of China National Seed Group Co., Ltd., president of Sinochem Petroleum Exploration and Production Co., Ltd., general manager of Sinochem Group's Petroleum Center, the manager of Sinochem Oil Co., Ltd., general manager of Sinochem Industry Co., Ltd., and president of Sinochem Group's Strategic Business Unit of Energy. Starting from September 2009, Mr. Zhang has been working with Sinochem Group and Sinochem Corporation, serving as the assistant to president and vice president for both companies. Mr. Zhang is currently the president and a director for both Sinochem Group and Sinochem Corporation. He also serves as the chairman of the board of directors and the president of Sinochem American Holdings, Inc., the chairman of the board of directors of Sinochem Europe Holdings Plc. Mr. Zhang is a senior economist, and has rich experience in chemical engineering and corporate operation and management.

Mr. QIN Hengde – Executive Director and Chief Executive Officer, and Chairman of Corporate Governance Committee

Mr. QIN Hengde, aged 47, was appointed as an Executive Director and Chief Executive Officer of the Company in December 2016, in charge of the Company's overall operation. Currently he is also the Chairman of Corporate Governance Committee of the Company. Mr. Qin graduated from the Economic Management Department of East China Institute of Technology with a bachelor's degree in accounting in 1991, from Huazhong University of Science and Technology with a master's degree in industrial engineering in 2002, and obtained an EMBA from China Europe International Business School in 2011. From November 1991 to March 2000, Mr. Qin worked in Hubei Hongqi Cable Factory, holding various positions, including assistant to the director of the finance department, director of the finance department, and deputy chief accountant. From March 2000 to September 2002, Mr. Qin served as the chief accountant of SDIC Yuanyi Industry Co., Ltd., and from September 2002 to July 2004, Mr. Qin was the deputy general manager of the investment management department of D'Long International Strategic Investment Co., Ltd.. Mr. Qin joined Sinochem International Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600500) in July 2004, and served successively as the general manager of the business development department, financial controller, vice president, executive vice president and president of the company. From November 2016 to January 2017, Mr. Qin was a director and the non-executive chairman of Halcyon Agri Corporation Ltd. (a company listed on the Singapore Stock Exchange) and was a director of GMG Global Ltd. from September 2008 to November 2016, and the non-executive chairman of the same company from January 2015 to November 2016. Mr. Qin joined the Company in December 2016 and has been serving the present position since then. Mr. Qin is a senior accountant, and has rich experience in strategy and investment, merger and acquisition management and financial management.

Mr. Harry YANG – Executive Director

Mr. Harry YANG, aged 55, was appointed as an Executive Director of the Company in March 2006. He is also a member of the Nomination Committee and the Corporate Governance Committee of the Company. Mr. Yang graduated from the University of International Business and Economics in 1989 with a master's degree in International Business English. Mr. Yang joined Sinochem Group in 1989 and served successively as the general manager of Sinochem (USA) Inc. and Sinochem International London Oil Co., Ltd., and the director, general manager and vice chairman of the board of US Agri-Chemicals Corporation. From November 2002 to January 2017, Mr. Yang served as Deputy General Manager and General Counsel of the Company. Mr. Yang has served Sinochem Group for more than twenty years. He possesses years of experience in international trade and fertilizer business with a deep understanding of the international fertilizer market.

Mr. YANG Lin – Non-executive Director

Mr. YANG Lin, aged 54, was appointed as a Non-executive Director of the Company in August 2010. He was appointed as a member of the Remuneration Committee of the Company on 28 March 2018. Mr. Yang graduated from Tianjin University of Commerce in 1985 with a bachelor's degree in Commercial Enterprise Management. He completed a course of Enterprise Management in University of Stuttgart in Germany from 1990 to 1993. Mr. Yang has over ten years' experience in enterprise fund management. Mr. Yang worked at Siemens AG and later as a product manager at Wella AG from 1993 to 1994 in Germany. He joined Sinochem Group in 1994 and had held various positions, including assistant to general manager of the planning and financial department, deputy general manager of the finance department, deputy general manager of the investment and development department, general manager of the fund management department, deputy general accountant of Sinochem Group, and deputy chief financial officer of Sinochem Corporation. Mr. Yang is currently the general accountant and the president of Finance Division of Sinochem Group. He also holds directorships and senior management positions in various subsidiaries and/or affiliates of Sinochem Group. Mr. Yang was a supervisor of China State Construction Engrg. Corp. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601668), from 2007 to 2010. Since October 2009, Mr. Yang has been a non-executive director of Far East Horizon Limited (in which Sinochem Group is a substantial shareholder), whose shares are currently listed on the Main Board of the Stock Exchange (stock code: 3360). Mr. Yang has been a director of Sinochem International Corporation, a subsidiary of Sinochem Group and listed on the Shanghai Stock Exchange (stock code: 600500) since June 2010. In addition, Mr. Yang has been a non-executive director and a member of the audit committee of China Jinmao Holdings Group Limited (previously known as Franshion Properties (China) Limited), a subsidiary of Sinochem Group and listed on the Main Board of the Stock Exchange (stock code: 0817), since February 2014.

Mr. KO Ming Tung, Edward – Independent Non-executive Director and the Chairman of Nomination Committee

Mr. KO Ming Tung, Edward, aged 57, was appointed as an Independent Non-executive Director of the Company in April 2000. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ko obtained an external bachelor of Laws degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 26 years.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Wai Chun Group Holdings Limited, EverChina Int'l Holdings Company Limited, and Chia Tai Enterprises International Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange in Hong Kong. In addition to the above, Mr. Ko was appointed as an independent non-executive director of Zioncom Holdings Limited in January 2018, whose shares are listed on the GEM Board of the Stock Exchange in Hong Kong. Mr. Ko was previously a non-executive director of Harmonic Strait Financial Holdings Limited (now known as Asia International Finance Group Limited) and an independent non-executive director of Chinese Energy Holdings Limited, whose shares are listed on the Main Board and the GEM Board of the Stock Exchange in Hong Kong respectively.

Mr. LU Xin – Independent Non-executive Director and the Chairman of Remuneration Committee

Mr. LU Xin, aged 54, was appointed as an Independent Non-executive Director of the Company in February 2015. Mr. Lu was re-designated from a member to the Chairman of the Remuneration Committee of the Company on 28 March 2018. He is also a member of the Audit Committee and the Nomination Committee of the Company. Mr. Lu graduated from Dongbei University of Finance and Economics in China in 1987 with a bachelor's degree in Economics, and has been awarded a master of business administration by the University of South Australia in 2006. Mr. Lu worked for the Ministry of Finance of the People's Republic of China from 1987 to 1992, and China Trust and Investment Corporation for Economic Development from 1992 to 1995. Since 1995, Mr. Lu has successively served as the assistant general manager, deputy general manager and managing director of Golden Sino (Holdings) Limited. From 2001 to 2004, Mr. Lu was the executive director and deputy chairman of the Board and the managing director of the Company (formerly known as Wah Tak Fung Holdings Limited). From 2008 to 2010, Mr. Lu was an independent non-executive director of Sino Resources Group Limited, and currently he is an investment consultant of Wai Chun Group Holdings Limited, both companies are listed on the Main Board of the Stock Exchange in Hong Kong. Mr. Lu Xin is currently also the chairman of the board of directors of World International Consulting Limited. Mr. Lu has over 25 years of experience in finance, investment and corporate management with extensive knowledge about economic activities of Hong Kong and Mainland China.

Mr. TSE Hau Yin, Aloysius – Independent Non-executive Director and the Chairman of Audit Committee

Mr. TSE Hau Yin, Aloysius, aged 70, was appointed as an Independent Non-executive Director of the Company in June 2007. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Tse is a graduate of the University of Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is the past president and a former member of the Audit Committee of the HKICPA. Mr. Tse joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is also a member of the International Advisory Council of The People's Municipal Government of Wuhan.

Other than the directorship in the Company, currently Mr. Tse is also an independent non-executive director of CNOOC Limited, China Telecom Corporation Limited, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are companies whose shares are listed on the Stock Exchange in Hong Kong. In addition to the above, Mr. Tse is currently an independent non-executive director of CCB International (Holdings) Limited, a wholly-owned subsidiary of China Construction Bank Corporation whose shares are listed on the Stock Exchange in Hong Kong and an independent non-executive director of OCBC Wing Hang Bank Limited (formerly known as Wing Hang Bank Limited), which was listed on the Main Board of the Stock Exchange in Hong Kong until October 2014. From 2004 to 2010, Mr. Tse was an independent non-executive director of China Construction Bank Corporation, which is listed on the Main Board of the Stock Exchange in Hong Kong. From May 2005 to December 2016, he was an independent non-executive director of Daohe Global Group Limited, which is listed on the Main Board of the Stock Exchange in Hong Kong.

SENIOR MANAGEMENT

Mr. FENG Ming Wei – Deputy General Manager

Mr. FENG Ming Wei, aged 55, is the Deputy General Manager of the Company. Mr. Feng graduated from Beijing University of Iron and Steel Technology specializing in automation in 1987 and acquired an on-the-job master's degree equivalent to research studies in world economics from Renmin University of China in 1998. In 1984, Mr. Feng joined Sinochem Group, in which he had held positions in finance department and Sinochem representative office in Pakistan. He was then promoted as the sales manager in the business department of SC Polymers Inc. and the deputy general manager of Sinochem Plastic Company. Mr. Feng joined Sinochem Fertilizer Co., Ltd. in December 2001, and he had held the positions of deputy general manager of import department, general manager of fertilizer department No. 1, general manager of potash fertilizer department and assistant to general manager of Sinochem Fertilizer Co., Ltd.. Mr. Feng was promoted to the present position in May 2007.

Mr. LI Yang Jing – Deputy General Manager

Mr. LI Yang Jing, aged 45, is the Deputy General Manager of the Company. Mr. Li graduated from Shenyang Institute of Chemical Technology in 1995 majoring in Petroleum Processing with a bachelor's degree of Engineering, and acquired a master's degree in business administration in China Europe International Business School (CEIBS) in 2008. Mr. Li joined Sinochem Group in 1995 and had served as the general manager of the first investment management section of property management department in China Chemical Import and Export Corporation, the general manager of Hainan Pacific Ocean Petroleum Industry Company Ltd., the chief of southwest office of Sinochem Group, the general manager of investment department and the general manager of engineering management department of Sinochem Group. Mr. Li joined the Company in November 2010 and was promoted to the present position since then.

Mr. GAO Jian – Chief Financial Officer

Mr. GAO Jian, aged 47, is the Chief Financial Officer of the Company. Mr. Gao graduated from Chongqing Institute of Industrial Management in 1993 with a bachelor's degree and obtained a master's degree in business administration from Renmin University of China in 2002. Mr. Gao worked in Wuzhou Engineering Design and Research Institute from 1993 to 1999. In 1999, he joined China Chemical Import and Export Corporation and had worked in investment department and finance department. Mr. Gao had previously acted as deputy general manager of the finance department in Qinghai Salt Lake Industry Group Co., Ltd. and deputy director (a temporary position) in the Working Bureau of Supervisory Panel of the State-owned Assets Supervision and Administration Commission of the State Council. In June 2008, Mr. Gao joined Sinochem Lantian Co., Ltd. as the chief financial officer. Mr. Gao joined the Company in July 2011 and was appointed the present position.

Mr. MAO Feng – Deputy General Manager

Mr. MAO Feng, aged 46, is the Deputy General Manager of the Company. Mr. Mao graduated from Tianjin Institute of Foreign Trade with a bachelor's degree in international trade in 1994. From 1990 to 2007, Mr. Mao served in China Machinery Import and Export Corporation and China International Tendering Company under China General Technology Group. In August 2007, Mr. Mao joined Sinochem Group, and served as deputy general manager of the railway business department and deputy general manager of the strategic market department of Sinochem International Tendering Co., Ltd., assistant to the general manager of the investment development department and deputy general manager of the strategic planning department of Sinochem Group. Mr. Mao joined the Company in January 2017 and was appointed the present position.

Mr. MA Yue – Deputy General Manager

Mr. MA Yue, aged 39, is the Deputy General Manager of the Company. Mr. Ma graduated from Beijing Jiaotong University in July 2001 with a bachelor's degree in management science & engineering and from Tsinghua University with an EMBA in April 2013. Mr. Ma joined Sinochem Fertilizer Co., Ltd. in July 2001, and successively served as general managers of Anhui Branch, Henan Branch, Hainan Branch, distribution & management department, network and logistic management department, network development department, network business department, and Jiangsu Branch, and as assistant to the general manager of Sinochem Fertilizer Co., Ltd.. Mr. Ma promoted to the present position in January 2017.

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited is committed to maintaining a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practices on corporate governance, and compliance with the applicable corporate governance standards contained in relevant codes as set out in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code") sets out the principles of good corporate governance, and two levels of recommendations: (a) code provisions; and (b) recommended best practices. It also includes the mandatory disclosure requirements and recommended disclosures in respect of corporate governance for listed companies. For the year ended 31 December 2017 and up to the date of this report, the Company has complied with the applicable code provisions set out in the Corporate Governance Code, except for the deviations from the code provisions A.1.7 and E.1.2 as described below.

The code provision A.1.7 stipulates that, if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. During the year and up to the date of this report, the Board approved certain connected transactions and continuing connected transactions by circulation of written resolutions in lieu of physical board meetings, for which certain Directors who are nominated by the ultimate controlling or substantial shareholders of the Company, were regarded as having material interests therein. As the Directors of the Company are living and working in different countries which are far apart, adoption of written resolutions in lieu of physical board meetings allows the Board to make a decision relatively quicker in response to the rapid change in the fertilizer markets. Before formal execution of the written resolutions, the Directors (including the independent non-executive directors) had discussed the matters via emails and made amendments to the transactions as appropriate.

The code provision E.1.2 provides that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. In the annual general meeting of the Company held on 12 May 2017 (the "2017 AGM"), Mr. Zhang Wei, the Chairman of the Board, did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2017 AGM, the Chairman of the Board authorized and the Directors attending the meeting elected Mr. Harry Yang, the Executive Director of the Company, to chair the meeting on behalf of the Chairman of the Board. Respective chairmen or representatives of the audit, remuneration, nomination and corporate governance committee of the Company were present at the 2017 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors, and the Directors have confirmed that they had complied with the required standards set out in the Model Code for the year under review.

The Company has also adopted written guidelines on no less exacting terms than the Model Code for relevant employees. During the year, no incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Board of Directors ("Board") directs, monitors and supervises the management, business, strategic planning and financial performance of the Company and its subsidiaries and the Board considers that enhancing value for shareholders is a duty of the Directors.

Board composition

As at the date of this report, the Board consists of seven members. Among them, two are Executive Directors, namely Mr. QIN Hengde and Mr. Harry YANG; two are Non-executive Directors, namely Mr. ZHANG Wei and Mr. YANG Lin; and three are Independent Non-executive Directors, namely Mr. KO Ming Tung, Edward, Mr. LU Xin and Mr. TSE Hau Yin, Aloysius. The biographical details of the Directors are set out on pages 37 to 40 of this annual report.

Executive Directors

All of the Executive Directors possess the qualification and experiences in their respective areas of responsibility, have extensive experience in corporate management and operations, and have good knowledge on the operations and structure of the Group. Under the leadership of the Chairman of the Board, the Executive Directors are able to maintain the effective management of the Group's business.

Non-executive Directors

The two Non-executive Directors of the Company are experienced and professionals in relevant business of the Group, who provide professional opinion and analysis to the Board effectively.

Independent Non-executive Directors

All of the three Independent Non-executive Directors are experienced professionals with different expertise in accounting, finance and legal aspects. Their mix of skills and experience, and their independent view on matters of the Group provide constructive comments and suggestions to the Board and safeguard the interests of the shareholders in general and the Company as a whole.

Appointment, re-election and removal of Directors

The current term of office for the Executive Directors and the Non-executive Directors (including the Independent Non-executive Directors) of the Company is fixed for three years. Pursuant to the bye-laws of the Company, every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years, and shall be subject to re-election by shareholders at the annual general meeting.

A person may be appointed as a member of the Board at any time either by the shareholders in a general meeting or by the Board upon recommendation by the Nomination Committee of the Company. Directors who are appointed by the Board shall be subject to election by shareholders at the first general meeting after their appointment.

During the year ended 31 December 2017 and up to date of this report, changes occurred in the composition of the Board. Dr. Stephen Francis DOWDLE and Ms. XIANG Dandan tendered his/her resignation as a Non-executive Director of the Company on 7 December 2017, which took effect on 31 December 2017. Their resignations were mainly due to the merger involving Potash Corporation of Saskatchewan Inc. ("Potash Corporation"), the second largest shareholder of the Company, the details of which were disclosed in the announcement of the Company dated 7 December 2017.

Independence of the Board

The Board has received from each of the Independent Non-executive Directors a written annual confirmation of their independence in accordance with Rule 3.13 of the Listing Rules, and believed that their independence satisfied the guidelines as stipulated in the Listing Rules up to the date of this report.

The Board has noticed that Mr. Ko Ming Tung, Edward, Independent Non-executive Director of the Company, has served the Board for more than 17 years and Mr. Tse Hau Yin Aloysius, Independent Non-executive Director of the Company, has served the Board for more than 10 years. Pursuant to code provision A.4.3 of the Corporate Governance Code, inter alia, having served the company for more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. In this regard, the re-appointment of Mr. Ko as Independent Non-executive Director of the Company was approved by shareholders in separate resolution at the annual general meeting of the Company held on 11 June 2015, and Mr. Tse's further appointment will be subject to a separate resolution to be approved by shareholders. In assessing the independence of Mr. Ko and Mr. Tse, the Board took into account the fact that Mr. Ko and Mr. Tse have not engaged in any executive management of the Group, and have demonstrated their ability to provide independent view to the Company's matters during their terms of office with the Company. The Board believes that Mr. Ko and Mr. Tse are independent with the Company and have complied with the independence requirements of Rule 3.13 of the Listing Rules.

For the year ended 31 December 2017, Mr. Zhang Wei and Mr. Yang Lin each held directorships or other positions in Sinochem Group (the ultimate controlling shareholder of the Company), its subsidiaries and/or its associated companies.

In addition, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan, the Non-executive Directors of the Company during the year and up to 31 December 2017, were nominated by Potash Corporation, the second largest shareholders of the Company, to the Board of the Company. During the year ended 31 December 2017, Dr. Stephen Francis Dowdle holds senior position in Potash Corporation and/or its subsidiaries, and Ms. Xiang Dandan holds the position of Marketing Vice President of Latin America of Canpotex Limited, which was an export association composed of three potash producers including Potash Corporation as at 31 December 2017.

Save as described above, there is no other relationship among the members of the Board and, in particular, between the Chairman and the Chief Executive Officer.

Division of the responsibilities between the Board of Directors and the management

The Board of Directors is responsible for reviewing and approving the Company's strategy management, financial management, investment management, asset disposal and other matters, implementing the resolutions passed in the general meetings and supervising the management team; and the management team under the leadership of the Chief Executive Officer is responsible for formulating the strategic plan and operation goals of the Company, compiling and executing the annual budget and setting out annual investment policies, etc..

Responsibilities of Chairman and Chief Executive Officer

The Board has authorized the management team to handle daily operational matters under the instruction and supervision of the Chief Executive Officer. Mr. Zhang Wei as the Chairman of the Board, is responsible to lead and ensure the effective management of the Board. Mr. Qin Hengde as the Chief Executive Officer, was responsible for the effective implementation of the policies formulated by the Board and the management of the businesses and operations of the Group.

Major duties of the Board

The Board is primarily responsible for the following matters:

1. to approve and monitor the strategic plans of the Group;

2. to review the financial performance and results of the Group;

3. to review the dividend policy of the Company;

4. to approve and monitor material acquisitions, investment, asset transactions and any other significant expenditures of the Group; and

5. to supervise internal risk management policy of the Group.

The Board is also responsible for overseeing the preparation of the annual consolidated financial statements which ensures a true and fair view of the state of affairs and of the results and cash flows of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2017, the Board have:

1. approved the adoption of the applicable Hong Kong Financial Reporting Standards;

2. selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;

3. made judgements and estimates that are prudent and reasonable, and ensured the consolidated financial statements are prepared on a going concern basis; and

4. ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

The Board recognizes that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensive vision of the performance, position and prospects of the Group in all corporate communications.

Continuous professional development

The Company considers continuous professional development is important for Directors in maintaining up-to-date knowledge on the business operations of the Company as well as the regulations in the capital market. In this regard, the Company provided professional training to Directors, including a formal and comprehensive induction programme to newly appointed Directors for the purpose of giving an overview of the business and operations of the Group and a proper understanding of his/her responsibilities and obligations under the Listing Rules, Corporate Governance Code and applicable laws and regulatory requirements; and also regular updates on new issues and/or changes in the regulatory environments.

During the year, the Company arranged and funded a seminar, which was conducted by a professional legal firm, on the duties of directors of listed companies in Hong Kong, inside information and recent cases of breaches. Except for Mr. Yang Lin, non-executive Director of the Company, who read the materials of the seminar separately, all Directors have attended the seminar. In addition, the Company has received confirmation from all Directors that they have participated in continuous professional development during the year to develop and refresh their knowledge and skills, which ensured that their contribution to the Board remains informed and relevant.

In addition, the Company provided regular updates to all Directors in respect of the business and operations of the Group through monthly reports; and of the changes in Listing Rules, Corporate Governance Code and related regulatory requirements, if any.

Board meetings

For the year ended 31 December 2017, the Board held five meetings (including four regular meetings and one special conference call meeting) to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, investment projects, very substantial disposal and connected transactions, continuing connected transactions and other significant matters. The Board had also approved certain proposals by circulation of written resolutions during the year. The attendance rates of the Chairman and other members of the Board at the aforesaid Board meetings during the year ended 31 December 2017 are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)*	5/5
Mr. Harry Yang	5/5
Non-executive Directors	
Mr. Zhang Wei *(Chairman)*	4/5
Mr. Yang Lin	2/5
Dr. Stephen Francis Dowdle *(Note 1)*	5/5
Ms. Xiang Dandan *(Note 1)*	5/5
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	5/5
Mr. Lu Xin	5/5
Mr. Tse Hau Yin, Aloysius	5/5

Note:

1. *Dr. Stephen Francis Dowdle and Ms. Xiang Dandan resigned as Non-Executive Director of the Company on 31 December 2017.*

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee

An audit committee was established by the Board in 1999 (the "Audit Committee") with its written terms of reference. The Audit Committee currently comprises three Independent Non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Tse Hau Yin, Aloysius and the other members are Mr. Ko Ming Tung, Edward and Mr. Lu Xin.

The latest terms of reference of the Audit Committee, which have been revised on 31 December 2015 in accordance with the Corporate Governance Code are available on the Company's website. The current terms of reference of the Audit Committee are summarized in the following aspects, including but not limited to (1) monitoring the relationship with the external auditors including but not limited to reviewing and monitoring the independence and objectiveness of the external auditor and the effectiveness of audit procedures in accordance with the applicable standards; (2) reviewing the Group's financial information; and (3) overseeing the Group's financial reporting system, risk management and internal control procedures.

The Audit Committee held four meetings during the year ended 31 December 2017. The Chief Financial Officer and the external auditors also attended the meetings. The attendance rates of each of the committee members at these meetings are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Tse Hau Yin, Aloysius *(Chairman)*	4/4
Mr. Ko Ming Tung, Edward	4/4
Mr. Lu Xin	4/4

The Audit Committee had completed the following work during the year:

1. reviewed and commented on the Company's annual and interim reports (including the consolidated financial statements contained therein), and result announcements, and recommended the same for the Board's approval;

2. reviewed and discussed significant issues identified in the preparation of the consolidated financial statements, including those related to accounting records, financial report and internal control system;

3. reviewed the independence of the external auditors, considered and made recommendation to the Board on the re-appointment of external auditors and the corresponding audit fee for the year ended 31 December 2017;

4. discussed the audit plan, scope and responsibility before the commencement of work with the external auditors;

5. reviewed and evaluated the effectiveness of the Company's corporate governance practices and the Group's financial control (including the adequacy of resources, staff's qualifications and experience in the Group's accounting and financial reporting functions), internal control and risk management systems, procedures and arrangements to enable employees to raise concerns about possible improprieties in financial reporting, internal control or other matters, and made sufficient communication with the management on related matters. The results of such review were satisfactory;

6. discussed the Group's internal audit plan and the related work with the Internal Audit Department (which is responsible for the internal audit functions of the Company) and are satisfied with their report and findings;

7. discussed the Group's risk management plan and the related work with the Risk Management personnels;

8. met with the external auditors without the management's participation;

9. reviewed the continuing connected transactions conducted by the Group; and

10. reviewed the existing terms of reference of the Audit Committee.

Remuneration Committee

A remuneration committee was established by the Board in August 2005 (the "Remuneration Committee") with its written terms of reference. The Remuneration Committee currently comprises four members. The Chairman of the Remuneration Committee is Mr. Lu Xin, and the other members are Mr. Ko Ming Tung, Edward, Mr. Tse Hau Yin, Aloysius and Mr. Yang Lin. Except for Mr. Yang Lin, who is a Non-Executive Director and was appointed as a member of the Remuneration Committee on 28 March 2018, the remaining three members are all Independent Non-executive Directors. Dr. Stephen Francis Dowdle, the Non-Executive Director of the Company during the year and up to 31 December 2017, and Mr. Harry Yang, an Executive Director of the Company, were members of the Remuneration Committee during the year ended 31 December 2017. Mr. Dowdle ceased to be a member of the Remuneration Committee on 31 December 2017 following his resignation as Non-Executive Director of the Company on the same date, and Mr. Harry Yang ceased to be a member of the Remuneration Committee on 28 March 2018.

The latest terms of reference of the Remuneration Committee, which have been revised in accordance with the Corporate Governance Code, are available on the Company's website. The current terms of reference of the Remuneration Committee are summarized in the following aspects, including but not limited to (1) making recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (2) reviewing and approving the Executive Directors' and senior management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board; and (3) determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and making recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee met once during the year ended 31 December 2017. The Remuneration Committee had also approved or passed certain proposals by circulation of written resolution during the year, and had presented the relevant proposals to the Board for review or approval, where applicable, in subsequent board meetings. The attendance rates of each of the committee members at the aforesaid meeting during the year ended 31 December 2017 are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward *(Chairman)* *(Note 1)*	1/1
Mr. Lu Xin *(Note 2)*	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Non-executive Director	
Dr. Stephen Francis Dowdle *(Note 3)*	1/1
Executive Director	
Mr. Harry Yang *(Note 4)*	1/1

Note:

1. *Mr. Ko Ming Tung, Edward was the Chairman of the Remuneration Committee during the year ended 31 December 2017 and up to 28 March 2018.*

2. *Mr. Lu Xin was re-designated as the Chairman of the Remuneration Committee on 28 March 2018.*

3. *Dr. Stephen Francis Dowdle ceased to be a member of the Remuneration Committee on 31 December 2017.*

4. *Mr. Harry Yang ceased to be a member of the Remuneration Committee on 28 March 2018 and Mr. Yang Lin, a Non-Executive Director of the Company, was appointed as a member of the Remuneration Committee on the same date.*

The Remuneration Committee had completed the following work during the year:

1. evaluated the performance of Executive Directors and senior management and approved the proposal on performance bonus for Executive Directors and senior management for the year 2016, based on the performance target established in the year before;

2. approved the remuneration package (including cash compensation and bonus scheme) of Executive Directors and senior management for the year 2017 and the key terms in their service contracts;

3. made recommendation to the Board in respect of the compensation proposal for Non-executive Directors and Independent Non-executive Directors for the year 2017;

4. approved the appointment of remuneration consultant; and

5. reviewed the existing terms of reference of the Remuneration Committee.

Remuneration policy of the Group

The key components of the Group's remuneration package include basic salary, and where applicable, other allowances, annual incentive bonus, mandatory provident funds and state-managed retirement benefits scheme. The objective of the Group is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as to achieve a balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation to employees offered by the Group varies with the importance of duties. The higher the importance of duties, the higher the ratio of incentive bonus to total remuneration. This can help the Group to recruit, retain and motivate high-calibre employees required for the development of the Group and to avoid offering excess reward.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience and performance of the Directors. They include incentive bonus primarily determined based on the results of the Group. The Remuneration Committee performs regular review on the emoluments of the Directors. No Director, or any of his/her associates and executives, is involved in deciding his/her own emoluments.

The Group reviews its remuneration policy annually and engages professional consultant, if necessary, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 31 December 2017, the Group had about 5,601 full-time employees (including those employed by the Group's subsidiaries), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also values the importance of training and career development of employees. In 2017, the Group provided 968 person-times or 11,219 hours of training (any training organized by the subsidiaries has not been included in these numbers). The training courses covered areas such as industrial development, strategy implementation, leadership enhancement, marketing management, operation and management, laws and regulations, finance, human resource management, safe production and general working skills. These training will further improve the management skills and professional standards of the management of the Group and enhance the overall quality of the employees to cater to the Group's rapid developments, and improve the competitiveness of the Group.

Other than those mentioned above, the Company had also arranged directors & officers' liability insurance which provides comprehensive protection for the Group's business by covering losses in relation to investigations or claims against the Company's Directors and the Group's officers.

Nomination Committee

A nomination committee was established by the Board in August 2005 (the "Nomination Committee") with its written terms of reference. The Nomination Committee currently comprises four members. The Chairman of the Nomination Committee is Mr. Ko Ming Tung, Edward and the other members are Mr. Lu Xin, Mr. Tse Hau Yin, Aloysius and Mr. Harry Yang. Except for Mr. Harry Yang who is an Executive Director, the remaining three members are all Independent Non-executive Directors. Dr. Stephen Francis Dowdle, the Non-Executive Director of the Company during the year and up to 31 December 2017, was a member of the Nomination Committee during the year ended 31 December 2017. Mr. Dowdle ceased to be a member of the Nomination Committee on 31 December 2017 following his resignation as Non-Executive Director of the Company on the same date.

The latest terms of reference of the Nomination Committee, which have been revised in accordance with the Corporate Governance Code, are available on the Company's website. The current terms of reference of the Nomination Committee are summarized in the following aspects, including but not limited to (1) formulating nomination policy for the Board's consideration and implementing the Board's approved nomination policy; (2) determining the criteria to select and recommend candidates for directorship; (3) reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (4) identifying individuals suitably qualified to become Board members for Board's consideration on the selection of individuals nominated for directorships; and (5) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

The Nomination Committee met once during the year ended 31 December 2017. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward *(Chairman)*	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Non-executive Director	
Dr. Stephen Francis Dowdle *(Note 1)*	1/1
Executive Director	
Mr. Harry Yang	1/1

Note:

1. *Dr. Stephen Francis Dowdle ceased to be a member of the Nomination Committee on 31 December 2017.*

The Nomination Committee had completed the following work during the year:

1. reviewed the structure, size and composition of the Board and made suggestions to the Board;

2. reviewed the terms of appointment of Directors and made recommendations to the Board;

3. nominated the Directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting;

4. reviewed the independence of Independent Non-executive Directors and made suggestions to the Board; and

5. reviewed the existing terms of reference of the Nomination Committee.

Board diversity policy of the Company

The Board adopted a board diversity policy on 27 March 2013 for the purpose of setting out the approach to achieve diversity on the Board in compliance with the Corporate Governance Code. The policy states that, in designing the Board's composition, board diversity has been considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on the candidates' talents. Candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives mentioned above. The final decision will be based on merit and contribution that the selected candidates will bring to the Board. During the year, the Nomination Committee had reviewed the Board composition of the Company and considered that the current Board's composition is maintained under the diversified perspective.

Corporate Governance Committee

A corporate governance committee was established by the Board on 22 March 2012 (the "Corporate Governance Committee") with its written terms of reference. The Corporate Governance Committee currently comprises four members. The Chairman of the Corporate Governance Committee is Mr. Qin Hengde (Executive Director and Chief Executive Officer), and the other members of the Corporate Governance Committee are Mr. Harry Yang (Executive Director), Ms. Cheung Kar Mun, Cindy (Company Secretary) and Ms. Cao Jing (Legal Director).

The terms of reference of the Corporate Governance Committee are available on the Company's website. The current terms of reference of the Corporate Governance Committee are summarized in the following aspects, including but not limited to (1) developing and reviewing the corporate governance ("CG") principles and policies of the Company and making recommendations to the Board, and implementing the CG policies laid down by the Board; (2) reviewing and monitoring the CG policies and practices to ensure compliance with legal and regulatory requirements; (3) developing, reviewing and monitoring the code of conduct and guidelines in relation to CG matters applicable to the Company's Directors and employees; (4) reviewing the Company's compliance with the Corporate Governance Code and related rules; (5) preparing the annual CG Report; and (6) reviewing regularly the contribution required from Directors to perform their responsibilities to the Company, and the time commitments.

The Corporate Governance Committee met once during the year ended 31 December 2017. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chairman)*	1/1
Mr. Harry Yang	1/1
Management	
Ms. Cheung Kar Mun, Cindy	1/1
Ms. Cao Jing	1/1

The Corporate Governance Committee had completed the following work during the year:

1. reviewed the Company's policies and practices on corporate governance and made recommendations to the Board;

2. reviewed and monitored the training and continuous professional development of Directors and senior management;

3. reviewed the Company's corporate governance policies and practices and monitor the Company's compliance with the Corporate Governance Code and the Listing Rules;

4. reviewed and monitored the code of conduct applicable to employees and directors;

5. reviewed the Company's compliance with the corporate governance code and disclosures in the Corporate Governance Report; and

6. reviewed the existing terms of reference of Corporate Governance Committee.

COMMUNICATION WITH SHAREHOLDERS

Shareholders communication policy

The Company has adopted the shareholders communication policy (the "Shareholders Communication Policy") to ensure the shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company's website.

Enquiries of shareholders

Designated contacts and enquiry lines of the Company have been provided in the "Corporate Information" section of this annual report to inform the shareholders and the investment community the channels to make enquiries in respect of the Company. To the extent that the requisite information of the Company is publicly available, shareholders and the investment community may at any time make a request for such information. Shareholders can also make enquiries with the Board directly at the general meetings.

General meetings

Annual general meeting is one of the principal channels for the Company to communicate with the shareholders.

2017 AGM of the Company was held on 12 May 2017, in which Mr. Harry Yang, the Executive Director of the Company, chaired the meeting on behalf of the Chairman of the Board. In addition, the external auditors of the Company and respective chairmen or representatives of the Audit, Remuneration, Nomination and Corporate Governance Committees of the Company attended the 2017 AGM and were available to answer relevant questions.

During the year, two special general meetings of the Company were held for approving certain continuing connected transactions and a very substantial disposal and connected transaction of the Company by the then independent shareholders.

The attendance rates of each of the Directors at the 2017 AGM are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)*	0/1
Mr. Harry Yang	1/1
Non-executive Directors	
Mr. Zhang Wei *(Chairman)*	0/1
Mr. Yang Lin	0/1
Dr. Stephen Francis Dowdle *(Note 1)*	0/1
Ms. Xiang Dandan *(Note 1)*	0/1
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	0/1

The attendance rates of each of the Directors at the two special general meetings of the Company held during the year are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)*	2/2
Mr. Harry Yang	2/2
Non-executive Directors	
Mr. Zhang Wei *(Chairman)*	0/2
Mr. Yang Lin	0/2
Dr. Stephen Francis Dowdle *(Note 1)*	0/2
Ms. Xiang Dandan *(Note 1)*	0/2
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	2/2
Mr. Lu Xin	2/2
Mr. Tse Hau Yin, Aloysius	2/2

Note:

1. *Dr. Stephen Francis Dowdle and Ms. Xiang Dandan resigned as Non-Executive Director of the Company on 31 December 2017.*

Shareholders' rights

Shareholders, at the date of deposit of the requisition, holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to submit a signed written requisition, specifying the purpose (including any proposals), to the Board or the Company Secretary to require a special general meeting, and deposit the requisition at the Company's principal place of business at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene the special general meeting, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, themselves may convene a special general meeting, but any special general meeting so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

In addition, shareholders may propose a person for election as a Director of the Company. Details of the procedures for shareholders to propose a person for election as a Director of the Company are available on the Company's website.

Constitutional documents

The constitutional documents of the Company, including the memorandum of association and bye-laws of the Company, are available for review by shareholders from the Company's website. During the year, there is no change in these constitutional documents.

EXTERNAL AUDITOR

The Group's external auditor is KPMG. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. During the year, the Audit Committee has considered and approved the re-appointment of KPMG as the auditor of the Group for the year ended 31 December 2017, and the corresponding audit fees estimation.

The audit fees paid or payable by the Group to the external auditors in respect of audit and other non-audit services for the year ended 31 December 2017 were as follows:

	For the year ended 31 December	
	2017	2016
Nature of services	***RMB'000***	*RMB'000*
Audit service (including audit of financial statements and other audit related projects)	**4,200**	4,250
Tax related service	**117**	14
Total	**4,317**	4,264

FINANCIAL MANAGEMENT

In 2017, the Group kept on improving the professional qualities and management level of the finance personnel by training, job rotation, crosscheck of the fundamental work and performance appraisal, and made a detailed list of four-echelon members through talent review, thus providing a basis for the deployment and promotion of the finance personnel, and carried out individualized training at different levels in each echelon, constantly enhancing the professionalism of all the finance personnel. Besides, the Group established and improved the team-culture system as well as organized group building activities for finance department, reinforcing communications between employees and increasing their cohesion. Overall, the Group aimed at building with great efforts a more sound, efficient and reliable finance team.

In 2017, the Group strengthened the timeliness and accuracy of basic financial information in accounting, completed the accounting records with high quality, and prepared the consolidated financial statements. The Group determined the cost allocation standard of business units, achieved accurate accounting by business unit and fertilizer product. At the same time, in accordance with the requirements of the capital market, the Group provided relevant information to the designated information disclosure platform and welcomed the supervision and inspection from regulators.

In 2017, in terms of performance appraisal, the Group constantly improved the total budget management system, paid attention to the breakdown of the budget and the responsibility implementation. The Group utilized the 369 rolling forecast management system, strengthened process monitoring, and guaranteed the achievement of annual targets through deviation rectification in the process of development. The Group carried on with the high-performance orientation, focused on investment returns, optimized resource allocation and brought into full play the strategic orientation and budget monitoring role of performance appraisal.

In 2017, the fluctuation range of the exchange rate of RMB against US dollar was expanding and was beyond the expectation of the financial market, which had a relatively big impact on the import and export business of the Group. The Group took prudent measures after considering the operation mode of its fertilizer import and export business; adopted a high proportion of forward hedge according to the import agreement and plan; and adopted timely foreign exchange settlement and offset with the import business while conducting export business in order to avoid foreign currency risks. As the Chinese government strengthened financial regulation, the loan size of commercial banks was constrained in 2017, the market interest rate continued to rise, the Group further strengthened cooperation with Sinochem Finance Co., Ltd. and external banks of strategic alliance, maintained sufficient bank credit lines, brought into full play the advantage of integrated operation of both domestic and overseas resources, strengthened the allocation and utilization of internal capital of the Group and increased the capital turnover rate. The Group actively developed forward settlement methods including bank acceptance bill and domestic letter of credit in order to reduce the cost of capital.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board understands that, in accordance with the code provision C.2 of the Corporate Governance Code contained in the Listing Rules, the Board should ensure the Group's internal control and risk management system to be robust, appropriate and effective, and review on a regular basis in order to safeguard shareholders' interests and the Group's asset. During the reporting period, the Group conducted an annual review and appraisal of the whole internal control and risk management system by applying as standards the Basic Code of Corporate Internal Control and its accompanying guidelines jointly issued by the People's Republic of China, while complying with the Listing Rules and the Internal Control Framework of US Committee of Sponsoring Organizations (COSO). The review assessed and provided feedback on all significant aspects of control, including financial control, operational control, compliance control as well as risk management, so as to ensure the effective operation of the internal control system by taking into consideration the respective characteristics of the headquarter, subsidiaries and branches of the Company.

Internal Control

For years, the Group has been committed to perfect the system of internal control and risk management and constantly improve the system construction and achieved practical effects in internal control and risk management. In accordance with the requirements of Listing Rules of the Stock Exchange, the Internal Audit Department, as the key responsible party in internal control of the Group, formulates the internal audit projects and annual internal audit plan based on the results of annual risk assessment so as to assess the efforts made by the Group in internal control and risk management. It also reviews and discusses with the Audit Committee the implementation of annual audit and the allocation of resources in order to ensure the effectiveness of internal control.

During the reporting period, the Internal Audit Department of the Group implemented its work according to its annual audit plan. The audit projects covered areas such as financial audit, internal control audit, sales audit, purchase audit and risk assessment, etc.. Key branches, subsidiaries, associates and joint ventures of the Group are the scope of the audit. Combined with the internal control system of the Group, the results of previous internal control assessments, the findings of annual audit investigations, the inspections of the board of supervisors, the strategic requirements of the companies as well as the concern areas of the Audit Committee, through carrying out self-assessments by departments of the headquarter, branches, controlling production subsidiaries and overseas subsidiaries, the Internal Audit Department thoroughly reviewed the effectiveness of the design and implementation of the key elements in respect of environment control, risk assessment, controlled activities, information and communication, internal control, etc.. Furthermore, the Internal Audit Department analyzed and summarized the related contents including the assessment process of internal control, identification of defects and improvement measures of internal control as well as the conclusion on the effectiveness of internal control. The Group further guaranteed the quality of internal control assessment through adopting the approach that combined training, self-assessment and examination, and perfected the internal control system of the Company by fostering sound internal control assessment and improving the circulation mechanism.

1. Environment control: After years of development and improvement, the Group has established a sophisticated environment, a regulated governance structure, a clear strategic vision, a sound corporate culture and a well-developed human resources management mechanism. The Group performed social responsibilities proactively in order to lay a solid foundation for the establishment of a well-organized internal control and risk management system in the Company.

2. Risk assessment: Fully analyzing the changes in the macro environment both at home and abroad, the industrial environment and internal environment of the Company, combined with the issues discovered in the auditing process over the years and the current situation of internal control management, the Group comprehensively assessed each kind of risk the Company might face, centered on major risk areas in the process of corporate management, and constantly improved the building of the risk management system.

3 Control activities: In response to the Group's internal control environment and risk assessment results, and in accordance with the status quo of its corporate management, the Group eliminated unefficient control activities, optimized the control procedures and revised related corporate management rules while ensuring the risk is under control. The Group also strengthened supervision and examination and improved the execution of internal control.

4. Information and communication: The Group established open information channels with good information flow in and out as well as up and down, information transmission mechanism, anti-embezzlement mechanism and complaint and investigation mechanism so that information can be effectively exchanged, reasonably disclosed and safely utilized within and outside of the Company.

5. Internal control: Through years' of development, the Group, in accordance with relevant requirements of the Listing Rules of the Stock Exchange and Internal Control Framework of COSO, formulated a set of relatively perfect internal control system, built a multi-level internal control system, and established the working methods, procedures and requirements meeting the standards of international internal audit. Through these actions, the Group clarified the duties and missions of the Company's management staffs, strengthened mutual supervision among different levels, and effectively secured the Company's business objectives and strategic transformation.

Through inspection and assessment on internal control system, the Group believed that, for the year of 2017, it had a relatively good internal control environment; systematically identified, assessed and coped with risks the Group faced, established a sound and perfect internal system and normative business processes and performed well in information transmission and communication as well as execution of internal supervision. The system of internal control and risk management was adequate and effective and can secure the strategy promotion and current business development of the Group. In the future, the Group will continue to comply with the Listing Rules of the Stock Exchange and refer to the Basic Norms of Internal Control and its guidelines. The Group will focus on building a strong multi-level supervision system, improve internal control as well as the early warning mechanism, rectification and follow-up mechanism and outcome application system, further enhance the effectiveness of design and execution of internal control, constantly promote the quality and efficiency of the internal control and ensure the smooth implementation of the Group's strategic objectives.

Risk Management

The Group adopted a risk and internal control management mechanism for which the general manager is responsible under the leadership of the Board of Directors and built an organizational guarantee system consisting of the decision-makers, risk management department, responsibility departments for major risk management and auditing and supervision department, which is in charge of the building of the risk and internal control system.

Faced with a serious external economic situation and increasing operational pressure, the Group implemented management innovation, streamlined administration and delegated real powers to lower levels, strengthened the risk awareness of business units and laid a solid foundation for the risk management framework in 2017. In line with the requirement of external supervision of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council and its own risk management, the Group built a risk-oriented internal control system, adhered to the principle of "risk management covering each and all business operations", paid special attention to the management and control of key businesses, key processes and key risk points and strengthened the management and control means and measures for major risks. Various departments of the Group streamlined and revised the risk points and control points in major functional processes and business processes based on their new functions, and 80 internal control rules and regulations were issued, which covered all the areas of the Group's daily operation and management and could provide guarantee for the Group's lawful compliance opeartion and sustainable develeopment.

In 2017, the Group enhanced the allocation and utilization efficiency of credit resources, carried out differentiated monitoring and evaluation over companies with over-due payment, improved the means of inventory risk management, strengthened the reduction of long-term inventory and further deepened the management and control of key operational risks.

In order to ensure the implementation effectiveness of the internal control system, the Group brought into full play its internal examination and evaluation function, relied on the three-layer inspection mechanism and the grass-root inspection team, built and improved a multi-level and full-coverage examination and evaluation system, through counterpart inspection from competent department, joint inspection, audit inspection, discipline inspection and carried out inspections among its subsidiaries. As a result, the quality and efficiency of internal supervision was fully enhanced and there were no major risk incidents all the year round.

INVESTOR RELATIONS AND INFORMATION DISCLOSURE

The Group attaches great importance to investor relations, which is under direct responsibility of the senior management of the Group. Under the supervision and requirements of the Listing Rules of the Stock Exchange and the Rules Governing the Management of Information Disclosure of the Company, the Group maintained close communication with the capital market through multiple channels.

In 2017, the agricultural industry in China was at a stage of restructuring and the fertlizer industry was also confronted with great pressure from transformation, upgrading, reform and development in the context of industrial transformation. As a result, the Group also streamlined and adjusted the business emphasis and strategic direction in 2017. At the same time, the Company actively carried out various work related to investor relations and information disclosure, fully communicated with the capital market on industrial market conditions, business operation and development strategy of the Company, and achieved good results.

In 2017, the work related to investor relations of the Company mainly included:

1. In March 2017, the Company announced its 2016 annual results and held press conference and analysts' meeting.

2. In August 2017, the Company announced its 2017 interim results and held press conference and analysts' meeting.

Apart from the above-mentioned results press conferences, the Group participated in several investor conferences organized by investment banks and also adopted multiple ways in daily work including on-site receptions, conference calls, and emails to keep effective communication and connection with investors and analysts. For the year ended 31 December 2017, the Company had conducted over 280 discussions or communications with the capital market in different ways.

In addition, the Group timely disclosed corporate information through the Stock Exchange and the Company's websites with strict compliance with the Listing Rules and the Rules Governing the Management of Information Disclosure of the Company, delivering important announcements to all shareholders in time. The Company also continuously updated the website to disclose important information of the Group to the public in time.

HEALTH, SAFETY AND ENVIRONMENT

The Group insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, continuously reduced waste emission through technological transformation, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. The Group actively builds an enterprise featuring intrinsic safety and environmental friendliness and proactively fulfill its social responsibility.

In 2017, the Group achieved the planned goals of no major and above production accidents, no level-IV and above environmental incidents, and no accidents of occupational disease hazards. The Group maintained an overall stable performance in health, safety and environmental protection (HSE).

In 2017, the Company implemented relevant national policies and the Group's arrangements, focused on improving the HSE system building, strengthened and clarified the HSE responsibilities of the enterprise and personnel at all levels, centred on "risk management and control", fully promoted the risk identification activities among all the employees, and built a risk control system of one manual for one company and one card for one position. The Group paid high attention to promotion and upgrading of the "safety eye APP" for hazard identification, actively carried out the hazard detection activities, and continued to improve the management level of HSE.

In 2017, five subsidiaries of the Group successfully promoted the "safety eye APP" for hazard identification. Sinochem Yunlong and Sinochem Shandong fertilizer Co., Ltd. upgraded the safety eye system. The Group required personnel at key position to use the "safety eye APP" to carry out safety inspection when visiting the subsidiaries, which became an important indicator in the safety performance evaluation.

Sinochem Yunlong continued to increase investment in safety, vigorously promoted hazard rectification, constantly improved the working environment of employees, consolidated all the basic construction of occupational health management, effectively controlled occupational hazards, and ensured the health of the personnel. Sinochem Changshan made annual maintenance and operating plans, carried out mobilization training for all the personnel, successfully completed the annual maintenance and laid a good foundation for the stable operation of the new system.

The Company adhered to the basic national policy of environmental protection, implemented national rules and regulations on environmental protection, clean production and soil and water conservation, formulated environmental protection planning and regulations within the Group; and strictly enforced the "Environmental Protection Management Measures of Sinochem Fertilizer" and "Energy Saving Management Measures of Sinochem Fertilizer". The subsidiaries of the Group enjoyed smooth operation and the pollutant emission met the standards and was under control. The Group implemented the responsibility system on environmental protection. The management of environmental protection has been included in the HSE risk guarantee assessment. Responsibility statements are signed at the beginning of every year throughout the hierarchy of the Company and the environmental protection targets are assigned to every position and every personnel of the Group. The Group strictly implemented the "three-simultaneity" management of environmental protection for construction projects to ensure compliance with national environmental protection laws.The Group also set up contingency plans for environmental emergencies, carried out drills, built a daily management and monitoring mechnism for emission indicators, and strictly assessed the operating rate and maintenance of environmental protection facilities as well as the completion rate of pollutant emission indicators.

The company implemented the "three-simultaneity" management of environmental protection in line with relevant rules and regulations. The environmental impact assessment of Sinochem Fuling's relocation project was approved and the phosphogypsum stack project of Sinochem Yunlong in Yize village met the environmental protection standards upon completion. Sinochem Changshan, Sinochem Fuling and Sinochem Yunlong are key monitoring enterprises in China. Quarterly monitoring was carried out by the local environmental monitoring stations upon the above subsidiaries of the Group, and regular self-monitoring was also required. The monitoring results were in line with the relevant standards.

An actual investment of RMB47.73 million was made in the Compnay's environmental protection throughout the year, including RMB12.52 million for 5 projects in Sinochem Fuling; RMB6.58 million for 3 projects in Sinochem Changshan; RMB23.74 million for 4 projects in Sinochem Yunlong; RMB4.6 million for 3 projects in Shandong Fertilizer; RMB170,000 for 1 project in Sinochem Oriental Fertilizer; RMB120,000 for 1 project in Sinochem Zhisheng; Sinochem Fuling was awarded "Model Enterprises for Environmental Protection" in Fuling District of Chongqing municipality; and Sinochem Oriental Fertilizer was entitled as one of the "Clean Production Enterprise" in Wuhan City.

In 2017, the Company fully completed its energy-saving and emission reduction targets. In particular, the emissions of SO_2, COD, NH-N and NOx was down by 225.41 tons, 9.10 tons, 2.51 tons and 40.88 tons, respectively. Shandong Fertilizer maintained sound operation and saw no major complaint and public opinion incidents while the central environmental protection supervision team carried out inspections in 8 provinces for the fourth time in 2017.

Environmental, Social and Governance Report

The Company is going to publish its Environmental, Social and Governance Report 2017 soon in compliance with the ESG Reporting Guide set out in Appendix 27 to the Listing Rules. The content of the report will conform to the requirements of the Stock Exchange and disclose Sinofert's environmental and social performance.

MAJOR CUSTOMERS AND SUPPLIERS

The Group focused on key products. On one hand, it strengthened the development of core purchase bases and core suppliers, stabilized the international and domestic supply system, built a diversified supply chain, guaranteed the long-term and stable supply of high-quality fertilizer resources for the Company and continued to maintain its leading position as the largest fertilizer importer in China; on the other hand, it explored key markets and maintained close cooperation with core customers, continued to improve the integrated management of upstream and downstream operations, formed a strong linkage between the upstream and downstream operations and became an important player in the supply chain of basic fertilizers. In 2017, the Group followed the strategy of in-depth distribution and compressing the layers of channels and started to directly serve the big customers.

In the year 2017, the aggregate revenue generated from the five major customers of the Group accounted for no more than 20% of the Group's total revenue. The Group maintained a stable relationship with Yichang Xingfa Group Co., Ltd. ("Yichang Xingfa"), one of the major customers of the Group in terms of potash sales starting from 2013 and at the same time was also one of the Group's important phosphate suppliers. Considering the long-term mutually beneficial relationship with Yichang Xingfa, the Group granted Yichang Xingfa a credit line of RMB29 million and a credit term of 65 days with credit insurance. As of the date of the report, all the subsequent settlement in relation to receivables from Yichang Xingfa as at 31 December 2017 was completed.

In 2017, the aggregate purchase from the Group's five major suppliers accounted for about 30% of the Group's total purchases, including 7% from the largest supplier—Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake"). As the most important domestic potash supplier for the Group, Qinghai Salt Lake maintained a long-term business relationship with the Group and supplied potash products to the Group by means of payment upon delivery or payment in advance.

The Group tightened the access threshhold for customers and suppliers, in particular, strict examiniation and approval procedures were applied to customers with sale on credit and suppliers with payment in advance. The Group closely followed up on the operation status of the major customers and suppliers and credit insurance was adopted. During the year of 2017, the Group maintained sound cooperation with its major customers and suppliers.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group strictly complies with the requirements of laws, regulations and policies in China as well as the Listing Rules of the Stock Exchange. In 2017, with stricter supervision of the Chinese government on environmental protection and work safety, the Group adhered to the regulations of the Environmental Protection Law and the Law of Work Safety in its production and operation activities. While implementing the new Law of Work Safety, the Group abided by the laws and regulations of environmental protection, clean production and water and soil conservation, actively implemented the principle of putting people first and safe development, built an environmental protection mechanism, formulated an environmental protection plan and regulations within the Company, constantly improved the environmental protection compliance, invested a large amount of resources to improve production equipment, and reduced production emissions and pollutions. The Group successfully achieved the emission reduction indicators for 2017, largely decreased the total energy consumption and effectively safeguarded the lawful operation and sound implementation of the Group's businesses as well as the achievement of the Group's operation objectives and strategic transformation.

The board of directors of the Company (the "Board") hereby presents the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding.

The principal activities of the Group include the production, import and export, distribution and retail of fertilizer raw materials and finished products, the provision of technical research and development and services relating to the fertilizer business and products, exploration and exploitation of phosphate mine, and production of monocalcium/monodicalcium phosphate. Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group, an analysis using financial key performance indicators, and an indication of likely future developments in the Group's business, can be found in the sections of "Management Review and Prospect" and "Management's Discussion and Analysis" of the annual report. In addition, a discussion on the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with its employees, customers and suppliers, can be found in the section of "Corporate Governance Report" of the annual report. These discussions form part of the Directors' Report.

An analysis of the Group's performance for the year by business segment is set out in note 4 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 96 to 97 of the annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

FINANCIAL SUMMARY

A summary of the operating results and of the assets and liabilities of the Group for the last five financial years is set out on page 180 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover from the Group's five largest customers were less than 30% of the Group's total turnover for the year ended 31 December 2017. The aggregate purchases from the Group's five largest suppliers represented less than 30% of the Group's total purchases for the year ended 31 December 2017.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company for the year are set out in note 32 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 100 to 101 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), the Company has no reserves available for distribution to shareholders.

DONATIONS

During the year ended 31 December 2017, the Group had made approximately RMB686,000 charitable donations in cash and donations of fertilizers with value of approximately RMB104,000 mainly to certain poverty locations in China.

DIRECTORS

The Directors of the Company for the year and up to the date of this report were:

Executive Directors
Mr. Qin Hengde *(Chief Executive Officer)*
Mr. Harry Yang

Non-Executive Directors
Mr. Zhang Wei *(Chairman)*
Mr. Yang Lin
Dr. Stephen Francis Dowdle (resigned on 31 December 2017)
Ms. Xiang Dandan (resigned on 31 December 2017)

Independent Non-Executive Directors
Mr. Ko Ming Tung, Edward
Mr. Lu Xin
Mr. Tse Hau Yin, Aloysius

In accordance with the bye-laws of the Company, Mr. Harry Yang, Mr. Ko Ming Tung, Edward and Mr. Tse Hau Yin, Aloysius will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Save as disclosed in the section of "Directors' Service Contracts", no Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 37 to 41 of the annual report.

DISCLOSURE OF INFORMATION OF DIRECTORS

Pursuant to the disclosure requirements under rule 13.51B(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the changes/update of information of Directors are as follows:

1. The total cash compensation received by Mr. Qin Hengde, the Executive Director and Chief Executive Officer of the Company, and Mr. Harry Yang, Executive Director of the Company, for the year ended 31 December 2017 are set out in note 10 to the consolidated financial statements.

2. Mr. Ko Ming Tung, Edward, Independent Non-executive Director of the Company, retired as an independent non-executive director of Chinese Energy Holdings Limited on 14 August 2017. In addition, Mr. Ko was appointed as an independent non-executive director of Zioncom Holdings Limited on 18 January 2018.

DIRECTORS' SERVICE CONTRACTS

On 16 February 2017, Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, entered into a service contract with the Company for a term of three years. On 15 May 2017, Mr. Harry Yang, an Executive Director of the Company, renewed his service contract with the Company for a term of three years. Pursuant to the terms stipulated in the service contracts of Mr. Qin and Mr. Yang, the respective service contract with the Company may be (i) terminated prior to its expiry if either party serves two months' prior notice to the other in writing; or (ii) terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the respective service contract. Should the Company terminate the respective service contract with Mr. Qin Hengde or Mr. Harry Yang prior to its expiry, Mr. Qin or Mr. Yang will be entitled to receive a cash compensation equivalent to 11 months of his annual director's salary, save for the circumstances described in item (ii) above.

The Company had issued formal letters of appointment for all Non-executive Directors (including Independent Non–executive Directors) of the Company, setting out key terms and conditions of their appointment, in compliance with the code provision D.1.4 as set out in the Corporate Governance Code.

Save as disclosed above, none of the Directors has a service contract with the Company.

DIRECTORS' INTERESTS IN THE SHARES AND SHARE OPTIONS

As at 31 December 2017, the interests of the Directors and chief executives in the shares, share options, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules, were as follows:

1. Ordinary shares of HK$0.1 each of the Company

As at 31 December 2017, a Director of the Company had long position in the shares of the Company as follows:

Name of Director	Capacity	Number of issued shares held	Percentage of the issued share capital of the Company
Harry Yang	Beneficial owner	600	0.000009%

2. Share options of the Company

The Company has adopted share option schemes to enable the Group to recruit and retain senior executives and key employees, attract human resources that are valuable to the Group and any invested entity and motivate employees' performance measurable against key drivers of value to shareholders. On 28 June 2007, the Company passed a resolution in a shareholders' meeting for the adoption of a new share option scheme (the "Share Option Scheme") and the termination of the then existing share option scheme adopted on 26 August 2002. The scope of participants under the Share Option Scheme encompasses employees, proposed employees, directors (but excluding independent non-executive directors) of the Company and its subsidiaries, and the invested entities.

Under the Share Option Scheme, the Board may, with respect to each grant of share options, determine the exercise price in accordance with the requirements under rule 17.03(9) of the Listing Rules, the vesting schedule, and any performance targets that apply to the share options. A consideration of HK$1 is payable on acceptance of the offer of grant of an option and is payable within 30 days from the date of such offer.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of passing of the relevant ordinary resolution of the Company regarding the Share Option Scheme. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or any of their respective associates (as defined under the Listing Rules) in the 12-month period up to and including the date of such grant in excess of 0.1% of the Company's share capital in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

The Share Option Scheme remained in force for a period of 10 years commencing on 28 June 2007. On 27 June 2017, the Share Option Scheme reached the end of its term and became expired.

For the year ended 31 December 2017, no share option under the Share Option Scheme was granted. As at 1 January 2017 and 31 December 2017, no share option was outstanding.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executives of the Company had any interests or short positions in any shares, share options, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than disclosed above, at no time during the year and as at 31 December 2017, was the Company or any of its subsidiaries or holding companies or the subsidiaries of the holding companies a party to any arrangement the object of which is to enable the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, other than the Directors or chief executives of the Company, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholder	Number of issued ordinary shares held – long position	Percentage of the issued share capital of the Company
Sinochem Group *(Note 1)*	3,698,660,874	52.65%
Sinochem Corporation *(Note 1)*	3,698,660,874	52.65%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") *(Note 2)*	3,698,660,874	52.65%
Potash Corporation of Saskatchewan Inc. ("Potash Corporation") *(Note 3)*	1,563,312,141	22.26%
PCS (Barbados) Investment Company Limited ("PCS") *(Note 4)*	1,563,312,141	22.26%

Note 1: Sinochem HK is the wholly-owned subsidiary of Sinochem Corporation (中國中化股份有限公司). Sinochem Corporation is the 98% owned subsidiary of Sinochem Group Co. Ltd. (中國中化集團有限公司). Accordingly, Sinochem Group and Sinochem Corporation are deemed to be interested in 3,698,660,874 ordinary shares of the Company, being corporate interest beneficially held by Sinochem HK.

Note 2: Sinochem HK was beneficially interested in 3,698,660,874 ordinary shares of the Company.

Note 3: PCS is the wholly-owned subsidiary of Potash Corporation. Accordingly, Potash Corporation is deemed to be interested in 1,563,312,141 ordinary shares of the Company, being corporate interest beneficially held by PCS.

Note 4: PCS was beneficially interested in 1,563,312,141 ordinary shares of the Company.

Note 5: On 12 January 2018, the Company was notified that, following a merger involving Potash Corporation, Nutrien Ltd. became the ultimate shareholder of Potash Corporation effective on 1 January 2018. Nutrien Ltd. is deemed to be interested in 1,563,312,141 ordinary shares of the Company, being corporate interest beneficially held by PCS, with effect from 1 January 2018.

Save as disclosed above, other than the Directors or chief executives of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2017.

DIRECTORS OR THEIR ASSOCIATED ENTITIES' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed herein, no other transactions, arrangements or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company or any of their associated entities had a material interest, whether directly or indirectly, were subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2017, none of the Directors of the Company and their respective associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTIONS

Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies and certain specific terms included in this section shall have the same meaning assigned to them in the respective announcements or circulars.

I. One-off Connected Transactions

For the year ended 31 December 2017, the Group conducted the following one-off connected transactions that are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Transfer by Sinochem Fertilizer of its Equity Interest in Qinghai Salt Lake to Sinochem Group

On 24 October 2017, Sinochem Fertilizer and Sinochem Group entered into the Share Transfer Agreement, pursuant to which Sinochem Fertilizer agreed to sell and Sinochem Group agreed to purchase 571,578,484 issued shares of Qinghai Salt Lake, representing 20.52% of its total issued share capital, at a consideration of RMB8,063,198,568.40, subject to the terms and conditions of the Share Transfer Agreement.

The consideration for the Disposal was arrived at after arm's length negotiations between the parties based primarily on the pricing mechanism stipulated in the relevant rules and regulations of SASAC governing disposal of listed shares by state-owned enterprises. The consideration of approximately RMB14.11 per share represented 90% of the 30-trading day average of the daily volume weighted average price of approximately RMB15.68 per share from 30 August 2017 to 17 October 2017 (being the date of the announcement of Qinghai Salt Lake in relation to its trading suspension pending the disclosure of the Disposal).

Pursuant to the Share Transfer Agreement, the consideration for the Disposal shall be paid by Sinochem Group to Sinochem Fertilizer in cash in two instalments as follows: (a) within five business days of signing of the Share Transfer Agreement, Sinochem Group shall pay 30% of the consideration as deposit to Sinochem Fertilizer in cash; and (b) within sixty business days after obtaining the approval from SASAC, Sinochem Group shall pay the remaining 70% of the consideration to Sinochem Fertilizer in cash.

Upon completion of the Disposal, Sinochem Fertilizer will cease to hold any shares of Qinghai Salt Lake and will no longer be a shareholder of Qinghai Salt Lake. The financial results of Qinghai Salt Lake will no longer be equity accounted for in the consolidated financial statements of the Company.

Given that one or more of the applicable percentage ratios in respect of the Disposal are more than 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 of the Listing Rules. Furthermore, Sinochem Group is the ultimate controlling shareholder of the Company holding an effective interest of approximately 52.65% in the Company, and is therefore a connected person of the Company. As such, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcements dated 17 October 2017 and 24 October 2017, and the circular dated 1 December 2017 published by the Company. The transaction has been approved by the independent shareholders of the Company at the special general meeting of the Company held on 20 December 2017.

2. *Purchase of Potash by Sinochem Macao from Canpotex*

On 28 November 2017, Sinochem Macao and Canpotex entered into the Addendum in accordance with their MOU, pursuant to which Sinochem Macao agreed to purchase from Canpotex approximately 70,000 tonnes of red standard grade muriate of potash at a consideration of approximately US$16,100,000. Since the delivery of and payment for such potash were not completed by 31 December 2017, the transaction amount of such potash was not included in the annual cap for the year ended 31 December 2017 under the MOU.

The total consideration of the transaction was paid by Sinochem Macao by way of irrevocable letter of credit within 90 days from the date of bill of lading and was funded by the Group through its internal resources. The consideration was determined through mutual negotiations between the parties with reference to prevailing international market potash prices and sea import prices to the PRC. In determining such price, the Group had made reference to the latest reports published by Argus Media and Baichuan (百川資訊), both of which are independent commodity information providers, and the prices under its long-term agreements with other potash suppliers, and had taken into account the demand of its downstream customers.

Sinochem Macao is an indirect wholly-owned subsidiary of the Company. At the time when the Board approved the transaction, Potash Corporation held approximately 22.26% equity interest in the Company, and was therefore a substantial shareholder of the Company, whereas Canpotex, owned as to 33.33% by Potash Corporation, was an associate of Potash Corporation, and was therefore a connected person of the Company. As such, the transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the transaction are more than 0.1% but less than 5%, the transaction is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement dated 28 November 2017 published by the Company.

II. Continuing Connected Transactions

For the year ended 31 December 2017, the Group's continuing connected transactions are listed below, which are subject to reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year, the Company have followed the pricing policies and guidelines formulated at the time when such transactions were entered into.

1. Sulphur Import Framework Agreements among Sinochem Fertilizer, Dohigh Trading and Sinochem Group

1) Sulphur Import Framework Agreement

On 9 December 2016, Dohigh Trading and Sinochem Fertilizer entered into a sulphur, fertilizer and other fertilizer raw materials import framework agreement (the "Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would import sulphur, fertilizer and other fertilizer raw materials sourced by Dohigh Trading and sell them to Sinochem Fertilizer during the period from 1 January 2017 to 31 December 2017 (both days inclusive). Pursuant to the Sulphur Import Framework Agreement, Sinochem Group would import sulphur, fertilizer and other fertilizer raw materials sourced by Dohigh Trading only. Except for any sulphur, fertilizer and other fertilizer raw materials imported by Sinochem Group on behalf of its other customers, Sinochem Group would sell all the sulphur, fertilizer and other fertilizer raw materials it imported to Sinochem Fertilizer.

Under the Sulphur Import Framework Agreement, the pricing principles for the sale and purchase of sulphur, fertilizer and other fertilizer raw materials between the parties were as follows: (i) the price paid by Sinochem Group to Dohigh Trading for sulphur, fertilizer and other fertilizer raw materials sold by Dohigh Trading to Sinochem Group shall be determined in accordance with the prevailing international market price; and (ii) the price paid by Sinochem Fertilizer to Sinochem Group for sulphur, fertilizer and other fertilizer raw materials sold by Sinochem Group to Sinochem Fertilizer shall be determined in accordance with the domestic wholesale price at port. In determining the prevailing international market price and the domestic wholesale price at port, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

The annual cap for the year ended 31 December 2017 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from Dohigh Trading was US$115,000,000; the annual cap for the year ended 31 December 2017 in respect of the sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer was RMB880,000,000.

2) *New Sulphur Import Framework Agreement*

On 11 December 2017, Dohigh Trading and Sinochem Fertilizer entered into a sulphur, fertilizer and other fertilizer raw materials import framework agreement (the "New Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group will continue to import sulphur, fertilizer and other fertilizer raw materials sourced by Dohigh Trading and sell them to Sinochem Fertilizer during the period from 1 January 2018 to 31 December 2018 (both days inclusive). The terms of the New Sulphur Import Framework Agreement are substantially the same as those of the Sulphur Import Framework Agreement.

Under the New Sulphur Import Framework Agreement, the annual cap for the year ending 31 December 2018 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from Dohigh Trading is US$47,000,000; the annual cap for the year ending 31 December 2018 in respect of the sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer is RMB315,000,000.

Each of Sinochem Fertilizer and Dohigh Trading is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Sulphur Import Framework Agreement and the New Sulphur Import Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Sulphur Import Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the New Sulphur Import Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2016 and 11 December 2017, and the circular dated 23 January 2017 published by the Company. The continuing connected transactions under the Sulphur Import Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 16 February 2017.

2. *Fertilizer Sales Co-operation Framework Agreements among Sinochem Fertilizer, Sinochem Macao and Sinochem Group*

1) *Fertilizer Sales Co-operation Framework Agreement*

On 9 December 2016, Sinochem Macao and Sinochem Fertilizer entered into a fertilizer sales co-operation framework agreement (the "Fertilizer Sales Co-operation Framework Agreement") with Sinochem Group. The Fertilizer Sales Co-operation Framework Agreement had a term of one year from 1 January 2017 to 31 December 2017 (both days inclusive). Pursuant to the Fertilizer Sales Co-operation Framework Agreement, fertilizer products sourced from overseas by Sinochem Macao for Sinochem Fertilizer would first be sold to Sinochem Group. Sinochem Group, as an approved importer of fertilizer products in the PRC, would import the products sourced by Sinochem Macao and sell all of such products to Sinochem Fertilizer. Sinochem Group would also import a small amount of fertilizer products directly from overseas from time to time.

Under the Fertilizer Sales Co-operation Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties were as follows: (i) the price paid by Sinochem Group to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Group shall be determined in accordance with the prevailing international market price; (ii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced from overseas by Sinochem Macao shall be determined in accordance with the purchase price paid by Sinochem Group plus reasonable costs incurred by Sinochem Group in relation to the import of fertilizer products; and (iii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced by Sinochem Group directly from overseas suppliers shall be determined in accordance with the domestic wholesale price at port.

In determining the prevailing international market price and the domestic wholesale price at port, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

Under the Fertilizer Sales Co-operation Framework Agreement, the annual cap for the year ended 31 December 2017 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group was US$1,010,000,000; the annual cap for the year ended 31 December 2017 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group was RMB7,560,000,000.

2) *New Fertilizer Sales Co-operation Framework Agreement*

On 30 October 2017, Sinochem Macao and Sinochem Fertilizer entered into a fertilizer sales co-operation framework agreement (the "New Fertilizer Sales Co-operation Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group will continue to import fertilizer products sourced by Sinochem Macao and sell them to Sinochem Fertilizer during the period from 1 January 2018 to 31 December 2018 (both days inclusive). The terms of the New Fertilizer Sales Cooperation Framework Agreement are substantially the same as those of the Fertilizer Sales Cooperation Framework Agreement.

Under the New Fertilizer Sales Co-operation Framework Agreement, the annual cap for the year ending 31 December 2018 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group is US$929,000,000; the annual cap for the year ending 31 December 2018 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group is RMB6,596,000,000.

Each of Sinochem Fertilizer and Sinochem Macao is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. The transactions contemplated under the Fertilizer Sales Co-operation Framework Agreement and the New Fertilizer Sales Co-operation Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Fertilizer Sales Co-operation Framework Agreement and the New Fertilizer Sales Co-operation Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2016 and 30 October 2017, and the circulars dated 23 January 2017 and 20 November 2017 published by the Company. The continuing connected transactions under the Fertilizer Sales Co-operation Framework Agreement and the New Fertilizer Sales Co-operation Framework Agreement have been approved by the independent shareholders of the Company at the special general meetings of the Company held on 16 February 2017 and 20 December 2017, respectively.

3. *The MOUs between Sinochem Macao and Canpotex*

1) MOU

On 12 January 2015, Sinochem Macao and Canpotex International Pte. Limited (on behalf of Canpotex) entered into the MOU, pursuant to which Sinochem Macao would purchase Canadian potash from Canpotex during the period from 1 January 2015 to 31 December 2017. Under the MOU, Canpotex agreed to supply, and Sinochem Macao agreed to purchase, a minimum of 500,000 tonnes, 650,000 tonnes and 750,000 tonnes of red standard grade potash for the three years ended 31 December 2017, respectively. In addition to red standard grade potash, Sinochem Macao had the option to purchase from Canpotex a maximum of 800,000 tonnes of other grades of Canadian potash for each of the three years ended 31 December 2017. Under the circumstances specified in the MOU, Sinochem Macao had the exclusive right to sell red standard grade potash sourced from Canpotex in the PRC market.

According to the MOU, prices would be determined on a six-month basis through mutual negotiations between the parties with reference to the prevailing international market potash prices and competitive sea import prices to the PRC. If Sinochem Macao and Canpotex could not reach final agreements on prices by certain specified dates under the MOU, both parties would be free to pursue business through alternative channels. In determining such prices, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

The annual caps for the three years ended 31 December 2017 in respect of the continuing connected transactions under the MOU were US$435,500,000, US$500,250,000, and US$550,250,000, respectively.

2) New MOU

On 28 December 2017, Sinochem Macao and Canpotex entered into the New MOU, pursuant to which Sinochem Macao will continue to purchase Canadian potash from Canpotex. The New MOU shall become effective after the approval from the independent shareholders is obtained at the special general meeting and shall expire on 31 December 2020. Under the New MOU, Sinochem Macao agreed to purchase an annual volume of 500,000 tonnes of red standard grade potash from Canpotex for each of the three years ending 31 December 2020. In addition, if mutually agreed upon by the parties, Sinochem Macao will have the option to purchase from Canpotex further volumes up to 500,000 tonnes of Canadian potash per year comprised of the following grades: red standard grade potash, red granular grade potash, white fine standard grade potash and white standard grade potash.

According to the New MOU, prices will be determined on a six-month basis through mutual negotiations between the parties with reference to prevailing international market potash prices and competitive sea import prices to the PRC. If Sinochem Macao and Canpotex cannot reach final agreements on prices within 90 days from the last day of the previous six-month pricing period, both parties will be free to pursue business through alternative channels.

In determining such prices, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

The annual caps for the three years ending 31 December 2020 in respect of the continuing connected transactions under the New MOU are US$250,000,000, US$260,000,000, and US$270,000,000, respectively.

Sinochem Macao is an indirect wholly-owned subsidiary of the Company. At the time when the Board approved the transactions, Potash Corporation held approximately 22.26% equity interest in the Company, and was therefore a substantial shareholder of the Company, whereas Canpotex, owned as to 33.33% by Potash Corporation, was an associate of Potash Corporation, and was therefore a connected person of the Company. Following a merger involving Potash Corporation, Nutrien Ltd. became a substantial shareholder of the Company, and Canpotex became owned as to 50% by Nutrien Ltd. with effect from 1 January 2018. As such, the transactions contemplated under the MOU and the New MOU constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the MOU and the New MOU are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 12 January 2015 and 28 December 2017, and the circulars dated 26 February 2015 and 12 February 2018 published by the Company. The continuing connected transactions under the MOU and the New MOU have been approved by the independent shareholders of the Company at the special general meetings held on 17 March 2015 and 2 March 2018, respectively.

4. Service Agreement between Sinochem Macao and Sinochem UK

On 9 December 2016, Sinochem Macao entered into a service agreement (the "UK Service Agreement") with Sinochem UK, pursuant to which Sinochem UK would provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (which mainly include salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs) during the period from 1 January 2017 to 31 December 2019 (both days inclusive). Pursuant to the UK Service Agreement, the fee payable by Sinochem Macao shall range from US$4 to US$10 per tonne of products.

Under the UK Service Agreement, the annual cap for each of the three years ending 31 December 2019 in respect of the continuing connected transactions between Sinochem Macao and Sinochem UK is US$2,300,000.

Sinochem Macao is an indirect wholly-owned subsidiary of the Company. Sinochem UK is a wholly-owned subsidiary of Sinochem HK, which is the direct controlling shareholder of the Company. Sinochem UK is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the UK Service Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the UK Service Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 9 December 2016 published by the Company.

5. Financial Services Framework Agreement between the Company and Sinochem Finance

1) Financial Services Framework Agreement

On 9 December 2016, the Company and Sinochem Finance entered into a financial services framework agreement (the "Financial Services Framework Agreement") for a term from 1 January 2017 to 31 December 2019 (both days inclusive). Pursuant to the Financial Services Framework Agreement, the Group will, from time to time, utilize the financial services available from Sinochem Finance as it deems necessary, which include the Deposit Services, provision of Loan Services (excluding entrustment loans), arrangement of entrustment loans, commercial bills of exchange services, buyer financing services, settlement services, provision of guarantees, internet banking services and any other financial services as approved by the CBRC, and pay the relevant interests and service fees to or receive deposit interests from Sinochem Finance in accordance with the Financial Services Framework Agreement. The interests for the Deposit Services, and the fees charged for the provision of guarantees, internet banking services and other financial services approved by the CBRC are determined by the standard rates as promulgated by the PBOC from time to time or the prevailing market rates. The interests payable for the provision of Loans Services, the service fee payable for the arrangement of entrustment loans, commercial bills of exchange services and settlement services shall not exceed the service fee and relevant interest payable on such services under the same terms obtainable from independent commercial banks. No service fee is payable for buyer financing services.

Under the Financial Services Framework Agreement, the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for each of the three years ending 31 December 2019 is RMB320,000,000. In respect of the Other Financial Services, the Company expects that the annual cap for each of the three years ending 31 December 2019 is RMB10,000,000.

2) *Supplemental Agreement to the Financial Services Framework Agreement*

On 17 January 2018, the Company and Sinochem Finance entered into the Supplemental Agreement to revise the maximum daily outstanding balance of deposits placed by the Group with Sinochem Finance under the Financial Services Framework Agreement for each of the two years ending 31 December 2019 from RMB320,000,000 to RMB1,000,000,000, and to amend certain terms of the Financial Services Framework Agreement for the benefit of the Group, which mainly include: (i) the interest rate for the Deposit Services shall not be lower than the interest rates for deposits as offered by independent commercial banks in the PRC; (ii) the Group will no longer be required to pay any service fees to Sinochem Finance in respect of the settlement services; and (iii) Sinochem Finance will make additional undertakings.

Sinochem Finance is a wholly-owned subsidiary of Sinochem Corporation, which is the indirect controlling shareholder of the Company. Sinochem Finance is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the financial services provided by Sinochem Finance to the Group under the Financial Services Framework Agreement (as revised by the Supplemental Agreement) constitute continuing connected transactions of the Company. Before the revised maximum daily outstanding balance of the Deposit Services under the Supplemental Agreement takes effect, the applicable percentage ratios in respect of the original maximum daily outstanding balance (including accrued interest) of the Deposit Services under the Financial Services Framework Agreement are more than 0.1% but less than 5%, and the Deposit Services are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules; after the revised maximum daily outstanding balance of the Deposit Services under the Supplemental Agreement takes effect, the applicable percentage ratios in respect of the revised maximum daily outstanding balance (including accrued interest) of the Deposit Services under the Supplemental Agreement are more than 5%, and the Deposit Services are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules. Given that the applicable percentage ratios in respect of the Other Financial Services under the Financial Services Framework Agreement (as revised by the Supplemental Agreement) are more than 0.1% but less than 5%, the Other Financial Services are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

As the Loan Services provided to the Group by Sinochem Finance (excluding entrustment loans) constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance, pursuant to Rule 14A.90 of the Listing Rules, the continuing connected transactions involving the provision of Loan Services are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2016 and 17 January 2018, and the circular dated 12 February 2018 published by the Company. The Deposit Services under the Financial Services Framework Agreement (as revised by the Supplemental Agreement) have been approved by the independent shareholders of the Company at the special general meeting held on 2 March 2018.

6. *Agrichemical Framework Agreements between Sinochem Fertilizer and Sinochem Group*

1) *Agrichemical Framework Agreement*

On 9 December 2016, Sinochem Fertilizer and Sinochem Group (for and on behalf of its associates) entered into a framework agreement in relation to the purchase of agrichemical, seed and other related products (the "Agrichemical Framework Agreement"), pursuant to which the associates of Sinochem Group would sell to and/or purchase from Sinochem Fertilizer certain agrichemical, seed and other related products during the period from 1 January 2017 to 31 December 2017 (both days inclusive).

Pursuant to the Agrichemical Framework Agreement, prices of agrichemical, seed and other related products would be determined with reference to fair market prices of the products within the PRC at the time when Sinochem Fertilizer or the relevant associate of Sinochem Group submitted its purchase plan for the relevant products. In determining the fair market price for the purchase and sale of agrichemical, seed and other related products, the Group generally makes reference to weekly reports published by certain independent commodity information providers such as Baichuan (百川資訊).

Given that the transaction amount of the continuing connected transactions under the Agrichemical Framework Agreement for the ten months ended 31 October 2017 had amounted to RMB8,837,000, and it was expected that the demand of Sinochem Fertilizer would continue to increase during the remaining term of the Agrichemical Framework Agreement, the Company revised the annual cap for the year ended 31 December 2017 for the transactions under the Agrichemical Framework Agreement from RMB11,250,000 to RMB15,250,000 (including the annual cap of RMB15,050,000 for the purchase of agrichemical, seed and other related products by Sinochem Fertilizer from the associates of Sinochem Group, and the annual cap of RMB200,000 for the sale of agrichemical, seed and other related products by Sinochem Fertilizer to the associates of Sinochem Group).

2) *New Agrichemical Framework Agreement*

On 11 December 2017, Sinochem Fertilizer and Sinochem Group (for and on behalf of its subsidiaries) entered into a framework agreement in relation to the purchase of agrichemical, seed and other related products (the "New Agrichemical Framework Agreement"), pursuant to which the subsidiaries of Sinochem Group will continue to sell to Sinochem Fertilizer certain agrichemical, seed and other related products during the period from 1 January 2018 to 31 December 2018 (both days inclusive). The terms of the New Agrichemical Framework Agreement are substantially the same as those of the Agrichemical Framework Agreement.

The annual cap for the year ending 31 December 2018 in respect of the continuing connected transactions under the New Agrichemical Framework Agreement is RMB13,500,000.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Agrichemical Framework Agreement and the New Agrichemical Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Agrichemical Framework Agreement and the New Agrichemical Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2016, 27 November 2017 and 11 December 2017 published by the Company.

7. ***Sulphur Purchase Framework Agreement between Dohigh Trading and Sinochem Group***

On 9 December 2016, Dohigh Trading and Sinochem Group entered into a framework agreement in relation to the purchase of sulphur and other fertilizer raw materials (the "Sulphur Purchase Framework Agreement"), pursuant to which Sinochem Group would purchase sulphur and other fertilizer raw materials from overseas markets through bidding process and sell them to Dohigh Trading during the period from 1 January 2017 to 31 December 2017 (both days inclusive). Sinochem Group would sell all sulphur and other fertilizer raw materials sourced from the overseas markets through bidding process to Dohigh Trading except for those imported by Sinochem Group on behalf of other third parties.

Under the Sulphur Purchase Framework Agreement, the price for the sale and purchase of sulphur and other fertilizer raw materials shall be determined by the parties through negotiation with reference to the prevailing international market price. In determining the prevailing international market price, the parties generally make reference to weekly sulphur reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

Under the Sulphur Purchase Framework Agreement, the annual cap for the year ended 31 December 2017 in respect of the continuing connected transactions under the Sulphur Purchase Framework Agreement was US$20,000,000.

Dohigh Trading is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Sulphur Purchase Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Sulphur Purchase Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 9 December 2016 published by the Company.

8. Fertilizer Agency Sale Framework Agreement between Sinochem Fertilizer and Sinochem Group

On 10 March 2017, Sinochem Fertilizer and Sinochem Group (for and on behalf of its subsidiaries) entered into the Fertilizer Agency Sale Framework Agreement, pursuant to which Sinochem Fertilizer would entrust subsidiaries of Sinochem Group to act as its agent to sell its fertilizer products by taking advantage of their extensive customer bases in the agricultural sector for a term up to 31 December 2017.

Pursuant to the Fertilizer Agency Sale Framework Agreement, Sinochem Fertilizer would supply fertilizer products to subsidiaries of Sinochem Group at the fair market price of such fertilizer products at the time of the transaction. When subsidiaries of Sinochem Group sell fertilizer products to end users, the selling price shall be the price of the purchase made by such subsidiaries from Sinochem Fertilizer, plus any necessary costs incurred by the relevant subsidiaries (including transportation cost and management cost) but without any profits.

In determining the fair market price of fertilizer products supplied by Sinochem Fertilizer to subsidiaries of Sinochem Group, the Group generally makes reference to weekly reports published by certain independent commodity information providers such as Baichuan (百川資訊).

Under the Fertilizer Agency Sale Framework Agreement, the annual cap for the year ended 31 December 2017 in respect of the continuing connected transactions under the Fertilizer Agency Sale Framework Agreement was RMB60,000,000.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Fertilizer Agency Sale Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Fertilizer Agency Sale Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 10 March 2017 published by the Company.

9. The MOU of MCP and MDCP Products between Sinochem Yunlong and PCS Sales

On 5 December 2014, Sinochem Yunlong entered into the MOU with PCS Sales, pursuant to which Sinochem Yunlong would supply MCP and MDCP products to PCS Sales during the period from 1 January 2015 to 31 December 2017.

Price of MCP and MDCP products would be mutually agreed by the parties with reference to the international market price on a quarterly basis prior to the beginning of each quarter and no later than 15 days prior to each shipment of the products. In determining the international market price, the Group makes reference to the analysis provided by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊), and monitors the impact of price changes in raw materials (such as sulphur and acid) on the costs of the Group's products and the relationship between market supply and demand.

Under the MOU, the annual caps for the three years ended 31 December 2017 in respect of the continuing connected transactions between Sinochem Yunlong and PCS Sales were US$9,000,000, US$9,900,000 and US$10,900,000, respectively.

Sinochem Yunlong is an indirect wholly-owned subsidiary of the Company. At the time when the Board approved the transaction, Potash Corporation was a substantial shareholder of the Company, and PCS Sales was a wholly-owned subsidiary of Potash Corporation. PCS Sales was therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the MOU between Sinochem Yunlong and PCS Sales constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps under the MOU are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 9 December 2014 published by the Company.

10. Lease Contract between Sinochem Fertilizer and Chemsunny

On 28 January 2015, Sinochem Fertilizer entered into a lease contract (the "Lease Contract") with Chemsunny, pursuant to which Sinochem Fertilizer (as the lessee) would lease the office spaces in Chemsunny World Trade Centre from Chemsunny (as the lessor) during the period from 1 January 2015 to 31 December 2017. The rentals and the management fees of the Properties were RMB1,706,615.56 and RMB171,158.13 per month, respectively, payable by Sinochem Fertilizer on a quarterly basis.

The rentals and the management fees of the Properties were determined based on arm's length negotiations between the Group and Chemsunny on the prevailing market rates and on normal commercial terms. When determining the prevailing market rate, the Group had made reference to the rates of similar types of properties in the surrounding areas and the rates charged by Chemsunny to other tenants of Chemsunny World Trade Centre.

The annual cap (inclusive of the rentals, management fees and utility charges) for each of the three years ended 31 December 2017 in respect of the continuing connected transactions under the Lease Contract was RMB30,000,000.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Chemsunny is an indirect non-wholly-owned subsidiary of Sinochem Group, which is the ultimate controlling shareholder of the Company. Chemsunny is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Lease Contract constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Lease Contract are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 28 January 2015 published by the Company.

11. Fertilizer Sale Framework Agreement between Sinochem Fertilizer and Sinochem Agriculture

On 11 December 2017, Sinochem Fertilizer and Sinochem Agriculture entered into the Fertilizer Sale Framework Agreement, pursuant to which Sinochem Fertilizer will, during the period from 1 January 2018 to 31 December 2018 (both days inclusive), sell its fertilizer products to Sinochem Agriculture who will then sell such products to its customers, so as to expand the market share of Sinochem Fertilizer by taking advantage of Sinochem Agriculture's extensive customer base in the agricultural sector.

Pursuant to the Fertilizer Sale Framework Agreement, Sinochem Fertilizer will sell fertilizer products to Sinochem Agriculture at the fair market price of such fertilizer products at the time of the transaction. In determining the fair market price of fertilizer products sold by Sinochem Fertilizer to Sinochem Agriculture, the Group generally makes reference to weekly reports published by certain independent commodity information providers such as Baichuan (百川資訊).

Under the Fertilizer Sale Framework Agreement, the annual cap for the year ending 31 December 2018 in respect of the sale of fertilizer products by Sinochem Fertilizer to Sinochem Agriculture is RMB150,000,000.

Sinochem Group is the ultimate controlling shareholder of the Company. Sinochem Agriculture is a wholly-owned subsidiary of Sinochem Group, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Fertilizer Sale Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Fertilizer Sale Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 11 December 2017 published by the Company.

III. The annual caps approved for and the actual transacted amount of continuing connected transactions of the Group for the year ended 31 December 2017 are set out below:

Name of Transactions	Currency	For the year ended 31 December 2017 Annual Caps ('000)	Annual Transacted Amount ('000)
Continuing Connected Transactions Subject to Independent Shareholders' Approval Requirement			
1. Sulphur Import Framework Agreement			
1) Dohigh Trading supplies sulphur, fertilizer and other fertilizer raw materials to Sinochem Group	USD	115,000	31,301
2) Sinochem Fertilizer purchases sulphur, fertilizer and other fertilizer raw materials from Sinochem Group	RMB	880,000	259,044
2. Fertilizer Sales Co-operation Framework Agreement			
1) Sinochem Macao supplies fertilizer products to Sinochem Group	USD	1,010,000	478,425
2) Sinochem Fertilizer purchases fertilizer products from Sinochem Group	RMB	7,560,000	3,296,530
3. Sinochem Macao purchases Canadian potash from Canpotex	USD	550,250	47,675
Continuing Connected Transactions Exempted from the Independent Shareholders' Approval Requirement but Subject to the Reporting, Announcement and Annual Review Requirements			
4. Sinochem UK provides services to Sinochem Macao	USD	2,300	2,300
5. Financial Services Framework Agreement			
1) Maximum daily outstanding balance of deposits	RMB	320,000	300,069
2) Other Financial Services (save for the provision of loans to the Group)	RMB	10,000	4,859
6. Sinochem Fertilizer purchases from/sells to Sinochem Group certain agrichemical and other related products	RMB	15,250	11,407
7. Dohigh Trading purchases sulphur and other fertilizer raw materials from Sinochem Group	USD	20,000	1,530
8. Sinochem Fertilizer suppliers fertilizer products to subsidiaries of Sinochem Group	RMB	60,000	18,159
9. Sinochem Yunlong suppliers MCP and MDCP products to PCS Sales	USD	10,900	–
10. Sinochem Fertilizer leases office spaces from Chemsunny	RMB	30,000	22,740

Transactions with joint ventures and associates, and loans from Sinochem Group, Sinochem Finance and related parties, which are disclosed as related party disclosures in note 37 to the financial statements of the annual report, do not fall under the definition of connected transactions or continuing connected transactions or were fully exempt under Chapter 14A of the Listing Rules and thus are not disclosed above.

Save as disclosed, there are no other connected transactions or continuing connected transactions of the Company which require disclosure in accordance with the Listing Rules.

IV. Confirmation from Independent Non-Executive Directors

In the opinion of the Independent Non-executive Directors of the Company, the continuing connected transactions for the year ended 31 December 2017 have been entered into by the Group:

- in the ordinary and usual course of its business;
- on normal commercial terms or better; and
- according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

V. Confirmation from independent auditor in respect of the continuing connected transactions

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Main Board Listing Rules 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

CONTRACTS OF SIGNIFICANCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

Sinochem Group is the ultimate controlling shareholder of the Company. The contracts of significance between the Company and/or its subsidiaries with Sinochem Group and/or its subsidiaries are disclosed in details in the section headed "Connected Transactions" in this Directors' Report.

MAJOR DISCLOSEABLE EVENTS

On 24 October 2017, Sinochem Fertilizer and Sinochem Group entered into the Share Transfer Agreement, pursuant to which Sinochem Fertilizer agreed to sell and Sinochem Group agreed to purchase 571,578,484 issued shares of Qinghai Salt Lake, representing 20.52% of its total issued share capital, at a consideration of RMB8,063,198,568.40. The transaction has been approved by the independent shareholders of the Company at the special general meeting of the Company held on 20 December 2017. As at the date of this report, Sinochem Fertilizer had received from Sinochem Group full amount of the consideration in respect of the transaction in accordance with the terms of the Share Transfer Agreement, and both parties are in the process of arranging the corresponding share transfer registration procedures.

More information of the transaction and the defined terms used above are disclosed in the section headed "Connected Transactions" in this Directors' Report.

Save for the disclosures as above and in this report, the Company had no other major discloseable events during the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float exceeding 25% of its issued share capital throughout the year ended 31 December 2017 and up to the date of this report.

REMUNERATION POLICY

The emoluments of the Directors of the Company are reviewed by the Remuneration Committee of the Company from time to time with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the remuneration policy of the Group are set out in the "Corporate Governance Report" on page 51.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 39 to the consolidated financial statements.

HOUSING FUNDS

The Group strictly complied with the regulations of the relevant region in respect of the contribution to the housing funds for its employees.

POST BALANCE SHEET EVENT

There was no significant event occurred after the balance sheet date.

AUDITOR

As approved in the relevant annual general meetings of the Company, KPMG was appointed as auditor of the Company since the year ended 31 December 2012.

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

For and on behalf of the Board

Zhang Wei
Chairman

Hong Kong, 28 March 2018

KPMG

Independent auditor's report to the shareholders of Sinofert Holdings Limited
(Incorporated in Bermuda with limited liability)

Report on the audit of the consolidated financial statements

OPINION

We have audited the consolidated financial statements of Sinofert Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 96 to 179, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing potential impairment of goodwill and property, plant and equipment

Refer to notes 14 and 17 to the consolidated financial statements and the accounting policies in note 2(m)(ii).

The Key Audit Matter	How the matter was addressed in our audit
In view of the loss sustained by Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group for the year ended 31 December 2017, management considered that indicators of potential impairment of property, plant and equipment existed as at 31 December 2017. The carrying amount of property, plant and equipment for the subsidiary as at 31 December 2017 was RMB1,634 million, before taking into account impairment losses. In addition, goodwill amounted to RMB531 million as at 31 December 2017 arose in relation to Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary engaged in the fertilizer industry acquired by the Group in previous year is subject to annual impairment test. Management determined the recoverable amounts of the cash-generating units ("CGUs") to which these assets were allocated by means of discounted cash flow forecasts prepared for each of these CGUs. Management's impairment assessment involves significant judgment, particularly in determining estimated selling prices, selling quantities and the discount rates applied, all of which can be inherently uncertain. We identified assessing potential impairment of goodwill of Sinochem Yunlong and property, plant and equipment of Sinochem Changshan as a key audit matter because determining the key impairment assumptions involves a significant degree of management judgment and may be subject to management bias.	Our audit procedures to assess potential impairment of goodwill and property, plant and equipment included the following: • assessing management's identification of CGUs and the allocation of assets and liabilities to each CGU with reference to the requirements of the prevailing accounting standards; • discussing future operating plans with management and comparing the estimated revenue and profit used in the discounted cash flow forecasts with the approved budget; • engaging our internal valuation specialists to assist us in assessing the impairment assessment methodology adopted and the discount rates used in the discounted cash flow forecasts by performing recalculations with market and other external available information derived from companies in the similar industries; • evaluating the sensitivity analysis prepared by management for each of the key assumptions, including estimated selling prices and selling quantities, adopted in the discounted cash flow forecasts and considering the possibility of error or management bias; • performing a retrospective review of last year's impairment assessment and comparing the forecast data with the current year's results to assess the reliability of management's forecasting process; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards.

Revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies in note 2(v).

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue is principally generated from the sale of potash fertilizer, nitrogen fertilizer, phosphate fertilizer and compound fertilizer. The timing of revenue recognition depends on the terms of individual sales transactions and revenue is generally recognized when fertilizers are collected by the customers from the Group's premises or when the products are delivered to the location designated by customers, which is taken to be the point in time when the significant risks and rewards of ownership of the goods sold have passed to customers. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk that revenue could be recorded in an incorrect period or could be subject to manipulation in order to achieve financial targets and expectations.	Our audit procedures to assess the recognition of revenue included the following: • understanding and assessing the design, implementation and operating effectiveness of the key internal controls over the Group's systems which govern the revenue recognition; • inspecting sales contracts with customers on a sample basis to understand and assess the terms and conditions therein which may affect the recognition of revenue; • comparing sales transactions recorded around the year end with the underlying goods delivery notes to assess if the related revenue had been recognized in the appropriate accounting period; and • identifying manual journal entries with specific risk criteria relating to revenue which were raised during the year, enquiring of management the reasons for such adjustments and inspecting underlying documentation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Revenue	4(a)	**17,643,812**	14,959,092
Cost of sales		**(16,272,189)**	(14,717,930)
Gross profit		**1,371,623**	241,162
Other income and gains	5	**240,505**	233,642
Selling and distribution expenses		**(815,275)**	(754,393)
Administrative expenses		**(825,344)**	(763,270)
Other expenses and losses		**(1,742,784)**	(3,310,574)
Share of results of associates		**(171,404)**	(8,290)
Share of results of joint ventures		**13,736**	(101,706)
Finance costs	6	**(340,990)**	(339,645)
Loss on disposal of a joint venture		**(13)**	(14,731)
Loss before taxation	7	**(2,269,946)**	(4,817,805)
Income tax	8(a)	**(10,938)**	(4,621)
Loss for the year		**(2,280,884)**	(4,822,426)
Loss for the year attributable to:			
– Owners of the Company		**(2,207,504)**	(4,635,885)
– Non-controlling interests		**(73,380)**	(186,541)
		(2,280,884)	(4,822,426)

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Loss for the year		**(2,280,884)**	(4,822,426)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(102,621)**	112,306
Changes in fair value of available-for-sale investments		**29,483**	(20,603)
Other comprehensive income for the year	9	**(73,138)**	91,703
Total comprehensive income for the year		**(2,354,022)**	(4,730,723)
Total comprehensive income attributable to:			
– Owners of the Company		**(2,280,642)**	(4,544,182)
– Non-controlling interests		**(73,380)**	(186,541)
		(2,354,022)	(4,730,723)
Loss per share			
Basic (RMB)	13	**(0.3143)**	(0.6600)
Diluted (RMB)	13	**(0.3143)**	(0.6600)

The notes on pages 104 to 179 form part of these financial statements. Details of dividends payable to equity shareholders of the Company for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017
(Expressed in Renminbi)

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	14	**2,427,511**	3,427,768
Lease prepayments	15	**487,703**	500,736
Mining rights	16	**579,077**	611,367
Goodwill	17	**829,075**	849,966
Interests in associates	18	**509,912**	8,707,156
Interests in joint ventures	19	**385,674**	374,004
Available-for-sale investments	20	**447,252**	498,437
Prepayments for acquisition of property, plant and equipment		**49,467**	19,787
Deferred tax assets	31	**17,702**	32,960
Other long-term assets	21	**13,310**	12,051
		5,746,683	15,034,232
Current assets			
Inventories	22	**5,433,138**	4,475,018
Trade and bills receivables	23	**235,991**	152,982
Other receivables and prepayments	24	**1,883,056**	1,546,933
Loans to an associate	25	**670,000**	670,000
Lease prepayments	15	**13,810**	13,810
Bank balances and cash	26	**286,816**	972,118
Assets held for sale	27	**8,048,139**	–
		16,570,950	7,830,861
Current liabilities			
Trade and bills payables	28	**3,452,676**	4,574,711
Other payables and receipt in advance	29	**6,715,129**	3,603,543
Interest-bearing borrowings – due within one year	30	**122,000**	540,000
Short-term commercial paper		**–**	2,000,000
Tax liabilities		**12,333**	11,052
		10,302,138	10,729,306
Net current assets / (liabilities)		**6,268,812**	(2,898,445)
Total assets less current liabilities		**12,015,495**	12,135,787

At 31 December 2017
(Expressed in Renminbi)

		As at 31 December	
	Note	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Interest-bearing borrowings – due after one year	30	4,995,535	3,493,185
Deferred income		86,413	105,253
Deferred tax liabilities	31	207,912	220,648
Other long-term liabilities		98,523	47,128
		5,388,383	3,866,214
NET ASSETS		6,627,112	8,269,573
CAPITAL AND RESERVES			
Issued equity	32	8,267,384	8,267,384
Reserves		(1,428,954)	140,127
Total equity attributable to owners of the Company		6,838,430	8,407,511
Non-controlling interests		(211,318)	(137,938)
TOTAL EQUITY		6,627,112	8,269,573

The consolidated financial statements on pages 96 to 179 were approved and authorized for issue by the board of directors on 28 March 2018 and are signed on its behalf by:

Zhang Wei
Director

Qin Hengde
Director

The notes on pages 104 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017
(Expressed in Renminbi)

	Attributable to owners of the Company									
	Issued equity RMB'000	Capital and other reserve RMB'000 (note a)	Statutory reserve RMB'000 (note b)	Investment revaluation reserve RMB'000 (note c)	Special reserve RMB'000 (note d)	Exchange reserve RMB'000 (note e)	Retained profits/ (Accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	8,267,384	37,378	366,484	49,407	54,468	(633,389)	4,885,585	13,027,317	48,604	13,075,921
Loss for the year	–	–	–	–	–	–	(4,635,885)	(4,635,885)	(186,541)	(4,822,426)
Other comprehensive income for the year	–	–	–	(20,603)	–	112,306	–	91,703	–	91,703
Total comprehensive income for the year	–	–	–	(20,603)	–	112,306	(4,635,885)	(4,544,182)	(186,541)	(4,730,723)
Maintenance and production fund *(note d)*	–	–	–	–	2,648	–	(2,648)	–	–	–
Dividends approved in respect of the previous year	–	–	–	–	–	–	(59,014)	(59,014)	–	(59,014)
Share of an associate's net assets changes	–	(16,610)	–	–	–	–	–	(16,610)	–	(16,610)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	(1)	(1)
Balance at 31 December 2016 and 1 January 2017	8,267,384	20,768	366,484	28,804	57,116	(521,083)	188,038	8,407,511	(137,938)	8,269,573
Loss for the year	–	–	–	–	–	–	(2,207,504)	(2,207,504)	(73,380)	(2,280,884)
Other comprehensive income for the year	–	–	–	29,483	–	(102,621)	–	(73,138)	–	(73,138)
Total comprehensive income for the year	–	–	–	29,483	–	(102,621)	(2,207,504)	(2,280,642)	(73,380)	(2,354,022)
Maintenance and production fund *(note d)*	–	–	–	–	3,636	–	(3,636)	–	–	–
Provision for onerous contract in relation to the disposal of interests in an associate *(note 27)*	–	711,561	–	–	–	–	–	711,561	–	711,561
Balance at 31 December 2017	8,267,384	732,329	366,484	58,287	60,752	(623,704)	(2,023,102)	6,838,430	(211,318)	6,627,112

Notes:

a. Capital and other reserve comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of shares issued by the holding companies as consideration for the Group restructuring transactions in previous years; contributions from/distributions to the ultimate holding company, Sinochem Group Co., Ltd. ("Sinochem Group", established in the People's Republic of China (the "PRC")); the difference between the carrying amount of non-controlling interests acquired and the fair value of consideration paid and the share of the investee's net assets changes, other than profit or loss or other comprehensive income and distributions received.

b. Statutory reserve comprises reserve fund and enterprise expansion fund. In accordance with relevant rules and regulations on foreign investment enterprise established in the PRC, the Company's PRC subsidiaries are required to transfer a portion of their profit after income tax to the reserve fund, until the accumulated amount of the fund reaches 50% of their registered capital. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC. Reserve fund and enterprise expansion fund may be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors.

c. Investment revaluation reserve represents the changes in fair value of available-for-sale investments through other comprehensive income until the financial assets are derecognized.

d. Special reserve comprises the fund received which can only be utilized for energy saving and emission reduction projects, and the maintenance and production fund appropriated/utilized in accordance to relevant PRC regulations on certain enterprises.

e. Exchange reserve comprises all foreign currency differences arising from the translation of the financial statements presented in any currencies other than Renminbi ("RMB") which are dealt with in accordance with the accounting policies as set out in note 2(w).

The notes on pages 104 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017
(Expressed in Renminbi)

	2017 *RMB'000*	2016 *RMB'000*
Operating activities		
Loss before taxation	(2,269,946)	(4,817,805)
Adjustments for:		
Share of results of associates	171,404	8,290
Share of results of joint ventures	(13,736)	101,706
Dividend income from listed available-for-sale investments	(1,930)	(4,287)
Write-off of payables	(7,751)	(3,699)
Adjustment to consideration payable	(18,563)	–
Release of deferred income	(19,946)	(8,332)
Interest income from an associate	(35,302)	(36,046)
Other interest income	(80,913)	(105,916)
Finance costs	340,990	339,645
Provision on onerous contract in relation to the disposal of interests in an associate	711,561	–
Loss on disposal of a joint venture	13	14,731
Depreciation of property, plant and equipment	327,061	364,683
(Reversal of) / Impairment loss on interests in associates	(30,754)	2,830,000
Impairment loss on available-for-sale investments	80,668	–
Impairment loss on property, plant and equipment	917,662	363,656
Loss on disposal of property, plant and equipment	396	4,648
Amortization of lease prepayments	13,033	13,108
Amortization of mining rights	32,290	32,306
Amortization of other long-term assets	6,436	5,652
Impairment of trade receivables	–	316
Impairment of other receivables and prepayments	42	20,933
Reversal of collectible receivables	–	(197)
Write-down of inventories	32,825	59,381
Operating cash flows before movements in working capital	155,540	(817,227)
(Increase) / decrease in inventories	(1,030,636)	1,820,507
(Increase) / decrease in trade and bills receivables	(150,732)	284,145
Increase in other receivables and prepayments	(337,714)	(427,351)
Increase in deferred income	1,106	6,460
Decrease in trade and bills payables	(1,063,309)	(1,497,385)
Increase in other payables and receipt in advance	1,022,635	1,567,995
Cash (used in) / generated from operations	(1,403,110)	937,144
Income tax paid	(7,135)	(7,239)
Net cash (used in) / generated from operating activities	**(1,410,245)**	**929,905**

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Investing activities			
Purchase of property, plant and equipment		(274,185)	(276,556)
Proceeds from disposal of property, plant and equipment		2,814	8,000
Acquisition of other long-term assets		(7,695)	(7,501)
Final installment of consideration paid for acquisition of Sinochem Yunlong		(211,437)	–
First installment received from disposal of an associate		2,418,960	–
Loans to an associate		(1,244,000)	(670,000)
Loans repaid from an associate		1,244,000	670,000
Placement of other deposits		(3,531,000)	(8,167,500)
Proceeds from withdrawal of other deposits		3,531,000	8,168,700
Interest received from an associate		35,302	36,046
Other interest received		80,913	105,964
Dividends received from associates		8,368	12,560
Dividends received from joint ventures		–	3,000
Dividends received from available-for-sale investments		1,930	4,287
Proceeds from disposal of a joint venture		2,053	87,995
Net cash generated from / (used in) investing activities		2,057,023	(25,005)
Financing activities			
Repayment of bank and other loans	26(b)	(18,752,227)	(12,840,129)
Repayment of short-term commercial paper	26(b)	(2,000,000)	(3,000,000)
Proceeds from new bank and other loans	26(b)	19,834,227	11,596,699
Proceeds from short-term commercial paper		–	3,000,000
Proceeds from issue of bond		–	1,000,000
Interests paid	26(b)	(388,142)	(297,202)
Dividends paid		(2,291)	(61,383)
Net cash used in financing activities		(1,308,433)	(602,015)
Net (decrease) / increase in cash and cash equivalents		(661,655)	302,885
Cash and cash equivalents at 1 January	26(a)	972,118	639,851
Effect of foreign exchange rate changes		(23,647)	29,382
Cash and cash equivalents at 31 December	26(a)	286,816	972,118

The notes on pages 104 to 179 form part of these financial statements.

(Expressed in RMB unless otherwise indicated)

1 GENERAL

Sinofert Holdings Limited (the "Company", together with its subsidiaries hereinafter collectively referred to as the "Group") is a limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is Sinochem Hong Kong (Group) Company Limited (incorporated in Hong Kong) and its ultimate holding company is Sinochem Group. These entities do not produce financial statements available for public use. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The Group is mainly engaged in manufacturing and selling of fertilizers and related products. Details of the Company's principal subsidiaries are set out in note 38.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Group and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as available-for-sale securities (see note 2(g)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

The Company and the subsidiaries incorporated in Hong Kong have their functional currency in Hong Kong dollars ("HK$") and subsidiaries established in the PRC and Macao Special Administrative Region ("Macao SAR") have their functional currencies in RMB and United States dollars ("US$") respectively. As majority of the Group's operation are conducted by the Group's subsidiaries in the PRC, the consolidated functional currency is presented in RMB.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 26(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKAS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognize any transition adjustments against the opening balance of equity at 1 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

Expected impacts of the new requirements on the Group's financial statements are as follows:

(i) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortized cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI).

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains / losses on disposal will be recognized in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognized in profit or loss. Gains, losses and impairments on that security will be recognized in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortized cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group plans to elect this designation option for all of the investments held on 1 January 2018. However, this designation also give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognize fair value changes in other comprehensive income until dispose or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 2(g) and 2(m). This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share when disposal or making an impairment of the investment.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognized in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any material financial liabilities designated at FVTPL and therefore this new requirement will not have a significant impact on the Group upon adoption of HKFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

(ii) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, there will not have a significant impact on accumulated impairment losses as compared with that recognized under HKAS 39.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(i) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(v). Currently, revenue arising from revenue from the sale of goods is generally recognized when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognized when the customer obtains control of the promised goods or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised goods or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 15, Revenue from contracts with customers (continued)

(i) Timing of revenue recognition (continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognizes revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. The Group has assessed that the new revenue standard is not likely to have significant impact on the results of the Group.

HKFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

At 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB45,979,000, majority of which are payable within 1 year. The Group does not expect the adoption of HKFRS 16 will have significant impact to the consolidated financial statements.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt HKFRS 16 in its 2018 consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions, and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group choose to measure any non-controlling interests at fair value of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and 2(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are included in the Group's consolidated profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the Group's other comprehensive income.

When the Group's share of losses exceeds its interest in the associates or the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (continued)

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

A decrease in interest in an equity-accounted investee while maintaining equity accounting can result from a dilution. The Group's policy is to recognize any gain or loss on dilution directly in equity, except when impairment indicators exist then the Group first assesses and recognizes any impairment loss in accordance with the accounting polices described in note 2(m).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities (continued)

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognized in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in profit or loss. The net gain or loss recognized in profit or loss does not include any dividends or interest earned on these investments as these are recognized in accordance with the policies set out in notes 2(v)(iii) and 2(v)(iv).

Dated debt securities that the Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortized cost less impairment losses (see note 2(m)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the investment revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognized in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognized in profit or loss in accordance with the policies set out in notes 2(v)(iii) and 2(v)(iv), respectively. Foreign exchange gains and losses resulting from changes in the amortized cost of debt securities are also recognized in profit or loss.

When the investments are derecognized or impaired (see note 2(m)), the cumulative gain or loss recognized in equity is reclassified to profit or loss. Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives other than mining structures.

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on the units of production method utilizing only recoverable reserves as the depletion base.

The estimated useful lives of property, plant and equipment are as follows:

Category	Years of depreciation
Buildings	20-30 years
Plant, machinery and equipment	10-14 years
Motor vehicles	8 years
Furniture and fixtures	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(m)). Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Mining rights

Mining rights are stated at cost less accumulated amortization and impairment losses (see note 2(m)) and are amortized based on the units of production method utilizing only recoverable reserves as the depletion base.

(k) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

(l) Lease prepayments and other long-term assets

Lease prepayments represent land use rights under operating leases paid to the relevant government authorities. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (see note 2(m)). The cost of lease prepayments is charged to expenses on a straight-line base over the respective periods of the rights.

Other long-term assets mainly represent activators held for use in the production of goods which are stated at cost less subsequent accumulated amortization and accumulated impairments losses. Amortization is provided using the straight-line method.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

- For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

- For available-for-sale securities, the cumulative loss that has been recognized in the investment revaluation reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

  Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments;

– mining rights;

– other long-term assets;

– goodwill; and

– investment in subsidiaries in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(n) Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the moving weighted-average method, and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognized at fair value. Trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(s) Employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are collected by the customers from the Group's premises or delivered to the customers' designated location which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iii) Dividends

– Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss over the useful life of the related asset on a reasonable and systematic manner.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Translation of foreign currencies

The financial statements are presented in RMB, which is the currency of the primary economic environment in which the major entities of the Group operate. The functional currency of the Company is HKD.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognized at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognized in profit or loss. A gain will be recognized for any subsequent increase in fair value less costs to sell of an asset is recognized, but not in excess of the cumulative impairment loss that has been recognized.

As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortized.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is apart, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies which are described in note 2, the directors of the Company have made judgments, estimates and assumptions concerning the future that have a significant risk of material adjustments on the amounts recognized in the consolidated financial statements within the next financial year.

Provision of inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. The directors of the Company reassess these estimates at the end of each reporting period. As at 31 December 2017, the carrying amount of inventories is RMB 5,433,138,000 (2016: RMB4,475,018,000).

Impairment on property, plant and equipment

In considering the impairment losses that may be required for the Group's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of fair value less cost of disposal and the value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of property, plant and equipment is RMB 2,427,511,000 (2016: RMB3,427,768,000).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill is RMB829,075,000 (2016: RMB849,966,000). Details of the recoverable amount calculation are disclosed in note 17.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents the sales value of fertilizers and related products. The following is an analysis of the Group's revenue from its major fertilizer products:

	2017	2016
	RMB'000	*RMB'000*
Potash fertilizer	**3,904,676**	3,629,552
Nitrogen fertilizer	**3,573,177**	2,610,677
Compound fertilizer	**4,822,852**	3,981,643
Phosphate fertilizer	**3,573,724**	3,371,433
Monocalcium / Dicalcium Phosphate ("MDCP")	**776,679**	775,542
Others	**992,704**	590,245
	17,643,812	14,959,092

No revenue from a single external customer accounts for 10% or more of the Group's revenue during both years.

(b) Segment reporting

The Group's operating segments based on information reported to the chief operating decision maker ("CODM") for the purpose of resource allocation and performance assessment. During the reporting period, the Group has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change as follows:

- Basic fertilizers: sourcing and trading of straight fertilizers such as nitrogen, phosphate and potash
- Distribution: building of distribution channels, sourcing and selling of compound fertilizers and new type of fertilizer
- Production: production and sales of fertilizers and MDCP

Certain comparative amounts in the segment information have been adjusted to conform the current year's presentation.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit/(loss) represents the profit earned/the (loss) made by each segment without taking into account of unallocated expenses/income, share of results of associates and joint ventures and finance costs. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment. In addition, the CODM also regularly reviews the segment information in relation to the share of results of associates and the share of results of joint ventures.

Inter-segment sales are charged at market prices between group entities.

Given the production and trading of fertilizers are closely linked, the CODM considered segment assets and liabilities information was not relevant in assessing performance of and resources allocation to the operating segments. During the year ended 31 December 2017, such information was not reviewed by the CODM. As such, no segment assets and liabilities are presented.

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

2017

	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue					
External revenue	11,182,845	4,534,380	1,926,587	–	17,643,812
Internal revenue	457,668	831	1,419,806	(1,878,305)	–
Segment revenue	11,640,513	4,535,211	3,346,393	(1,878,305)	17,643,812
Segment gross profit	793,110	386,110	192,403	–	1,371,623
Segment profit / (loss)	579,158	(33,122)	(1,327,327)	–	(781,291)
Share of results of associates					(171,404)
Share of results of joint ventures					13,736
Unallocated expenses					(1,020,124)
Unallocated income					30,127
Finance costs					(340,990)
Loss before taxation					(2,269,946)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

2016

	Basic fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue					
External revenue	9,780,487	3,746,587	1,432,018	–	14,959,092
Internal revenue	380,992	852	1,345,770	(1,727,614)	–
Segment revenue	10,161,479	3,747,439	2,777,788	(1,727,614)	14,959,092
Segment gross profit	(25,908)	226,644	40,426	–	241,162
Segment loss	(329,515)	(100,690)	(952,881)	–	(1,383,086)
Share of results of associates					(8,290)
Share of results of joint ventures					(101,706)
Impairment loss on interests in associates					(2,830,000)
Unallocated expenses					(202,825)
Unallocated income					47,747
Finance costs					(339,645)
Loss before taxation					(4,817,805)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information

2017

	Basic fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit / (loss):					
Additions to non-current assets	4,180	62,698	188,377	299	255,554
Impairment of other receivables and prepayments	–	–	–	(42)	(42)
Impairment loss on property, plant and equipment	–	(38,000)	(879,662)	–	(917,662)
Impairment loss on available-for-sale investments	–	–	–	(80,668)	(80,668)
Depreciation and amortization	(2,748)	(31,340)	(341,522)	(3,210)	(378,820)
Write-down of inventories	–	(13,316)	(19,509)	–	(32,825)
Gain / (Loss) on disposal of property, plant and equipment	175	(819)	188	60	(396)
Write-off of payables	6,273	1,245	233	–	7,751
Adjustment to consideration payable	–	–	–	18,563	18,563
Provision for onerous contract in relation to the disposal of interests in an associate	–	–	–	(711,561)	(711,561)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information (continued)

2016

	Basic fertilizers *RMB'000*	Distribution *RMB'000*	Production *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment loss:					
Additions to non-current assets	2,783	23,825	273,466	7	300,081
Impairment of trade receivables	–	(78)	(238)	–	(316)
Impairment of other receivables and prepayments	–	(19,765)	(1,168)	–	(20,933)
Reversal of collectible receivables	–	–	197	–	197
Impairment loss on property, plant and equipment	–	–	(363,656)	–	(363,656)
Impairment loss on interests in associates	–	–	–	(2,830,000)	(2,830,000)
Depreciation and amortization	(2,603)	(30,161)	(379,747)	(3,238)	(415,749)
Write-down of inventories	(39,517)	(7,365)	(12,499)	–	(59,381)
Loss on disposal of property, plant and equipment	(60)	(2,265)	(2,323)	–	(4,648)
Write-off of payables	148	2,811	740	–	3,699

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographical information

The Group's operations are mainly located in Mainland China and Macao SAR.

Information about the Group's revenue from its operations from external customers is presented based on the customers' location of incorporation / establishment. Information about the Group's non-current assets other than available-for-sale investments and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China	**16,767,543**	13,891,389	**5,275,527**	14,498,798
Others	**876,269**	1,067,703	**7,586**	4,037
	17,643,812	14,959,092	**5,283,113**	14,502,835

(Expressed in RMB unless otherwise indicated)

5 OTHER INCOME AND GAINS

	2017 *RMB'000*	2016 *RMB'000*
Rental income	6,427	5,990
Dividend income from listed available-for-sale investments	1,930	4,287
Interest income from an associate	35,302	36,046
Other interest income	80,913	105,916
Government grants *(note)*	20,736	7,442
Sales of semi-product, raw materials and scrapped materials	11,544	6,018
Release of deferred income	19,946	8,332
Insurance claims received	4,736	18,837
Write-off of payables	7,751	3,699
Adjustment to consideration payable	18,563	–
Others	32,657	37,075
	240,505	233,642

Note: Government grants mainly comprised payments from the government to support the business development of the Group entities in accordance with applicable law, regulations in the PRC.

6 FINANCE COSTS

	2017 *RMB'000*	2016 *RMB'000*
Interest on borrowings	342,365	344,087
Less: interest expense capitalized *(note)*	(1,375)	(4,442)
	340,990	339,645

Note: The capitalization rate used to determine the amount of borrowing costs eligible for capitalization related to construction of production lines is 5.00% (2016: 5.00%) for the year ended 31 December 2017.

7 LOSS BEFORE TAXATION

	Note	2017 RMB'000	2016 RMB'000
Director's emoluments	10	8,386	5,002
Other staff benefits	a	848,355	613,322
Total employee benefits expenses		856,741	618,324
Depreciation of property, plant and equipment		327,061	364,683
Amortization of lease prepayments		13,033	13,108
Amortization of mining rights		32,290	32,306
Amortization of other long-term assets		6,436	5,652
Auditors' remuneration		4,200	4,250
Operating lease charge-minimum lease payments	b	41,496	46,166
Loss on disposal of property, plant and equipment		396	4,648
Loss on disposal of a joint venture		13	14,731
Impairment of trade receivables		–	316
Impairment of other receivables and prepayments		42	20,933
Write-down of inventories	c	32,825	59,381
Impairment loss on property, plant and equipment	14	917,662	363,656
(Reversal of) / impairment loss on interests in associates		(30,754)	2,830,000
Impairment loss on available-for-sale investments	20	80,668	–
Reversal of impairment of other receivables and prepayments		–	(197)
Foreign exchange loss		2,891	7,745
Provision for onerous contract in relation to the disposal of interests in an associate	27	711,561	–

Notes:

a. Contributions to retirement benefit scheme included in other staff benefits for the year ended 31 December 2017 amounted to RMB68,089,000 (2016: RMB75,715,000).

b. Minimum lease payments under operating lease in respect of retail outlets, offices and warehouses.

c. During the year ended 31 December 2017, write-down of inventories amounting to approximately RMB32,825,000 (2016: RMB59,381,000) is recorded in other expenses and losses.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2017 RMB'000	2016 RMB'000
Provision for the year		
PRC Enterprise Income Tax	(9,681)	(6,155)
Over / (under)-provision in prior years		
PRC Enterprise Income Tax	1,265	(707)
Deferred tax		
Origination and reversal of temporary differences	(2,522)	2,241
	(10,938)	(4,621)

(i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands ("BVI"), the Group is not subject to income tax in Bermuda and the BVI.

(ii) The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

(iii) The provision for the PRC Enterprise Income Tax is based on the statutory rate of 25% on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year, except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.

(iv) A subsidiary of the Group incorporated in Macao SAR is exempted from income tax.

(Expressed in RMB unless otherwise indicated)

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017 *RMB'000*	2016 *RMB'000*
Loss before taxation	(2,269,946)	(4,817,805)
Tax calculated at the applicable tax rate of 25%	567,487	1,204,451
Effect of different income tax rates	40,350	52,589
Tax effect of non-deductible expenses	(14,080)	(15,626)
Tax effect of non-taxable income	1,962	335
Tax effect of share of results of associates	(42,851)	(2,073)
Tax effect of share of results of joint ventures	3,434	(25,427)
Effect of prior year's tax losses and deductible temporary differences utilized during the year	14,182	2,704
Effect of tax losses and deductible temporary difference not recognized	(582,687)	(1,220,867)
Over / (under)-provision in prior years	1,265	(707)
Income tax expense for the year	(10,938)	(4,621)

9 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2017 and 2016.

10 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2017

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(note a)*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Non-executive director *(Chairman)*					
Mr. ZHANG Wei *(note b)*	–	–	–	–	–
Executive directors					
Mr. QIN Hengde	–	1,798	2,142	49	3,989
Mr. Harry YANG	–	1,301	961	51	2,313
Non-executive directors					
Mr. YANG Lin *(note b)*	–	–	–	–	–
Dr. Stephen Francis DOWDLE *(note b)* (resigned on 31 December 2017)	–	–	–	–	–
Ms. XIANG Dandan *(note b)* (resigned on 31 December 2017)	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	476	–	–	–	476
Mr. LU Xin	333	–	–	–	333
Mr. TSE Hau Yin, Aloysius	476	–	–	–	476
	1,285	3,099	3,103	100	7,587
Rental expenses for directors					
Mr. QIN Hengde					300
Mr. Harry YANG					499
					8,386

10 DIRECTORS' EMOLUMENTS (CONTINUED)

2016

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(note a)*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Non-executive directors *(Chairman)*					
Mr. NING Gao Ning *(note b)* (appointed on 8 March 2016 and resigned on 8 December 2016)	–	–	–	–	–
Mr. ZHANG Wei *(note b)* (appointed on 8 December 2016)	–	–	–	–	–
Executive directors					
Mr. WANG Hong Jun (resigned on 8 December 2016)	–	1,602	–	47	1,649
Mr. QIN Hengde (appointed on 8 December 2016)	–	111	–	4	115
Mr. Harry YANG	–	1,406	–	47	1,453
Non-executive directors					
Mr. YANG Lin *(note b)*	–	–	–	–	–
Dr. Stephen Francis DOWDLE *(note b)*	–	–	–	–	–
Ms. XIANG Dandan *(note b)*	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	476	–	–	–	476
Mr. LU Xin	334	–	–	–	334
Mr. TSE Hau Yin, Aloysius	476	–	–	–	476
	1,286	3,119	–	98	4,503
Rental expenses for director					
Mr. Harry YANG					499
					5,002

10 DIRECTORS' EMOLUMENTS (CONTINUED)

Notes:

a. The performance related incentive payments were determined with reference to the operating results of the Group, individual performance and relevant comparable market statistics during the years ended 31 December 2017 and 2016.

b. Mr. Zhang Wei, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan, being Non-executive directors of the Company, had agreed to waive their director's fee for the year ended 31 December 2017. The amount waived by Mr. Zhang Wei, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan were HK$385,000 each (equivalent to approximately RMB333,000).

Directors' fee waived by Mr. Ning Gao Ning was HK$290,000 (equivalent to approximately RMB251,000); waived by Mr. Zhang Wei was HK$25,000 (equivalent to approximately RMB22,000), and waived by Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan were HK$385,000 each (equivalent to approximately RMB333,000) for the year ended 31 December 2016.

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2016: two) were directors of the Company, whose emoluments are disclosed in note 10. The emoluments of the remaining three (2016: three) individuals were as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Salaries and other benefits	**2,445**	2,137
Performance related incentive payment	**4,220**	–
Retirement benefits scheme contribution	**152**	141
	6,817	2,278

The emoluments were within the following bands:

	2017 ***Number of individuals***	2016 *Number of individuals*
Nil to HK$1,000,000	**–**	3
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
	3	3

(Expressed in RMB unless otherwise indicated)

12 DIVIDENDS

	2017 *RMB'000*	2016 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, nil for year 2017 (2016: HK$0.0097, equivalent to approximately RMB0.0081 per share)	**–**	59,014
Dividend proposed after the end of the reporting period, nil for 2017 (2016: nil)	**–**	–

13 LOSS PER SHARE

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

	2017 *RMB'000*	2016 *RMB'000*
Loss attributable to owners of the Company		
Loss for the purpose of basic / diluted loss per share	**(2,207,504)**	(4,635,885)

	2017 *'000 shares*	2016 *'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic/diluted loss per share	**7,024,456**	7,024,456

The Group has no dilutive ordinary shares outstanding during the years ended 31 December 2017. Therefore, there was no difference between basic and diluted loss per share.

(Expressed in RMB unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture & fixtures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2016	1,938,476	2,253,378	80,852	317,350	1,371,354	5,961,410
Exchange realignment	218	–	99	175	–	492
Additions	6,577	28,698	4,641	8,474	244,190	292,580
Transfer from construction in progress	363,172	867,040	–	8,766	(1,238,978)	–
Disposals	(3,616)	(28,622)	(24,401)	(17,474)	–	(74,113)
At 31 December 2016	2,304,827	3,120,494	61,191	317,291	376,566	6,180,369
At 1 January 2017	2,304,827	3,120,494	61,191	317,291	376,566	6,180,369
Exchange realignment	(225)	–	(90)	(176)	–	(491)
Additions	34,299	14,779	9,795	9,718	179,093	247,684
Transfer from construction in progress	194,995	29,709	154	3,124	(227,982)	–
Disposals	(15,987)	(33,305)	(8,058)	(10,289)	–	(67,639)
At 31 December 2017	**2,517,909**	**3,131,677**	**62,992**	**319,668**	**327,677**	**6,359,923**
Accumulated depreciation and impairment						
At 1 January 2016	(566,900)	(1,304,746)	(42,194)	(171,403)	–	(2,085,243)
Exchange realignment	(218)	–	(98)	(168)	–	(484)
Charge for the year	(104,721)	(233,054)	(8,087)	(18,821)	–	(364,683)
Impairment loss	(209,105)	(153,851)	(308)	(392)	–	(363,656)
Disposals	2,749	25,874	17,009	15,833	–	61,465
At 31 December 2016	(878,195)	(1,665,777)	(33,678)	(174,951)	–	(2,752,601)
At 1 January 2017	(878,195)	(1,665,777)	(33,678)	(174,951)	–	(2,752,601)
Exchange realignment	225	–	89	169	–	483
Charge for the year	(102,177)	(198,462)	(7,037)	(19,385)	–	(327,061)
Impairment loss	(270,995)	(621,838)	(4,735)	(1,239)	(18,855)	(917,662)
Disposals	15,700	32,938	7,029	8,762	–	64,429
At 31 December 2017	**(1,235,442)**	**(2,453,139)**	**(38,332)**	**(186,644)**	**(18,855)**	**(3,932,412)**
Net book value						
At 31 December 2017	**1,282,467**	**678,538**	**24,660**	**133,024**	**308,822**	**2,427,511**
At 31 December 2016	1,426,632	1,454,717	27,513	142,340	376,566	3,427,768

Certain property, plant and equipment were pledged to secure banking facilities granted to the Group as disclosed in note 30(a).

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group determines whether there are indicators for impairment of property, plant and equipment at the end of each reporting period. Should the indicators exist, the Group will estimate value in use of relevant cash generating units of property, plant and equipment by estimating the future cash flows expected from those interests and a discount rate in order to calculate the present value. In view of the loss sustained by Sinochem Changshan, a subsidiary of the Group, for the year ended 31 December 2017, the directors of the Company considered that indicators of potential impairment of property, plant and equipment existed as at 31 December 2017. The Group re-assessed the recoverable amount of this cash generating unit with reference to its value in use, derived by using discounted cash flow analysis as at 31 December 2017. The key assumptions for the value in use calculations are those regarding the discount rate, estimated selling prices and selling quantities used in the cash flow forecasts. The pre-tax discount rate used in the value in use calculations is 13.6% (2016:13%). Based on the discounted cash flow forecast prepared, the value in use is lower than the carrying amount of this cash generating unit, the Group has recognized an impairment loss of RMB917,662,000 in "other expenses and losses" for the year ended 31 December 2017.

15 LEASE PREPAYMENTS

At the end of reporting period, the Group's lease prepayments comprise:

	2017	2016
	RMB'000	*RMB'000*
Cost		
At 1 January and 31 December	**676,091**	676,091
Accumulated amortization		
At 1 January	**(161,545)**	(148,437)
Charge for the year	**(13,033)**	(13,108)
At 31 December	**(174,578)**	(161,545)
Net book value		
At 31 December	**501,513**	514,546
Analysis for reporting purposes as		
Current assets	**13,810**	13,810
Non-current assets	**487,703**	500,736
	501,513	514,546

The amortization charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

(Expressed in RMB unless otherwise indicated)

16 MINING RIGHTS

	2017 RMB'000	2016 RMB'000
Cost		
At 1 January and 31 December	768,140	768,140
Accumulated amortization		
At 1 January	(156,773)	(124,467)
Charge for the year	(32,290)	(32,306)
At 31 December	(189,063)	(156,773)
Net book value		
At 31 December	579,077	611,367

The amortization charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

17 GOODWILL

	2017 RMB'000	2016 RMB'000
Cost		
At 1 January	849,966	829,752
Exchange adjustments	(20,891)	20,214
Carrying amount		
At 31 December	829,075	849,966

(Expressed in RMB unless otherwise indicated)

17 GOODWILL (CONTINUED)

Impairment testing on goodwill

For the purposes of impairment testing, goodwill has been allocated to the cash-generating units ("CGUs") of the related segments as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Basic Fertilizers and Distribution *(note)*	**265,221**	283,814
Production		
– Sinochem Yunlong	**531,074**	531,074
– Others	**32,780**	35,078
	829,075	849,966

Note: Goodwill allocated to the CGUs in Basic Fertilizer segment and Distribution segment amounted to RMB179,530,000 and RMB85,691,000 respectively as of 31 December 2017.

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations by estimating the future cash flows expected from these CGUs. The key assumptions for the value in use calculations are those regarding the discount rates, including estimated selling prices and selling quantities used in the cash flow forecasts. Cash flow forecasts are based on past practices and expectations of future changes in the market. The directors of the Company estimate discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specific relating to the CGUs. Cash flow forecasts of each CGU are derived from financial budgets of 2018 approved by the directors of the Company. The growth rates for the first 3 years from 2018 are based on the relevant CGUs past performance and management's expectation for the market development and for the following years are based on steady growth rates.

(Expressed in RMB unless otherwise indicated)

17 GOODWILL (CONTINUED)

Impairment testing on goodwill (continued)

The key assumptions used in the value in use calculation for related CGUs include:

	Basic Fertilizers and Distribution 2017	Production 2017
Pre-tax discount rate	**8.8%**	**13.0%-14.3%**
Steady growth rate for the following years	**3.7%**	**5.0%**

The value in use calculated is higher than the carrying amount for each CGU, accordingly, no impairment of goodwill was recognized for the year ended 31 December 2017.

18 INTERESTS IN ASSOCIATES

	2017 *RMB'000*	2016 *RMB'000*
At the end of reporting period, cost of investment in associates:		
– Listed in the PRC	**–**	10,008,084
– Unlisted	**391,429**	391,429
Share of profits, net of dividends	**118,483**	1,137,643
Less: impairment loss	**–**	(2,830,000)
	509,912	8,707,156
Fair value of listed investments	**–**	7,266,668

All of the associates are accounted for using the equity method in the consolidated financial statements.

In December 2017, the Company classified investment in Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") together with the impairment loss made in prior year from interests in associates to assets held for sale (see note 27).

(Expressed in RMB unless otherwise indicated)

18 INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 December 2017, the particulars of principal associates of the Group are as follows:

Name of entites	Form of business structure	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activity
				2017	2016	
Guizhou Xinxin Industrial Holdings Group Co., Ltd. ("Xinxin Group") 貴州鑫新實業控股集團有限責任公司	Incorporated	The PRC	RMB20,000,000	30%	30%	Production and sales of phosphate rock
Guizhou Xinxin Coal Chemical Co., Ltd. ("Xinxin Chemical") 貴州鑫新煤化工有限責任公司	Incorporated	The PRC	RMB20,000,000	30%	30%	Production and sales of coal
Qingdao Ganghua Logistics Co., Ltd. 青島港華物流有限公司	Incorporated	The PRC	RMB10,000,000	25%	25%	Provision of logistics services
Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") 陽煤平原化工有限公司	Incorporated	The PRC	RMB560,296,500	36.75%	36.75%	Production and sales of fertilizers

The directors of the Company are of the opinion that no associates are individually material to the Group. Aggregate information of associates that are not individually material are listed below:

	2017 RMB'000	2016 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	509,912	490,722
Aggregate amounts of the Group's share of those associates'		
Loss from continuing operation	(171,404)	(17,098)
Total comprehensive income	(171,404)	(17,098)

(Expressed in RMB unless otherwise indicated)

19 INTERESTS IN JOINT VENTURES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Unlisted shares, at cost	**427,130**	427,130
Share of profits, net of dividends	**(41,456)**	(53,126)
	385,674	374,004

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. The following list contains only the particulars of major joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

Name of entites	Form of business structure	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activities
				2017	2016	
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Co., Ltd. 天津北方化肥物流配送有限公司 ("Tianjin Beifang") *(notes (i) and (ii))*	Incorporated	The PRC	RMB3,000,000	**–**	60%	Fertilizer logistics
Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") 雲南三環中化化肥有限公司	Incorporated	The PRC	RMB800,000,000	**40%**	40%	Sales and manufacturing of fertilizers
Gansu Wengfu Chemical Co., Ltd. ("Gansu Wengfu") 甘肅甕福化工有限責任公司	Incorporated	The PRC	RMB181,000,000	**30%**	30%	Sales and manufacturing of fertilizers
Hainan Zhongsheng Agricultural Technology Co., Ltd. 海南中盛農業科技有限公司*(note (i))*	Incorporated	The PRC	RMB51,000,000	**51%**	51%	Sales of pesticides

Notes:

(i) In accordance with agreements between the investors, the investors exercise joint control over the entity.

(ii) The Group has disposed of the entire interests in Tianjin Beifang during the year ended 31 December 2017.

19 INTERESTS IN JOINT VENTURES (CONTINUED)

The directors of the Company are of the opinion that no joint ventures are individually material to the Group. Aggregate information of joint ventures that are not individually material are listed below:

	2017 *RMB'000*	2016 *RMB'000*
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	385,674	374,004
Aggregate amounts of the Group's share of those joint ventures'		
Profit/(loss) from continuing operation	13,736	(101,706)
Total comprehensive income	13,736	(101,706)

20 AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2017 *RMB'000*	2016 *RMB'000*
Available-for-sale investments comprise:		
– Listed equity securities	139,733	110,250
– Unlisted equity securities	397,477	397,477
Less: impairment losses	(89,958)	(9,290)
	447,252	498,437

At the end of the reporting period, all listed available-for-sale investments are stated at fair value determined by reference to the quoted market bid price from the relevant stock exchange.

The unlisted equity securities, representing investments in private entities, are subsequently measured at cost less impairment at the end of each reporting period, because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

As at 31 December 2017, certain of the Group's unlisted available-for-sale equity securities with a carrying amount of RMB1,332,000 (2016: RMB82,000,000) were individually determined to be impaired on the basis of a significant decline in fair value below cost. Impairment losses on these investments of RMB80,668,000 (2016: nil) were recognized in profit or loss during the year.

(Expressed in RMB unless otherwise indicated)

21 OTHER LONG-TERM ASSETS

	2017 RMB'000	2016 RMB'000
Cost		
At 1 January	49,263	41,762
Additions	7,695	7,501
At 31 December	56,958	49,263
Accumulated amortization		
At 1 January	(37,212)	(31,560)
Charge for the year	(6,436)	(5,652)
At 31 December	(43,648)	(37,212)
Net book value		
At 31 December	13,310	12,051

Other long-term assets have estimated useful lives ranging from 2 years to 10 years. The costs are amortized on a straight-line basis over their respective estimated useful lives.

22 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Fertilizer merchandise and finished goods	4,874,152	4,016,472
Raw materials	491,120	361,912
Work in progress	23,918	51,228
Consumables	43,948	45,406
	5,433,138	4,475,018

23 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables	46,565	60,581
Less: allowance for doubtful debts *(note (b))*	(1,212)	(7,937)
	45,353	52,644
Bills receivables	190,638	100,338
Total trade and bills receivables	235,991	152,982

(a) Aging analysis of trade and bills receivables

The Group allows a credit period of 0-90 days to its trade customers. As at the end of the reporting period, the aging analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date is as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Within 3 months	158,989	137,119
More than 3 months but within 6 months	72,608	10,974
More than 6 months but within 12 months	158	736
Over 12 months	4,236	4,153
	235,991	152,982

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. In the opinion of the management of the Group, receivables that are neither past due nor impaired have the best credit quality.

23 TRADE AND BILLS RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

The movement in the allowance for doubtful debts during the year is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Balance at 1 January	**7,937**	7,774
Impairment recognized	**–**	316
Write-off of uncollectible receivables	**(6,725)**	(153)
Balance at 31 December	**1,212**	7,937

(c) Trade debtors receivables that are not impaired

The ageing analysis of trade receivables which are past due but not impaired, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
More than 3 months but within 6 months	**379**	28
More than 6 months but within 12 months	**158**	736
Over 12 months	**4,236**	4,153
Balance at 31 December	**4,773**	4,917

These trade receivables are past due at the end of the reporting period for which the Group has not provided for allowance for doubtful debts as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

24 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Other receivables	**170,623**	186,057
Prepayments	**1,375,104**	1,021,998
Deductible input VAT	**383,102**	384,609
Less: allowance for doubtful debts *(note)*	**(45,773)**	(45,731)
Other receivables and prepayments	**1,883,056**	1,546,933

Note: The movement in the allowance for doubtful debts during the year is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Balance at 1 January	**45,731**	28,369
Impairment recognized	**42**	20,933
Reversal of impairment	**–**	(197)
Write-off of uncollectible receivables	**–**	(3,374)
Balance at 31 December	**45,773**	45,731

25 LOANS TO AN ASSOCIATE

Loans to an associate represent the entrusted loans lent to Yangmei Pingyuan which are unsecured, bear annual interest rate of 5.5% (2016: 5.5%) and is repayable within one year.

26 BANK BALANCES AND CASH

(a) Cash and cash equivalents comprise:

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less, and carry prevailing deposit rate is 0.35% (2016: 0.35%) per annum.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash in hand	**41**	107
Cash at bank	**286,775**	972,011
	286,816	972,118

(b) Reconciliation of liabilities arising from financing activities

	Bank and other loans *RMB'000* *(note 30)*	Bonds *RMB'000* *(note 30)*	Short-term commercial paper *RMB'000*	Interest payable *RMB'000*	Total *RMB'000*
At 1 January 2017	540,000	3,493,185	2,000,000	82,507	6,115,692
Changes from financing cash flows:					
Proceeds from bank and other loans	19,834,227	–	–	–	19,834,227
Repayment of bank and other loans	(18,752,227)	–	–	–	(18,752,227)
Repayment of short-term commercial paper	–	–	(2,000,000)	–	(2,000,000)
Interest paid	–	–	–	(388,142)	(388,142)
Total changes from financing cash flows	1,082,000	–	(2,000,000)	(388,142)	(1,306,142)
Other changes:					
Interest and changes on borrowings *(note 6)*	–	2,350	–	340,015	342,365
At 31 December 2017	1,622,000	3,495,535	–	34,380	5,151,915

(Expressed in RMB unless otherwise indicated)

27 ASSETS HELD FOR SALE

The movements of assets of non-current assets held for sale during the year are as follows:

	2017 RMB'000
Assets	
At 1 January	–
Transfer to assets held for sale	8,048,139
At 31 December	8,048,139

Pursuant to the share transfer agreement between Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer"), a subsidiary of the Group, and Sinochem Group dated 24 October 2017, Sinochem Fertilizer agreed to sell and Sinochem Group agreed to purchase all the shares of Qinghai Salt Lake held by Sinochem Fertilizer, representing 20.52% of its total issued share capital of Qinghai Salt Lake, at a consideration of RMB8,063,198,000, the first instalment of which amounted to RMB2,418,960,000 has been received by Sinochem Fertilizer on 31 October 2017 and included in "other payables and receipt in advance" in the consolidated statement of financial position (note 29). The transaction has been approved by the independent shareholders of the Company and State-owned Assets Supervision and Administration Commission of the State Council of the PRC in December 2017. Accordingly, the Company classified investment in Qinghai Salt Lake from interests in associates to assets held for sale. The transaction is expected to be completed in 2018.

At 31 December 2017, the non-current assets held for sale were stated at the lower of carrying amount and fair value less costs to sell, comprising the following assets:

	As at 31 December 2017 *RMB'000*
Interests in Qinghai Salt Lake:	
– Cost of investment	10,008,084
– Share of profits, net of dividends	839,301
– Less: impairment loss	(2,799,246)
Assets held for sale	8,048,139

27 ASSETS HELD FOR SALE (CONTINUED)

As at 31 December 2017, the recoverable amount of RMB8,048,139,000 was determined based on the consideration of RMB8,063,198,000 less the transaction costs of approximately RMB15,059,000. A reversal of impairment loss of RMB30,754,000 was recognized in "other expenses and losses".

Based on the accounting policy of the Group, on disposal of a long-term equity investment accounted for using the equity method, any gain or loss on dilution previously recognized directly in equity shall be recycled to profit or loss on the disposal date. The Group previously recognized the loss on dilution of the interests in Qinghai Salt Lake of RMB711,561,000 directly in equity. Since the share transfer agreement is an onerous contract, the Group recognized the present obligation under the share transfer agreement and measured a provision for onerous contract in relation to the disposal of interests in Qinghai Salt Lake amounting to RMB711,561,000 accordingly.

28 TRADE AND BILLS PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,455,851**	3,406,708
Bills payables	**1,996,825**	1,168,003
Trade and bills payables	**3,452,676**	4,574,711

As at 31 December 2017, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**1,832,456**	3,635,023
More than 3 months but within 6 months	**741,346**	658,107
More than 6 months but within 12 months	**825,112**	86,081
Over 12 months	**53,762**	195,500
	3,452,676	4,574,711

(Expressed in RMB unless otherwise indicated)

29 OTHER PAYABLES AND RECEIPT IN ADVANCE

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Staff costs payables	**122,451**	21,784
Consideration payable for acquisition of Sinochem Yunlong	**–**	230,000
Others	**691,970**	476,374
Other payables	**814,421**	728,158
First instalment of consideration from the disposal of Qinghai Salt Lake *(note 27)*	**2,418,960**	–
Receipt in advance	**3,481,748**	2,875,385
Other payables and receipt in advance	**6,715,129**	3,603,543

30 INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Bank and other loans		
Bank loans, secured *(note 2)*	**5,000**	–
Borrowings from Sinochem Group *(note 37(b))*	**1,500,000**	–
Borrowings from Sinochem Finance Co., Ltd. ("Sinochem Finance") *(note 37(b))*	**117,000**	540,000
	1,622,000	540,000
Bonds *(note 1)*		
Principal amount	**3,500,000**	3,500,000
Less: unamortized transaction costs	**(4,465)**	(6,815)
	3,495,535	3,493,185
	5,117,535	4,033,185

30 INTEREST-BEARING BORROWINGS (CONTINUED)

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows: (continued)

Notes:

1 On 25 November 2009, a PRC subsidiary of the Group issued corporate bonds with an aggregate principal amount of RMB2.5 billion with a maturity of 10 years at a fixed interest rate of 5% per annum. The repayment of the bonds is guaranteed by Sinochem Group.

On 22 July 2016, a PRC subsidiary of the Group issued the first tranche of the medium-term notes of RMB1 billion, with a maturity of three years at a rate of 3.5% per annum.

2 At 31 December 2017, certain property, plant and equipment with carrying values of approximately RMB3,725,000 (2016: RMB4,374,000) were pledged to secure banking facilities and borrowings granted to the Group.

All of the interest-bearing borrowings are fixed-rate borrowings carried at amortized cost and repayable as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Carrying amount repayable:		
Within 1 year	**122,000**	540,000
After 1 year but within 2 years	**4,995,535**	–
After 2 years but within 5 years	**–**	3,493,185
	5,117,535	4,033,185
Less: amounts due within 1 year shown under current liabilities	**(122,000)**	(540,000)
Amounts shown under non-current liabilities	**4,995,535**	3,493,185

The ranges of effective interest rates on the Group's borrowings are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Fixed-rate borrowings	**2.10%~5%**	2.10%~5%

(Expressed in RMB unless otherwise indicated)

30 INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Unutilized banking facilities

As at the end of the reporting period, the Group has the following unutilized banking facilities:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Expiring within 1 year	**9,737,920**	10,420,468
Expiring beyond 1 year	**6,914,099**	10,496,692
	16,652,019	20,917,160

31 DEFERRED TAX ASSETS / LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Deferred tax assets	**17,702**	32,960
Deferred tax liabilities	**(207,912)**	(220,648)
	(190,210)	(187,688)

31 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

(a) Deferred tax assets and liabilities recognized:

Deferred tax assets and liabilities recognized and movements thereon during the current and prior years are as follows:

	Fair value adjustment on business combination RMB'000	Unrealized profits in inventories RMB'000	Impairments RMB'000	Tax losses RMB'000	Accumulated depreciation difference RMB'000	Other RMB'000	Total RMB'000
At 1 January 2016	(233,383)	3,114	23,120	6,047	(709)	11,882	(189,929)
Credited / (charged) to profit or loss for the year	12,735	(1,790)	(8,237)	(1,380)	1,325	(412)	2,241
At 31 December 2016	(220,648)	1,324	14,883	4,667	616	11,470	(187,688)
At 1 January 2017	(220,648)	1,324	14,883	4,667	616	11,470	(187,688)
Credited / (charged) to profit or loss for the year	12,736	(1,087)	(3,759)	(2,889)	(616)	(6,907)	(2,522)
At 31 December 2017	(207,912)	237	11,124	1,778	–	4,563	(190,210)

By reference to financial budgets, the management of the Group believes that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realization of deferred tax assets which have been recognized in respect of tax losses and other temporary differences.

(b) Deferred tax assets not recognized

No deferred tax assets were recognized on the tax losses of approximately RMB8,566,970,000 as of 31 December 2017 (2016: RMB6,326,218,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable. Unrecognized tax losses of RMB33,268,000 has expired during 2017. Included in the unrecognized tax losses are losses of RMB7,947,809,000 that will expire before 31 December 2022 (2016: RMB5,702,816,000 that will expire before 31 December 2021). Other losses may be carried forward indefinitely.

(Expressed in RMB unless otherwise indicated)

31 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

(c) Deferred tax liabilities not recognized

Under the tax laws of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to overseas investors from 1 January 2008 onwards. As the Company controls the dividend policy of its PRC subsidiaries, it has the ability to control the timing of the reversal of temporary differences associated with the investment in subsidiaries. Furthermore, the Company has determined that those profits earned by its PRC subsidiaries will not be distributed to overseas investors in the foreseeable future. As such, deferred taxation has not been provided for in respect of temporary differences attributable to accumulated profits of PRC subsidiaries of RMB 241,460,000 at 31 December 2017 (2016: RMB197,290,000).

32 ISSUED EQUITY

(a) The movements in issued equity of the Group:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
At 1 January / At 31 December		
Issued shares of HK$0.10 each	**8,267,384**	8,267,384

The amount of issued equity of the Group as at 31 December 2017 and 2016 includes share capital and share premium in the consolidated statement of financial position.

(b) The movements in the share capital of the Company are as follows:

		2017			2016	
	Number of shares	**Nominal value**	**Equivalent to**	Number of shares	Nominal value	Equivalent to
	'000	***HK$'000***	***RMB'000***	*'000*	*HK$'000*	*RMB'000*
Authorized:						
Ordinary shares of HK$0.10 each	**80,000,000**	**8,000,000**		80,000,000	8,000,000	
Ordinary shares of the Company, issued and fully paid:						
At 1 January / At 31 December	**7,024,456**	**702,446**	**691,750**	7,024,456	702,446	691,750

32 ISSUED EQUITY (CONTINUED)

(b) The movements in the share capital of the Company are as follows: (continued)

	Number of shares	Nominal Value *HK$'000*
Preference shares		
Authorized:		
Preference shares of HK$1,000,000 each	316	316,000

No preference shares are issued at 31 December 2017 and 2016.

33 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from previous years.

The capital structure of the Group consists of net debt including borrowings, net of cash and cash equivalents and equity attributable to owners of the Company comprising issued equity, retained profits and other reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

34 FINANCIAL INSTRUMENT

(a) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, other deposits, trade and bills receivables, other receivables and prepayments, bank balances and cash, trade and bills payables, other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no significant change to the Group's exposure to these risks or the manner in which it manages and measures these risks. The management manages and monitors the Group's exposures to these risks to ensure appropriate measures are implemented on a timely and effective manner.

(Expressed in RMB unless otherwise indicated)

34 FINANCIAL INSTRUMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

Several subsidiaries of the Group have foreign currency transactions, which expose the Group to currency risk. Since the monetary items denominated in foreign currencies are not significant, the Group considers the currency risk was insignificant and does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

Monetary assets and monetary liabilities denominated in foreign currency including mainly bank balances and cash, other payables and borrowings that are subject to currency risk at the end of the reporting period are as follows, differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded:

	Liabilities		Assets	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**1,535,082**	1,017,658	**46,945**	775,409

Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2017			2016		
	Increase/ (decrease) in foreign exchange rates	**Effect on results of the year and retained profits**	**Effect on other components of equity**	Increase/ (decrease) in foreign exchange rates	Effect on results of the year and retained profits	Effect on other components of equity
		RMB'000	***RMB'000***		*RMB'000*	*RMB'000*
US$	**10%**	**(148,814)**	**–**	10%	(24,225)	–
	(10%)	**148,814**	**–**	(10%)	24,225	–

34 FINANCIAL INSTRUMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' results of year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2016.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 30 for details of these borrowings). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China and the fluctuation of London Interbank offered Rate.

Sensitivity analysis

Since the Group has no variable-rate borrowings at the end of the reporting period, no sensitivity analysis about interest rates risk is prepared.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk in available-for-sale investments is mainly concentrated on equity instruments issued by companies operating in fertilizer industry sector listed on the Stock Exchange. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk.

34 FINANCIAL INSTRUMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Other price risk (continued)

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective listed equity instruments increased / (decreased) of 10% (2016: 10%), the Group's other comprehensive income after tax and other components of consolidated equity would have increased / decreased by approximately RMB13,973,000 (2016: RMB11,025,000) as a result of the increase / decrease in fair value of available-for-sale investments. The analysis is performed on the same basis for 2016.

Credit risk

The directors of the Company consider that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made against the irrecoverable amounts. In this regard, the directors of the Company believe that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and bills receivables is limited because the counterparties are banks with high credit rating.

Other than concentration of credit risk on liquid funds and bills receivables which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of credit borrowings.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2017, the Group has available unutilized bank loan facilities of approximately RMB16,652,019,000 (2016: approximately RMB20,917,160,000). Details are set out in note 30(b).

The following table details the Group's remaining contractual maturity for its financial liabilities. For financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

34 FINANCIAL INSTRUMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table includes both interest and principal cash flows based on the contractual undiscounted payments of the Group's financial liabilities at the end of the reporting period.

	2017 Contractual undiscounted cash outflow				
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 year but less than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Trade and bills payables	3,452,676	–	–	3,452,676	3,452,676
Other payables	814,421	–	–	814,421	814,421
Borrowings	345,565	5,179,558	–	5,525,123	5,117,535
	4,612,662	5,179,558	–	9,792,220	9,384,632

	2016 Contractual undiscounted cash outflow				
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 year but less than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Trade and bills payables	4,574,711	–	–	4,574,711	4,574,711
Other payables	728,158	–	–	728,158	728,158
Borrowings and short-term commercial paper	2,733,222	160,000	3,635,000	6,528,222	6,033,185
	8,036,091	160,000	3,635,000	11,831,091	11,336,054

34 FINANCIAL INSTRUMENT (CONTINUED)

(b) Fair value

(i) Financial instruments carried at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Available-for-sale investments				
– Listed	**139,733**	**–**	**–**	**139,733**

	31 December 2016			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments				
– Listed	110,250	–	–	110,250

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which the occur.

The directors of the Company consider there is no significant difference between the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements and their fair values.

34 FINANCIAL INSTRUMENT (CONTINUED)

(c) Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Trade and bills receivables and other receivables

The fair value of trade and bills receivables and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(iii) Interest-bearing borrowings

The fair value of interest-bearing borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

35 CONTINGENT LIABILITIES

At 31 December 2017 and 2016, the Group had no material contingent liabilities.

36 COMMITMENTS

(i) Capital commitment

	2017	2016
	RMB'000	*RMB'000*
Contracted but not provided for		
– Property, plant and equipment	**24,408**	75,917
Authorized but not contracted for		
– Property, plant and equipment	**1,770,125**	331,399
– Others	**–**	500,000
	1,794,533	907,316

36 COMMITMENTS (CONTINUED)

(ii) Operating lease

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights which give the Group a priority in renewing these operating lease agreements at market price.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 *RMB'000*	2016 *RMB'000*
Within 1 year	**36,329**	40,398
More than 1 year, but within 5 years	**8,346**	6,545
Over 5 years	**1,304**	1,739
	45,979	48,682

Operating lease payments represent rentals payable by the Group for certain of retail outlets, offices and warehouses. Leases are normally negotiated for an average term of 1-2 years and rentals are fixed for an average of 1-2 years.

37 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Group during the year ended 31 December 2017 and 2016 were as follows:

Ultimate holding company

Sinochem Group
(中國中化集團有限公司)

Immediate holding company

Sinochem Hong Kong (Group) Co., Ltd. ("Sinochem HK")
(中化香港(集團)有限公司)

Fellow subsidiaries

Sinochem (United Kingdom) Limited
(中化(英國)有限公司)
Beijing Chemsunny Property Co., Ltd. ("Chemsunny Ltd.")
(北京凱晨置業有限公司)
Sinochem Finance
(中化集團財務有限責任公司)

A subsidiary of a shareholder with significant influence over the Company

PCS Sales (USA) Inc. ("PCS Sales")

Associates

Qinghai Salt Lake (associate of the ultimate holding company as at 31 December 2017)
(青海鹽湖工業股份有限公司)
Xinxin Group
(貴州鑫新實業控股集團有限責任公司)
Yangmei Pingyuan
(陽煤平原化工有限公司)
Zhongwang Nongzi
(重慶市涪陵區眾旺農資有限公司)

Joint ventures

Three Circles-Sinochem
(雲南三環中化化肥有限公司)
Gansu Wengfu
(甘肅甕福化工有限責任公司)

(Expressed in RMB unless otherwise indicated)

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transaction disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year:

	2017 RMB'000	2016 RMB'000
Sales of fertilizers to		
Ultimate holding company	–	25,206
Joint ventures	262,301	144,231
Associates	6,349	13,453
	268,650	182,890
Purchases of fertilizers from		
Ultimate holding company	119,596	116,323
Joint ventures	1,076,367	958,659
Associates	1,519,622	1,107,019
A subsidiary of a shareholder with significant influence over the Company	321,122	–
	3,036,707	2,182,001
Import service fee payable to		
Ultimate holding company	1,520	3,458
A fellow subsidiary	15,492	14,760
	17,012	18,218
Office rental fee payable to		
Immediate holding company	3,016	5,548
A fellow subsidiary	22,740	21,912
	25,756	27,460

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transaction disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year: (continued)

	2017 *RMB'000*	2016 *RMB'000*
Loans to an associate	1,244,000	670,000
Repayments of loans to an associate	1,244,000	670,000
Interest income from an associate	35,302	36,046
Loans from related parties		
A fellow subsidiary	14,227,000	7,611,000
Ultimate holding company	1,500,000	1,299,445
	15,727,000	8,910,445
Repayments of loans from related parties		
A fellow subsidiary	14,650,000	7,131,000
Immediate holding company	–	850,000
Ultimate holding company	–	1,499,445
	14,650,000	9,480,445
Interest expenses for loans from related parties		
A fellow subsidiary	64,302	20,762
Immediate holding company	–	14,946
Ultimate holding company	13,208	4,437
	77,510	40,145

The Group has agreed to dispose all of its interests in Qinghai Salt Lake to Sinochem Group according to the share transfer agreement dated 24 October 2017 (see note 27).

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) As at the end of the reporting period, the Group had the following material balances with its related parties:

	2017 *RMB'000*	2016 *RMB'000*
Trade receivables	–	14,324
Other receivables and advance payments	291,227	329,394
Trade and bills payables	1,771,482	5,039
Other payables and receipt in advance	2,468,652	76,512
Loans to an associate	670,000	670,000
Borrowings-due within one year *(note (ii))*	117,000	540,000
Borrowings-due after one year *(note (i))*	1,500,000	–

Note:

i. Borrowings from Sinochem Group are borrowed with a maturity period within 2 years at fixed interest rates from 2.92% to 4.75% per annum.

ii. Borrowings from Sinochem Finance are borrowed with a maturity period within 1 year at fixed interest rates from 2.10% to 3.92% per annum.

(c) Compensation of key management personnel

Key management personnel are Group's directors and senior executives. Remuneration paid or payable to the directors was disclosed in note 10, and was determined by the Remuneration Committee according to individual performance and relevant comparable market statistics. Remuneration paid or payable to senior executives is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Salaries and other benefits	4,682	4,807
Performance related incentive payment	5,700	–
Retirement benefits scheme contribution	312	330
	10,694	5,137

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel (continued)

The emoluments of senior executives were within the following bands:

	2017 ***Number of individuals***	2016 *Number of individuals*
Nil to HK$1,000,000	**3**	7
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
	9	7

(d) Transactions / balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by Chinese government ("government-related entities"). In addition, the Group itself is part of a larger group of companies under Sinochem Group which is controlled by Chinese government. Apart from the transactions with Sinochem Group and fellow subsidiaries and other related parties as disclosed above, the Group also conducts business with other government-related entities. The directors of the Company consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

At the end of the reporting period, the Group had the following significant balances with other government-related entities in the PRC.

	As at 31 December	
	2017 ***RMB'000***	2016 *RMB'000*
Trade and bills receivables	**6,936**	3,846
Other receivables and prepayments	**406,780**	290,440
Trade and bills payables	**195,691**	149,072
Other payables and receipt in advance	**268,741**	238,496

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions / balances with other state-controlled entities in the PRC (continued)

During the year, the Group had the following significant transactions with other government-related entities as follows:

	2017 *RMB'000*	2016 *RMB'000*
Sales of fertilizers	2,321,203	1,202,434
Purchases of fertilizers	4,566,934	2,172,692

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks that are government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Company are of the opinion that separate disclosure would not be meaningful.

Except for amounts and transactions disclosed above, the directors of the Company are of the opinion that transactions with other government-related entities are not significant to the Group's operations.

38 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2017 and 2016:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2017	2016	
Directly held:					
China Fertilizer (Holdings) Co., Ltd.	British Virgin islands ("BVI")	10,002 shares, US$1 each	100%	100%	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	1,000,000 shares, US$1 each	–	100%	Investment holding
Calorie Ltd.	Hong Kong	34,000 shares, HK$1 each	100%	100%	Investment holding

(Expressed in RMB unless otherwise indicated)

38 PRINCIPAL SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Group as at 31 December 2017 and 2016: (continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2017	2016	
Indirectly held:					
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	10,002 shares, US$1 each	100%	100%	Investment holding
Sinochem Fertilizer (中化化肥有限公司) *(note a)*	The PRC	RMB10,600,000,000	100%	100%	Fertilizer trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	15,000,000 shares, HK$1 each	100%	100%	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務有限公司)	Macao SAR	100,000 shares, MOP1 each	100%	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Co., Ltd. *(note c)* (綏芬河新凱源貿易有限公司)	The PRC	RMB5,000,000	100%	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. *(note c)* (福建中化智勝化肥有限公司)	The PRC	RMB47,000,000	53.19%	53.19%	Sales and manufacturing of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. *(note c)* (中化重慶涪陵化工有限公司)	The PRC	RMB148,000,000	60%	60%	Sales and manufacturing of fertilizers
Sinochem Yunlong *(note c)* (中化雲龍)	The PRC	RMB500,000,000	100%	100%	Sales and manufacturing of feeds stuff
Sinochem Yantai Crop Nutrition Co., Ltd. *(note b)* (中化(煙台)作物營養有限公司)	The PRC	US$1,493,000	100%	100%	Sales and manufacturing of fertilizers

(Expressed in RMB unless otherwise indicated)

38 PRINCIPAL SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Group as at 31 December 2017 and 2016: (continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2017	2016	
Manzhouli Kaiming Fertilizer Co., Ltd. *(note c)* (滿洲里凱明化肥有限公司)	The PRC	RMB5,000,000	100%	100%	Fertilizer trading
Sinochem Changshan *(note c)* (中化吉林長山化工有限公司)	The PRC	RMB1,018,650,000	94.78%	94.78%	Sales and manufacturing of fertilizers
Hubei Sinochem Orient Fertilizer Co., Ltd. *(note c)* (湖北中化東方肥料有限公司)	The PRC	RMB30,000,000	80%	80%	Sales and manufacturing of fertilizers
Sinochem Shandong Fertilizer Co., Ltd. *(note c)* (中化山東肥業有限公司)	The PRC	RMB100,000,000	51%	51%	Sales and manufacturing of fertilizers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd. *(note c)* (中化肥美特農資連鎖有限公司)	The PRC	RMB100,000,000	100%	100%	Fertilizer retailing
Sinochem Hainan Crop Science and Technology Co., Ltd.. *(note c)* (中化海南作物科技有限公司)	The PRC	RMB200,000,000	100%	100%	Sales of fertilizers
Pingyuan County Xinglong Textile Co., Ltd. *(note c)* (平原縣興龍紡織有限公司)	The PRC	RMB15,000,000	75%	75%	Sales and manufacturing of textiles

Note a: Foreign invested enterprise
Note b: Sino-foreign enterprise
Note c: Domestic company

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

The directors of the Company are of the opinion that none of its subsidiaries has non-controlling interests material to the Group.

(Expressed in RMB unless otherwise indicated)

39 RETIREMENT BENEFITS SCHEME CONTRIBUTION

According to the relevant laws and regulations in Mainland China, Hong Kong and Macao SAR, the Group's certain subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The contribution to fund the retirement benefits of the employees are calculated based on certain percentage of the average employee salary as agreed by local municipal government to the scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contribution under the schemes.

40 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Investments in subsidiaries	**4,118,038**	4,565,557
Amount due from subsidiaries	**6,115,465**	6,537,308
Bank balances and cash	**944**	1,724
Other current assets	**850,449**	886,864
TOTAL ASSETS	**11,084,896**	11,991,453
Other current liabilities	**4,666**	2,229
NET ASSETS	**11,080,230**	11,989,224
CAPITAL AND RESERVE		
Issued equity	**8,267,384**	8,267,384
Capital reserve	**7,416,535**	7,416,535
Exchange reserve	**(2,364,579)**	(1,429,856)
Accumulated losses	**(2,239,110)**	(2,264,839)
TOTAL EQUITY *(note)*	**11,080,230**	11,989,224

Note: The decrease in the exchange reserve of RMB934,723,000 was due to exchange differences on translation of the Company's financial statements. The increase in the retained profits of RMB25,729,000 was mainly attributable to the Company's profit for the year of RMB25,729,000. No dividends paid to the owners of the Company in year 2017.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**17,643,812**	14,959,092	26,121,488	28,311,086	34,721,849
(Loss) / profit before tax	**(2,269,946)**	(4,817,805)	350,149	272,122	(281,382)
Income tax	**(10,938)**	(4,621)	(147,602)	(136,700)	(343,424)
(Loss) / profit for the year	**(2,280,884)**	(4,822,426)	202,547	135,422	(624,806)
(Loss) / profit attributable to					
– Owners of the Company	**(2,207,504)**	(4,635,885)	220,855	229,339	(476,340)
– Non-controlling interests	**(73,380)**	(186,541)	(18,308)	(93,917)	(148,466)
	(2,280,884)	(4,822,426)	202,547	135,422	(624,806)

	At 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**22,317,633**	22,865,093	27,739,029	25,210,984	23,829,283
Total liabilities	**(15,690,521)**	(14,595,520)	(14,663,108)	(11,828,696)	(10,536,306)
Net assets	**6,627,112**	8,269,573	13,075,921	13,382,288	13,292,977

中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

Room 4705, 47/F., Office Tower,
Convention Plaza, 1 Harbour Road,
Wanchai, Hong Kong

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