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SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司 *

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- The Group's turnover was RMB22,996 million, increased by 30.33% year on year
- Profit for the year attributable to owners of the Company was RMB460 million (2017: loss for the year attributable to owners of the Company was RMB2,208 million), showed a turn from loss to profit
- Basic earnings per share for the year was RMB0.0656 (2017: basic loss per share was RMB0.3143)
- The Board recommended the payment of a final dividend of HK\$0.0224 per share (equivalent to approximately RMB0.0196 per share) (2017: Nil)

CHAIRMAN’S STATEMENT

To shareholders,

On behalf of the Board of Directors (the “Board”), I hereby report the annual results of Sinofert Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018 to all the shareholders.

The year 2018 saw a modest recovery in the fertilizer industry as a result of the supply-side structural reform being implemented in China’s agricultural sector, amidst continuous excess capacity and intensified market competition. 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, and achieved satisfactory results. The Basic Fertilizers Division optimized purchase operations by focusing on core suppliers while tapping into the demand of the downstream customers through upgrading the customer relation management system, achieving a continuous growth in both sales volume and profit on top of the high levels made in previous years. In 2018, sales volume attributable to the Basic Fertilizer Division increased 13.91% and profit before taxation rose to RMB 642 million, up by 10.88%. Purchase volume from strategic core suppliers amounted to 66% of the total, while sales volume to industrial customers rose to 60% of total sales. Operations of the Distribution Division were thriving, the DTS channel building strategy began to take roots, technological service was strengthened, and overall channel service capacity was systematically expanded by recruiting specialized agrotech talents, agrotech training and contests as well as rank review of the agrotech teams. Efforts were also made to promote brand building and brand recognition so as to enable brand name to be the engine propelling future growth. New technologies were applied to help readjusting the product structure, while promotional resources were concentrated to the marketing of differentiated products, which was up by 39% year on year. All the Group’s compound fertilizer plants recorded a profit in 2018, and the construction of a new compound fertilizer project with nameplate capacity of 500,000 mt started in the Jiangling Industrial Park. During the reporting period, sales volume attributable to the Distribution Division increased 14.18% and profit before taxation rose to RMB 70 million. Work in HSE management and assets optimizing among various production subsidiaries of the Group continued to improve, with Sinochem Yunlong Co., Ltd and Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd (“Sinochem Fuling”) achieving steady increase in output, and Sinochem Jilin Changshan Chemical Co., Ltd able to run steadily and efficiently and reaching designed capacity. Rapid progress was also made in the expansion of the specialized R&D team in crop nutrient, with the internationally advanced state-of-the art Linyi R&D Center will be put into operation in May 2019. Cooperation on R&D work with outside research institutes and universities was also comprehensively upgraded, with a considerable number of newly developed compound fertilizer formulas and differentiated products brought into commercial promotions, in addition to setting up a technological reserve for the Group.

In 2018, total sales volume of the Group 11.61 million tons, up by 13.71% year on year; sales revenue rose to RMB 22,996 million, up by 30.33%; and profit attributable to owners of the Company was RMB 460 million. Major performance index of the Group remained in good standing, and the risk index passed the stable rating requirement. Among them, total expense decreased year on year and was within the budget range; the assets-liabilities structure was stable; and overall inventories were lower and turnover rate increased year on year.

Despite the challenges of a changing 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 2018 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 systems and perfecting corporate governance structure.

In 2019, the Chinese fertilizer industry is expected to remain difficult. Industry consolidation and reshuffling would be intensified, and various fertilizer enterprises would face the question of to be or not to be. The government continues to attach great emphasis on agricultural modernization, as expressed in the latest Circular No. 1 titled "Opinion of the CPC Central Committee and the State Council on Adhering to Developing Agriculture and the Rural Areas with First Priority and Doing a Better Job in the Work Concerning Agriculture, the Farmers and the Rural Areas", which was officially announced on 19 February 2019, being the 16th of such documents since the beginning of the new century. This would create important opportunities for the Group in our innovative operations and business transition.

In 2019, the Group will focus on the nation's Rural Revitalization Strategy, follow the trend of agricultural supply-side reform and the rapidly changing agricultural structure, make business transition and upgrading the core work, take root in modern agriculture, streamline the operational structure and renovate our business model so as to achieve stable and sustainable growth. The Basic Fertilizers Division will work to deepen its cooperation with existing suppliers, gradually improve its resource deployment abilities to relatively weak regional market, and expand and diversify its purchase channels. In those regions where our market presence is weak or even blank, efforts will be made to build new channels, formulate differentiated service packages for improved services for the customers. The E-commerce platform—Fertex.com.cn—for fertilizer trading on line will be introduced and actively set up to create sustainable growth of the Basic Fertilizer Division. Meanwhile, the Distribution Division will carry out the DTS in-depth channel building strategy on full scale, readjust its product structure by focusing on specific needs of different crops, accumulate standardized planting technical solutions, and completely improve the profitability of differentiated products. Work will be done to achieve better internal synergy effect and empower the production enterprises. In addition, more input will be made in R&D, enhance the Group's scientific and technological R&D level and industrial application level by combining independent R&D with engaging in exterior cooperation. 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 of Sinochem Fuling and Sinochem Oriental Fertilizer Co., Ltd, and constantly promote the awareness of risk control and safety management to ensure operational safety.

Last but not the least, on behalf of the Board, I'd like to take this opportunity to extend our most sincere appreciation to the shareholders and customers of the Group. We hope to have your continuous concern and support in our future development, and expect both the management and the 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.

Yang Lin
Non-Executive Director

Hong Kong, 28 March 2019

MANAGEMENT REVIEW AND PROSPECT

BUSINESS ENVIRONMENT

In 2018, the global economy achieved overall stable growth under the background of “large-scale economic friction and readjustment” 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 enhanced, and the quality of supply also continued to improve.

In the reporting period, China’s agriculture faced unprecedented opportunities for change. With the supply-side reform, advanced production capacity was steadily developed, high-quality supplies were accelerated and backward production capacity was gradually phased out. Grain output was maintained at a high level, and the crop structure was continuously optimized. The year 2018 was the first year of implementing the Rural Revitalization Strategy. Revitalizing agriculture with quality and green development was the key measure to achieve the above strategy and was the only way for China to improve the agricultural development, the rural landscape and the farmers’ well-being. China was pushing forward multiple key agricultural policies and initiatives such as environmental protection tax, campaigns against counterfeit agricultural inputs, elimination of export tariff and fertilizer and pesticide application reduction in agriculture, which provided a powerful guarantee for implementing the Rural Revitalization Strategy. Changes in 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 2018, the growth of global fertilizer demand slowed down, and the fertilizer prices in the domestic market recovered while excess capacity still existed. Due to the continuous implementation of environmental protection policies, the operating rate of fertilizer enterprises significantly decreased and fertilizer production declined compared to the same period in 2017. Thus, supply fell short of demand and the market price was increased. Meanwhile, due to the continuous increase in raw material prices, production and transportation cost, export decreased and import increased, and thus the fertilizer industry structure faced deep adjustment. With the rising price in the fertilizer industry, the profitability of the fertilizer enterprises was improved. However, the situation of excess capacity had not been completely changed, and the fertilizer and traditional chemical industries were still facing great pressure to survive. Domestic enterprises accelerated transformation and upgrading one after another and expanded their presence in upstream and downstream industrial chains, started to provide farmers with new comprehensive agricultural services and aimed to achieve sustainable agricultural development and green development of the fertilizer industry.

Against the backdrop of positive global economic development, in order to effectively cope with the great market challenges and ensure its 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 China’s leading technology-based marketing and service provider of crop nutrition.

Financial Highlights

For the year ended 31 December 2018, the Group's revenue reached RMB22,996 million, representing a year-on-year increase of 30.33%. Profit attributable to owners of the Company was RMB460 million. Compared to the loss of RMB380 million in 2017 (excluding major non-recurring expenses and losses), the Group returned to profitability, which represented a significant improvement in business performance.

Manufacturing

In 2018, the Group's subsidiaries, associates and joint ventures continued to strengthen the fundamental work in production enterprises, conducted cost management, centralized procurement and quality management, implemented technological transformation, 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 1.02 million tons of phosphate, compound fertilizers and other products in 2018. Sinochem Fuling carried out in-depth cooperation with the Basic Fertilizers Division in off-take, grasped the market opportunities, and achieved notable results in increasing income, reducing costs and improving efficiency through implementing economic responsibility system, and thus increased its profit by a large margin.

In the context of shifting towards new growth momentum, in order to enhance the competitiveness of its plants and make full use of its geographical advantages, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, shut down the old ammonia production line with high material and energy consumption and operated the pulverized coal gasification ammonia production line which was energy-saving and environmental-friendly at the beginning of 2018. Therefore, the production and operation of the plant was more stable, the cost was obviously reduced, and the profitability was significantly improved. In 2018, Sinochem Changshan produced 173,800 tons of synthetic ammonia (or 305,000 tons of urea) and 121,600 tons of compound fertilizers in total.

Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary of the Group, optimized phosphate mining schemes and mined 620,500 tons of phosphate rock. In respect of mine construction, Sinochem Yunlong implemented the construction of capacity continuing project of 600,000 tons/year that is mechanized, automated, digital and intelligent for Mozushao production as planned, ensured the sustainable use of resources, and continuously expanded the advantages in phosphate resources. In 2018, despite of the severe challenges such as the China-US trade friction, continuous capacity release from competitors and rising price in raw materials, Sinochem Yunlong was market-oriented and expanded its market share by continuous quality improvement and differentiated products development, and set a new record in production, sales and profit through "improving production, strengthening marketing, decreasing costs and guaranteeing quality". Sinochem Yunlong's output of monocalcium/dicalcium phosphate (MCP/DCP) amounted to 320,000 tons.

Basic Fertilizers Operations

The Group continued to proceed with professional and lean operations, continuously strengthened strategic procurement on the supply side, increased the proportion of procurement from strategic suppliers and obtained stable supply of high-quality products. On the customer side, the Group focused on exploring the potential of existing customers, further specified the classification standards for industrial customers, and continuously developed new customers. Meanwhile, the Group promoted the sales of nitrogen, phosphate and potash fertilizers for agricultural use through brand building, thus enhancing the brand influence and maintaining a leading position in the market.

Potash Operations: In 2018, the potash fertilizer business achieved a sales volume of 2.43 million tons and its operation scale grew by 7% year on year. The Group strengthened its strategic procurement and the 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 partnership further deepened, and the influence of domestic potash enhanced in regions where the Group was the exclusive agency; improved the core customer system for industrial potash, maintained a stable source of supply and enhanced the ability of marketing service; strengthened information collection and analysis, improved scientific decision-making mechanism, formulated differentiated sales strategies, and enhanced market influence; deepened the marketing channel system of potash for agriculture, accelerated to build its proprietary brand, enriched product categories, consolidated core customers, optimized sources of supply and logistics arrangement, and stabilized the sales volume and profit of potash for agriculture.

Nitrogen Operations: Sales volume of nitrogen fertilizer amounted to 3.20 million tons in 2018, representing a year-on-year increase of 10%. Since 2018, the Group purchased nitrogen fertilizer in a centralized way and canceled the independent procurement right of its branches and industrial and trade areas, significantly improving the procurement efficiency. In terms of customer service, the Group vigorously promoted the strategy of direct selling to industrial customers in 2018. Due to the Group's construction of logistics nodes and innovation of product packaging and transportation, the customers benefited from the lower-cost, more efficient and timely product supply. In terms of R&D, the Group developed new types of fertilizer which were efficient, energy-saving and environmental-friendly, implemented advanced fertilization technology, and continuously improved the value of the customers while increasing gross profit contribution.

Phosphate Operations: Sales volume of phosphate fertilizer amounted to 2.17 million tons in 2018, representing a year-on-year increase of 18%. Through scale operation, the Group made significant breakthrough in strategic procurement of phosphate fertilizer and ensured steady supply of high-quality phosphate fertilizer. The Group also provided comprehensive solutions centering on the pain points in upstream supply and downstream demand to achieve stable profit and customer value enhancement through customer base consolidation and business model innovation. In addition, by enhancing R&D and application of new technologies, the Group introduced "Meilinmei" in response to the government's call for "fertilizer reduction and efficiency improvement", a new phosphate product that was widely sold in domestic market and had begun to be influential.

Distribution Operations

Focusing on the channel building strategy and enhancement of product marketing, the Group expanded the distribution channels, densified the layout of terminal outlets, and laid emphasis on strategic customer development to achieve scale growth. In terms of technology-based marketing channels, the Group continuously increased the gross profit of products by providing technological schemes of planting and strengthening the marketing of differentiated products and new fertilizers. In terms of straight service channel, the Group focused on large-scale growers, pooled internal and external resources to provide tailored services, reduced levels of sales channels to trade directly with retailers and growers, explored ways of building a comprehensive service platform and expanded the business and service model.

Compound Fertilizer Operations: Sales volume of compound fertilizers amounted to 2.41 million tons in 2018, representing a year-on-year increase of 10%. By actively implementing the concept of “In Science We Trust”, with emphasis on the commercialization of technological achievements and improvement of product quality, the Group launched several high-tech products during the year, and gradually formed a crop-oriented product system. The group continuously strengthened product promotion through field experiments, fertilization guidance, process tracking and marketing planning. In addition, with coordination between production and marketing, production efficiency was improved and indicators such as production cost, quality control and inventory turnover were better than expected. In the meantime, the Group accelerated the layout of its own production capacity, and thus provided solid support for the rapid growth of the compound fertilizer business.

By developing an improvement plan for the distribution channels, the Group promoted the building of demonstration households in villages, and accelerated customer development at the township level, and thus the channel quality and network scale became more competitive. The Group also promoted the pilot work of the intelligent distribution outlets, and effectively empowered precision marketing, which improved the operation efficiency of the outlets and increased customer loyalty, and further improved the corporate image and brand influence.

The Group fully implemented the guidelines from the 19th National Congress of the Communist Party of China as well as the Rural Revitalization Strategy, and fully recognized the significance of the transformation and development of China’s agricultural modernization. By means of exploring and accumulating scientific fertilization technology, introducing bio-organic products that could improve soil conditions, and establishing technological service stations in villages, the Group kept on cultivating more new occupational farmers for China’s agriculture 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 improving fertilizer utilization efficiency, focused on crop-oriented nutrition solutions, and developed 87 solutions around strategic products to reduce fertilizer consumption and improve efficiency. The Group accelerated the implementation of water and fertilizer integration and intelligent fertilizer mixing projects, built 300 intelligent fertilizer mixing stations in 2018 and continuously promoted the methodology combining agricultural technology and agronomy to gain an edge in technology-based marketing and service model.

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 Corporate Internal Control" and its referencing guidelines issued by five ministries and commissions of China's central government as well as "Guidelines on Compliance Management for State-owned Enterprises (Trial Version)". Under the principle of "high priority, daily monitoring and mainly diverting", the Group paid attention to improving risk and internal control management mechanism in line with the strategic development, conducted risk identification, assessment and response, implemented a whole-process risk management, alert and corresponding measures for material risks.

In 2018, keeping abreast of corporate management reform and innovation, the Group further strengthened the corporate culture of risk awareness among all employees, encouraged management at all levels to establish the scientific concept of operational safety and actively created a positive atmosphere of "steady operation and sound development" for risk control. With strict implementation of the requirements of "no disperse management system, no responsibility default and no standard lowering", each business division effectively undertook internal risk control responsibilities and strengthened accountability. Under the principle of "simplification, high efficiency, clear rights and responsibilities, authorization and under control", each business division streamlined and improved internal control system and process with different methods and continuously enhanced internal control and management. Meanwhile, to meet the compliance requirements from the domestic and overseas regulatory organizations and to ensure business compliance and steady development, the Group promoted the construction of internal control system, enhanced the inspection of internal control, further strengthened fundamental work, carried out differentiated risk monitoring and assessment. The above efforts provided reasonable protection for the Group to cope with the changing market and operational environment, served its strategic transformation and ensured 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 2018, 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 2018, more than 20,000 activities were carried out, including over 3,500 field guidance activities, over 4,500 soil testing and formula fertilizer activities, over 2,300 meetings with farmers, over 1,300 demonstration seminars, and more than 1,000 pilot demonstration fields were built, which benefited more than 1,000 villages and towns.

In 2018, 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, deep side dressing for rice, rice-crayfish culture, etc., explored new mode of scientific fertilization and actively fulfilled its social responsibility. Sinochem Fertilizer promoted the applied technology of deep side dressing for rice in provinces such as Heilongjiang, Jiangsu, Anhui and Guangdong to improve fertilizer utilization efficiency and reduce labor cost. Sinochem Fertilizer launched large-scale demonstration field tours in provinces such as Hubei, Jiangsu, Anhui and Hunan to help farmers increase their revenues, explored a new mechanism for the cooperation between the farmers and enterprises, brought into full play the role of new operation entities and provided impetus for fertilizer application reduction and efficiency improvement through demonstration. In addition, Sinochem Fertilizer worked with the agricultural scientific research institutions to improve and upgrade existing planting technologies, coordinated with local agricultural technology extension centers to promote advanced application technology and production mode, and led farmers to use new products and new technology with bio-organic fertilizers instead of chemical fertilizers.

In 2018, the Group actively fulfilled its social responsibility, focused on establishing and cultivating the self-development capacity of the poverty-stricken population, combined poverty alleviation with morale boost and wisdom improvement, and provided specialized integrated agricultural services to the poor areas. It also carried out relevant cultural activities to promote the Rural Revitalization Strategy, deeply participated in the construction of rural civilization, and contributed to the realization of the goal of strong agriculture, beautiful countryside and prosperous farmers. The Group held the “New Era of Harvest” art performance in Chaohu, carried out the “Hope Plan” and “Spring Breeze Action” by taking more than 30 targeted measures in poverty alleviation, and donated stationeries and student grants equivalent to RMB0.65 million. In addition, the Group carried out poverty alleviation projects in Ar Horqin Banner of Inner Mongolia, Linxi County of Inner Mongolia, Lujiang County of Anhui province, Changfeng County of Anhui Province, Wei County of Hebei Province and other places, with a total investment of RMB1.673 million.

In the future, the Group will continue to focus on the requirement of modern agricultural 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 fertilizer, 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, implemented technological transformation projects for environmental protection, improved operating level of environmental protection facilities, continuously reduced pollutant emission, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. In 2018, the Company fully completed its energy-saving and emission reduction targets. In particular, the emissions of SO₂, COD, NH-N and NO_x were down by 72.11 tons, 15.58 tons, 2.51 tons and 265.60 tons, respectively.

Outlook

With the acceleration of global economic growth, major economies will also expand. Despite of the pressure from the volatile international financial situation and the potential slowdown of the economic growth in China, the Chinese economy is expected to maintain growth in 2019. Meanwhile, the Chinese government will continue to push forward the supply-side reform, and carry out five priority tasks, namely, cutting overcapacity, destocking, deleveraging, reducing cost, and identifying growth areas, so as to achieve sustainable 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 Rural Revitalization Strategy is a major decision made at the 19th National Congress of the Communist Party of China, and has become a key historical mission in building a moderately well-off society in an all-around way and a modern socialist country as well as the main approach of implementing policies related to “agriculture, rural areas and farmers” in the new era.

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 agriculture is taking shape, and mechanization, automation and intelligence are the future development trend of agriculture. As China’s leading technology-based marketing and service provider of crop nutrition, the Group will actively 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 a trading agent to a service provider, 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 building 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.

With the promotion of the Rural Revitalization Strategy, 2019 will be a year full 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 the reduction of agricultural inputs application, clean production and ecological industrial model 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 2018, sales volume of the Group was 11.61 million tons and revenue was RMB22,996 million, up by 13.71% and 30.33%, respectively, over the corresponding period in 2017.

For the year ended 31 December 2018, gross profit of the Group was RMB1,913 million, up by 39.43% over the corresponding period in 2017. Profit attributable to owners of the Company was RMB460 million. Compared to the loss of RMB380 million in 2017 (excluding major non-recurring expenses and losses), the Group returned to profitability, which represented a significant improvement in business performance.

I. OPERATION SCALE

1. Sales volume

For the year ended 31 December 2018, sales volume of the Group was 11.61 million tons, up by 13.71% over the corresponding period in 2017. In 2018, the fertilizer market conditions picked up. The Group grasped market opportunities, adhered to the direction of strategic development, continued to optimize incentives, and promoted professional and lean operations. Through strategic procurement, in-depth channel building and innovation of differentiated products, the business continued to develop at a relatively high level, which resulted in the increase of sales volume of major fertilizers compared to the previous year. Sales volume of domestically produced fertilizers amounted to 7.73 million tons, up by 7.81% year on year. Sales volume of imported fertilizers was 3.88 million tons, up by 27.63% year on year.

In terms of product mix, agricultural supply-side reform continued to push forward the optimization of agricultural planting structure. As a result, sales volume of compound fertilizers, potash, nitrogen and phosphate increased by 10.18%, 7.31%, 9.72% and 18.04% year on year, respectively. Under the circumstances that the fertilizer industry was faced with deep restructuring, the Group continuously strengthened strategic partnership with core domestic and overseas suppliers. Based on to customers' demands, the Group improved its coordination mechanism of R&D, production and marketing, and promoted product upgrading through technological innovation, which helped to maintain a relatively high market share.

2. Revenue

For the year ended 31 December 2018, the revenue of the Group amounted to RMB22,996 million, increased by RMB5,352 million or 30.33% year on year. The increase rate of the revenue was higher than that of sales volume (13.71%), which was mainly attributable to the rising selling price of fertilizer products, and the average selling price increased by 14.62% year on year.

Table 1:

	For the year ended 31 December			
	2018		2017	
	Revenue	As percentage of total revenue	Revenue	As percentage of total revenue
	<i>RMB'000</i>		<i>RMB'000</i>	
Potash fertilizers	4,501,587	19.58%	3,904,676	22.13%
Nitrogen fertilizers	4,873,967	21.19%	3,573,177	20.25%
Compound fertilizers	5,891,047	25.62%	4,822,852	27.33%
Phosphate fertilizers	4,919,815	21.39%	3,573,724	20.26%
Monocalcium/Dicalcium phosphate (MCP/DCP)	832,486	3.62%	776,679	4.40%
Others	1,977,426	8.60%	992,704	5.63%
Total	22,996,328	100.00%	17,643,812	100.00%

3. Revenue and results by segment

The operating segments of the Group are divided into Basic Fertilizers Segment (procurement and sales of straight fertilizers such as nitrogen, phosphate and potash), Distribution Segment (building of distribution channels, procurement and sales of compound fertilizers and new type of fertilizers) and Production Segment (production and sales of fertilizers and MCP/DCP).

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 December 2018 and for the year ended 31 December 2017:

Table 2:**2018**

	Basic				
	Fertilizers	Distribution	Production	Eliminations	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
External revenue	14,985,255	5,739,675	2,271,398	–	22,996,328
Inter-segment revenue	487,138	2,978	1,566,390	(2,056,506)	–
Total	<u>15,472,393</u>	<u>5,742,653</u>	<u>3,837,788</u>	<u>(2,056,506)</u>	<u>22,996,328</u>
Segment gross profit	<u>935,617</u>	<u>492,445</u>	<u>484,865</u>	<u>–</u>	<u>1,912,927</u>
Segment profit	<u>641,981</u>	<u>70,062</u>	<u>23,958</u>	<u>–</u>	<u>736,001</u>

2017

	Basic				
	Fertilizers	Distribution	Production	Eliminations	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>11,640,513</u>	<u>4,535,211</u>	<u>3,346,393</u>	<u>(1,878,305)</u>	<u>17,643,812</u>
Segment gross profit	<u>793,110</u>	<u>386,110</u>	<u>192,403</u>	<u>–</u>	<u>1,371,623</u>
Segment profit/(loss)	<u>579,158</u>	<u>(33,122)</u>	<u>(1,327,327)</u>	<u>–</u>	<u>(781,291)</u>

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 2018, the external revenue increased by RMB5,352 million over 2017, which was attributable to the increase in the selling price and sales volume of fertilizer products year on year.

For the year ended 31 December 2018, the segment profit of the Group was RMB736 million. In particular, the Basic Fertilizers Segment focused on core suppliers to continuously increase the proportion of strategic procurement, and further reduced procurement cost. It also increased the direct sales to industrial customers and explored the potential of the high-quality customers, and made a profit of RMB642 million, up by 10.88% over the corresponding period in 2017. The Distribution Segment continued to deepen distribution channels, enhanced its comprehensive capabilities to serve the customers, and increased innovation and sales of differentiated products, which led to a profit of RMB70 million in 2018. Compared to the profit of RMB5 million in 2017 (excluding major non-recurring expenses and losses), the Distribution Segment made great progress in profitability. Production enterprises realized “safe, stable, long-term, full and high-quality” operation. In particular, Sinochem Jilin Changshan Chemical Co., Ltd. (“Sinochem Changshan”), a subsidiary of the Group, gradually saw stable operation of the production equipments, and its gross profit margin was improved significantly over 2017 as a result of the notable reduction in costs. The Production Segment recovered from the losses in 2017 and made a profit of RMB24 million.

II. PROFIT

1. Gross profit

For the year ended 31 December 2018, gross profit of the Group amounted to RMB1,913 million, increased by RMB541 million or 39.43% over 2017, which was attributable to the increase in the selling price and sales volume of fertilizer products year on year.

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, continuously optimized the core customer system for industrial potash, and deepened its marketing system of potash for agriculture. Potash fertilizers made a gross profit of RMB466 million in 2018, up by 14.50% over 2017. Due to the major breakthrough in strategic procurement, consolidation of customer base as well as promotion and distribution of new products, phosphate fertilizers made a gross profit of RMB385 million, up by 38.99% over 2017. As for nitrogen fertilizers, the selling prices was increased significantly, and centralized procurement and direct sales to industrial customers were promoted, which led to a gross profit of RMB130 million, up by 158.70% over 2017. In terms of compound fertilizers, the Group took full advantage of the integration of production, supply and marketing, continuously improved operation efficiency of production, promoted sales of differentiated products by increasing sales outlets and expanding business service mode, and made a gross profit of RMB512 million, up by 19.35% over 2017.

2. Share of results of joint ventures and associates

Share of results of joint ventures: For the year ended 31 December 2018, the share of results of joint ventures of the Group was a profit of RMB28 million, increased by RMB14 million over the corresponding period of 2017. This was mainly due to the fact that the fertilizer market conditions picked up, and the joint ventures continued to implement structural reform and lean operations and had better performance. In 2018, the Group's share of results of Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") was a profit of RMB16 million, up by 100% year on year. The Group's share of results of Gansu Wengfu Chemical Co., Ltd. ("Gansu Wengfu") was a profit of RMB12 million, up by 100% year on year.

Share of results of associates: For the year ended 31 December 2018, the share of results of associates of the Group was a profit of RMB18 million, increased by RMB189 million from a loss of RMB171 million over the corresponding period in 2017. The Group's share of results of Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") was a loss of RMB191 million in 2017. However, after the disposal of all its equity in Qinghai Salt Lake, the Group was no longer affected by the performance of Qinghai Salt Lake.

3. Income tax

For the year ended 31 December 2018, income tax expense of the Group was RMB -38 million, of which current income tax expense was RMB14 million and deferred income tax expense was RMB -52 million. In 2018, the taxable profit of subsidiaries of the Group increased significantly over the previous year due to the improvement of business performance. As a result, current income tax expense increased by RMB6 million, up by 75% year on year. In the meantime, due to the tax losses not recovered in previous years, the Group recognized the corresponding deferred income tax assets for the losses that were expected to be recovered in the future based on the prudence principle, and recognized the negative deferred income tax expense, which resulted in a negative income tax expense.

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. Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company was RMB460 million. Compared to the loss of RMB380 million in 2017 (excluding major non-recurring expenses and losses), the Group returned to profitability, which represented a significant improvement in business performance. Faced with tough market competition and great transformation pressure, the Group adhered to the direction of strategic development, took various operational measures, kept on 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.

III. EXPENDITURES

For the year ended 31 December 2018, the three categories of expenses amounted to RMB1,754 million, decreased by RMB227 million or 11.46% from RMB1,981 million over the corresponding period in 2017.

Selling and distribution expenses: For the year ended 31 December 2018, selling and distribution expenses amounted to RMB906 million, increased by RMB91 million or 11.17% from RMB815 million over the corresponding period in 2017. This was mainly attributable to the fact that the increased sales volume led to higher costs of transportation, warehousing, port handling and labor than those in 2017.

Administrative expenses: For the year ended 31 December 2018, administrative expenses amounted to RMB635 million, decreased by RMB190 million from RMB825 million over the corresponding period in 2017. Sinochem Changshan, a subsidiary of the Group, made the provision for personnel optimization expenditure of RMB152 million in 2017. Excluding the impact mentioned above, administrative expenses in 2018 were decreased by RMB38 million or 5.65% over the corresponding period in 2017. This was mainly due to that the Group optimized its institutional structure and improved the management efficiency.

Finance costs: For the year ended 31 December 2018, finance costs amounted to RMB213 million, decreased by RMB128 million or 37.54% from RMB341 million over the corresponding period in 2017. This was mainly due to that the Group repaid some interest-bearing liabilities with the funds derived from the disposal of its equity in Qinghai Salt Lake, and thus the average loan balance was reduced from RMB5,238 million to RMB4,297 million.

IV. OTHER INCOME AND GAINS

This mainly consisted of interest income, sales of semi-product, raw materials and scrapped materials. For the year ended 31 December 2018, the Group's other income and gains amounted to RMB312 million, increased by RMB71 million or 29.46% from RMB241 million over the corresponding period in 2017, which was mainly due to the gains derived from investment in financing products with idle funds.

V. OTHER EXPENSES AND LOSSES

This mainly consisted of asset impairment loss, sales of raw materials and scrapped materials, and the loss due to that Sinochem Changshan and Sinochem Chongqing Fuling Chemical Co., Ltd. ("Sinochem Fuling") completed the renovation and handover of water, power, gas supply and property management facilities required by the local government. For the year ended 31 December 2018, the Group's other expenses and losses amounted to RMB66 million, decreased by RMB1,677 million from RMB1,743 million over the corresponding period in 2017. This was mainly attributable to the fact that 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 Qinghai Salt Lake, which amounted to RMB711 million in 2017.

VI. INVENTORY

As at 31 December 2018, the inventory balance of the Group amounted to RMB5,554 million, increased by RMB121 million or 2.23% from RMB5,433 million as at 31 December 2017. With the increase of the sales volume in 2018, the Group continued to strengthen the coordination between procurement and marketing and control the sales rhythm in order to downsize the inventory. At the end of 2018, the increase rate of inventory was much lower than that of the business scale. Besides, inventory turnover was sped up, and the inventory turnover days decreased from 110 days ^(Note) in 2017 to 94 days in 2018.

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 2018, the balance of the Group's trade and bills receivables amounted to RMB535 million, increased by RMB299 million or 126.69% from RMB236 million as at 31 December 2017, which was mainly due to the increase in sales settled by bank notes.

The average balance of trade and bills receivables of the Group was RMB386 million, increased by RMB191 million or 97.95% year on year. This was mainly due to that in order to promote sales, the Group lifted restrictions on the ratio of cash settlement and bill settlement. The trade and bills receivables turnover day was 6 days ^(Note) in 2018, 2 days slower than 4 days in 2017. The Group actively prevented credit risk, and strengthened the review of credit approval and qualifications of the acceptance banks.

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. LOANS TO RELATED PARTIES

The Group's balance of loans to related parties was RMB1.97 billion as at 31 December 2018. Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer") provided an entrusted loan of RMB670 million to Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") through Sinochem Finance Co., Ltd. ("Sinochem Finance"), an entrusted loan of RMB800 million to Sinochem Agriculture Holdings through Sinochem Finance, and a fund of RMB500 million to Sinochem Corporation. For more details of loans to related parties, see Connected Transactions of Directors' Report.

IX. INTERESTS IN JOINT VENTURES

As at 31 December 2018, the balance of the Group's interests in joint ventures amounted to RMB414 million, increased by RMB28 million or 7.25% from RMB386 million as at 31 December 2017, which was mainly due to the fact that the fertilizer market picked up in 2018, and the performance of joint ventures was improved. In particular, calculated by equity method, the share of results of Three Circles-Sinochem was a profit of RMB16 million, and the share of results of Gansu Wengfu Chemical Co., Ltd. was a profit of RMB12 million.

X. INTERESTS IN ASSOCIATES

As at 31 December 2018, the balance of the Group's interests in associates amounted to RMB516 million, increased by RMB6 million or 1.18% from RMB510 million as at 31 December 2017. The share of results of Yangmei Pingyuan was a profit of RMB18 million. In the meantime, Sinochem Fuling reduced long-term equity investment of RMB12 million.

XI. OTHER EQUITY SECURITIES (AVAILABLE-FOR-SALE INVESTMENTS UNDER HKAS 39)

As at 31 December 2018, the balance of the Group's other equity securities amounted to RMB498 million, increased by RMB51 million or 11.41% from RMB447 million as at 31 December 2017, which was mainly due to that the Group recognized the fair value change of RMB79 million of the equity investment in Guizhou Kailing (Group) Co., Ltd., the first time that the Group adopted the HKFRS 9, Financial Instruments, and adjusted the opening balance of equity at 1 January 2018. Meanwhile, the stock price of China XLX Fertilizer Limited held by the Group decreased as at 31 December 2018, which led to a decrease of RMB28 million in other equity securities.

The Group designated its investments in equity securities not held for trading as financial assets measured at fair value through other comprehensive income (FVOCI) at 1 January 2018. For the impact of the changes in accounting policies, see notes to consolidated financial statements 2(c) for more details.

XII.INTEREST-BEARING LIABILITIES

As at 31 December 2018, the Group's interest-bearing liabilities amounted to RMB3,085 million, decreased by RMB2,033 million or 39.72% from RMB5,118 million as at 31 December 2017, which was mainly due to that the Group repaid some loans and repurchased some of the bonds issued by Sinochem Fertilizer with the funds derived from the disposal of its equity in Qinghai Salt Lake.

XIII.TRADE AND BILLS PAYABLES

As at 31 December 2018, the balance of the Group's trade and bills payables amounted to RMB3,143 million, decreased by RMB310 million or 8.98% from RMB3,453 million as at 31 December 2017, which was mainly due to that the Group strengthened the synergy of internal integration, increased the proportion of internal procurement, and strictly controlled the procurement progress, thus leading to the decrease in the balance of trade and bills payables.

XIV. 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. For the year ended 31 December 2018, the Group's basic profit per share amounted to RMB0.0656 and ROE was 6.49%, both higher than those in 2017, which was mainly due to that the Group grasped the opportunity of market recovery and made profits.

Table 3:

	2018	2017
Profitability		
Earnings/(loss) per share (RMB) <i>(Note 1)</i>	0.0656	(0.3143)
ROE <i>(Note 2)</i>	6.49%	(28.96%)

Note 1: Calculated based on profit/(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 profit/(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 2018, the Group's current ratio was 1.17, and the debt-to-equity ratio was 42.60%. The Group enjoyed relatively high banking facilities. Its credit rating by Fitch Ratings raised from BBB+ to A-and it 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	
	2018	2017
Liquidity and Capital adequacy		
Current ratio <i>(Note 1)</i>	1.17	1.61
Debt-to-Equity ratio <i>(Note 2)</i>	42.60%	77.23%

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.

XV. LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of financing included cash from business operation, bank borrowings and 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 2018, cash and cash equivalents of the Group amounted to RMB589 million, which was mainly denominated in RMB and US dollar. Time deposits due within three months of the Group amounted to RMB500 million.

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

Table 5:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Borrowings from Sinochem Group	—	1,500,000
Other borrowings	57,500	122,000
Bonds		
Principal amount	3,030,000	3,500,000
Less: unamortized transaction costs	(2,115)	(4,465)
Total	3,085,385	5,117,535

Table 6:

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount repayable		
Within one year	3,085,385	122,000
More than one year, but within five years	<u>—</u>	<u>4,995,535</u>
Total	<u>3,085,385</u>	<u>5,117,535</u>

Table 7:

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Fixed-rate borrowings	3,085,385	5,117,535
Variable-rate borrowings	<u>—</u>	<u>—</u>
Total	<u>3,085,385</u>	<u>5,117,535</u>

As at 31 December 2018, the Group had banking facilities equivalent to RMB21,854 million, including US\$1,493 million and RMB11,611 million, respectively. The unutilized banking facilities amounted to RMB18,910 million, including US\$1,346 million and RMB9,669 million, respectively.

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

XVI. OPERATION AND FINANCIAL RISKS

The Group's major operation risks include the following: slowdown in global economic growth, rising American Protectionism, evolution of global economic and trade rules, increasing factors of uncertainty and instability, more risks of economic downturn and a historic low of economic growth rate in China. Due to the supply-side structural reform and the policy of cutting overcapacity, the polarization of fertilizer industry was accelerated. Under the background of fertilizer application reduction and efficiency improvement, energy conservation and environmental protection, as well as acceleration of industry integration, market competition was intensified. The Group actively took measures to cope with great changes in the business environment, and significantly improved its performance over the previous year, which boosted business confidence. On one hand, basic business continued to increase its market share and profit with technical services as a new driving force; on the other hand, the Group continued to promote strategic transformation and resource integration, deepened modern agricultural services, expanded the areas of agricultural development, enhanced future growth momentum, uplifted overall competitiveness, and reduced the unfavorable impact of operating risk on financial performance of the Group.

Besides, the Group's major operation risks include: environmental and social risks, cyber risk and security, risks associated with data fraud or theft.

Environmental and social risks

With the increasingly strict requirements on environmental protection management and more efforts in pollution control from the government, the enterprises are required to attach great importance to ecological civilization and environmental protection. The subsidiaries of the Group, engaged in resource development and fertilizer production, strictly implement the Environmental Protection Law of the People's Republic of China, Air Pollution Prevention and Control Law of the People's Republic of China, Measures for Environmental Administrative Punishment, and no environmental pollution accident occurred throughout the year. The Group actively puts into practice the green development ideology that "green water and mountains are invaluable assets", implements accountability system on enterprises, continuously improves the energy conservation and environmental protection system, enhances daily supervision, and actively carries out environmental protection work. Through technological innovation, the subsidiary manufacturing enterprises have improved resource utilization, reduced pollutant emissions and promoted clean production.

Cyber risk and security

With the continuous improvement in information technology of enterprises, the network structure is more and more complicated, and the number of information systems is multiplied. Therefore, the possibility of internet failure and system breakdown is also rapidly increasing. The Group vigorously develops innovative business to enhance its market influence, and meanwhile, the risk from cyberattacks to the information system is also increased.

In accordance with the requirements of Sinochem Group on information technology, the Group continuously optimizes the information system to enhance the capability of cyber security protection and emergency response. The Group conducts weekly cyber security inspections and other related work, and accomplishes security protection of the application system as well as the network inside and outside the office according to the protection requirements at different levels so as to minimize cyber risk and avoid cyber security incidents.

Risks associated with data fraud or theft

In order to keep state secrets and trade secrets, the Group has established a relatively complete confidentiality system, including Administrative Measures on Confidentiality and Catalog of Trade Secrets.

The Group takes various promotional and educational measures annually to enhance the employees' awareness of information confidentiality, and urge the employees to be alert. The Group selects certain subsidiaries and assesses their information confidentiality work every year. Through interviews with the employees related with confidentiality, examination on relevant regulations and record documents, reviews on previous confidential documents and on-site observation, the Group conducts investigation on the arrangement of institutions and personnel, establishment of information confidentiality system, secret classification management, information system management, and requires the units under investigation to submit rectification reports within a time limit.

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 unfavorable change in exchange rate that may have an impact on the Group's financial results and cash flow; interest rate risk represents the unfavorable 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.

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 unfavorable 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 2018. 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, collection of overdue accounts and other related aspects, reinforced credit customers' pre-assessment, credit process monitoring and investigation into 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, allocated more credit resources to products with higher profit margin and transferred risks by proper utilization of credit insurance tools so as to ensure the timely follow-up of overdue debt. Meanwhile, the Group checked major trade loan recoveries at every settlement date to ensure adequate bad debt provision of unrecoverable accounts, for which the credit risk rarely occurred.

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.

XVII.CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no contingent liabilities.

XVIII. CAPITAL COMMITMENT

Table 8:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Contracted but not provided for		
– Property, plant and equipment	188,350	24,408
Authorized but not contracted for		
– Property, plant and equipment	1,211,375	1,770,125
Total	1,399,725	1,794,533

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.

XIX. MATERIAL INVESTMENTS

On 31 August 2018, Sinochem Fertilizer and Sinochem Changshan entered into the DES Agreement, pursuant to which Sinochem Fertilizer agreed to convert an amount of RMB1,820 million in the outstanding shareholders' loans extended by it to Sinochem Changshan into an additional registered capital of Sinochem Changshan. After the completion of the transaction, the shareholding percentage of Sinochem Fertilizer in Sinochem Changshan has increased from 94.78% to 98.16%. For more details of the material investments, please refer to the announcement dated 31 August 2018 and the circular dated 26 October 2018 published by the Company.

XX. HUMAN RESOURCES

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 2018, the Group had about 5,605 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 2018, the Group provided 777 person-times or 11,678 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.

The board of directors (the “Board”) of Sinoferf Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018, together with the comparative figures for prior year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Note</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue	3(a)	22,996,328	17,643,812
Cost of sales		<u>(21,083,401)</u>	<u>(16,272,189)</u>
Gross profit		1,912,927	1,371,623
Other income and gains		312,221	240,505
Selling and distribution expenses		(906,281)	(815,275)
Administrative expenses		(634,745)	(825,344)
Other expenses and losses		(66,342)	(1,742,784)
Share of results of associates		17,669	(171,404)
Share of results of joint ventures		28,315	13,736
Finance costs	4(a)	(212,632)	(340,990)
Loss on disposal of a joint venture		<u>—</u>	<u>(13)</u>
Profit/(loss) before taxation	4	451,132	(2,269,946)
Income tax	5(a)	<u>37,833</u>	<u>(10,938)</u>
Profit/(loss) for the year		<u>488,965</u>	<u>(2,280,884)</u>
Profit/(loss) for the year attributable to:			
– Owners of the Company		460,486	(2,207,504)
– Non-controlling interests		<u>28,479</u>	<u>(73,380)</u>
		<u>488,965</u>	<u>(2,280,884)</u>

	<i>Note</i>	2018 RMB'000	2017 RMB'000
Profit/(loss) for the year		488,965	(2,280,884)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		(27,804)	–
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of overseas subsidiaries		99,976	(102,621)
Changes in fair value of available-for-sale investments		–	29,483
Other comprehensive income for the year		72,172	(73,138)
Total comprehensive income for the year		561,137	(2,354,022)
Total comprehensive income attributable to:			
– Owners of the Company		532,658	(2,280,642)
– Non-controlling interests		28,479	(73,380)
		561,137	(2,354,022)
Earnings/(loss) per share			
Basic and diluted (RMB)	7	0.0656	(0.3143)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

		As at 31 December	
	<i>Note</i>	2018	2017
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		2,474,431	2,427,511
Lease prepayments		474,636	487,703
Mining rights		546,176	579,077
Goodwill		843,442	829,075
Interests in associates		516,384	509,912
Interests in joint ventures		413,989	385,674
Other equity securities		498,495	—
Available-for-sale investments		—	447,252
Prepayments for acquisition of property, plant and equipment		61,564	49,467
Deferred tax assets		57,322	17,702
Other long-term assets		23,350	13,310
		<u>5,909,789</u>	<u>5,746,683</u>
Current assets			
Inventories		5,554,467	5,433,138
Trade and bills receivables	8	534,717	235,991
Other receivables and prepayments		2,337,747	1,883,056
Loans to related parties	9	1,970,000	670,000
Lease prepayments		13,854	13,810
Other financial assets		197,725	—
Time deposits		500,000	—
Cash and cash equivalents		589,130	286,816
Assets held for sale		—	8,048,139
		<u>11,697,640</u>	<u>16,570,950</u>
Current liabilities			
Trade and bills payables	10	3,143,134	3,452,676
Contract liabilities		2,937,545	—
Other payables and receipt in advance		794,135	6,715,129
Interest-bearing borrowings – due within one year		3,085,385	122,000
Tax liabilities		13,872	12,333
		<u>9,974,071</u>	<u>10,302,138</u>
Net current assets		<u>1,723,569</u>	<u>6,268,812</u>
Total assets less current liabilities		<u>7,633,358</u>	<u>12,015,495</u>

	As at 31 December	
<i>Note</i>	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Interest-bearing borrowings – due after one year	–	4,995,535
Deferred income	73,075	86,413
Deferred tax liabilities	215,322	207,912
Other long-term liabilities	103,982	98,523
	392,379	5,388,383
NET ASSETS	7,240,979	6,627,112
CAPITAL AND RESERVES		
Issued equity	5,887,384	8,267,384
Reserves	1,455,865	(1,428,954)
Total equity attributable to owners of the Company	7,343,249	6,838,430
Non-controlling interests	(102,270)	(211,318)
TOTAL EQUITY	7,240,979	6,627,112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

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.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 31 December 2018 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 other equity securities
- financial instruments classified as other financial assets

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

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) **HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation**

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

RMB'000

Retained earnings

Transferred to fair value reserve (non-recycling) relating to equity securities now measured at fair value through other comprehensive income (FVOCI)	89,958
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Fair value reserve (recycling)

Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	(58,287)
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Fair value reserve (non-recycling)

Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI	58,287
Increase in fair value reserve (non-recycling) at 1 January 2018	79,047
Related tax	(19,762)
Transferred from retained earnings relating to equity securities now measured at FVOCI	(89,958)
	<u>27,614</u>

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortized cost, at FVOCI and at fair value through profit or loss (FVPL).

These supersede HKAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets measured at FVOCI (non-recyclable)				
Other equity securities (<i>note</i>)	<u>–</u>	<u>447,252</u>	<u>79,047</u>	<u>526,299</u>
Financial assets classified as available-for-sale under HKAS 39 (<i>note</i>)	<u>447,252</u>	<u>(447,252)</u>	<u>–</u>	<u>–</u>
Deferred tax liabilities	<u>(207,912)</u>	<u>–</u>	<u>(19,762)</u>	<u>(227,674)</u>

Note: Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investments in equity securities not held for trading at FVOCI (non-recycling), as these investments are held for strategic purposes.

b Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties).

Based on the Group’s assessment, this change in accounting policy does not have a significant impact on accumulated losses as compared with that recognized under HKAS 39 and no additional ECLs has been recognized by the Group at 1 January 2018.

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):
 - the determination of the business model within which a financial asset is held; and
 - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognized for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has made an assessment on the cumulative effect of initial application. Based on the Group's assessment, the change in accounting policy does not have a significant impact on the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a Timing of revenue recognition

Previously, revenue from sale of goods was generally recognized at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognized when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- 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;
- 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.

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 adoption of HKFRS 15 does not have a significant impact on when the Group recognizes revenue from sale of goods.

b Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognized only if the Group has an unconditional right to consideration. If the Group recognizes the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognized when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognizes the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, “Receipt in advance” amounting to RMB3,481,748,000 at 1 January 2018, which were previously included in other payables and receipt in advance are now included under contract liabilities, as a result of the adoption of HKFRS 15.

Other new amendments and interpretation that are effective from 1 January 2018 does not have significant financial impact on these financial statements

Besides the aforementioned above, the accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2017.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents the sales value of fertilizers and related products. Disaggregation of revenue from contracts with customers by major products is as follows:

	2018 <i>RMB’000</i>	2017 <i>RMB’000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Sales of potash fertilizer	4,501,587	3,904,676
– Sales of nitrogen fertilizer	4,873,967	3,573,177
– Sales of compound fertilizer	5,891,047	4,822,852
– Sales of phosphate fertilizer	4,919,815	3,573,724
– Sales of monocalcium/dicalcium phosphate (“MCP/DCP”)	832,486	776,679
– Others	1,977,426	992,704
	<u>22,996,328</u>	<u>17,643,812</u>

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 are 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

(i) Segment results

Segment profit/(loss) represents profit earned/(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. Such information was not reviewed by the CODM. As such, no segment assets and liabilities are presented.

2018	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue					
External revenue	14,985,255	5,739,675	2,271,398	–	22,996,328
Internal revenue	487,138	2,978	1,566,390	(2,056,506)	–
Segment revenue	<u>15,472,393</u>	<u>5,742,653</u>	<u>3,837,788</u>	<u>(2,056,506)</u>	<u>22,996,328</u>
Segment gross profit	<u>935,617</u>	<u>492,445</u>	<u>484,865</u>	<u>–</u>	<u>1,912,927</u>
Segment profit	<u>641,981</u>	<u>70,062</u>	<u>23,958</u>	<u>–</u>	<u>736,001</u>
Share of results of associates					17,669
Share of results of joint ventures					28,315
Unallocated expenses					(248,421)
Unallocated income					130,200
Finance costs					(212,632)
Profit before taxation					<u>451,132</u>

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	<u>11,640,513</u>	<u>4,535,211</u>	<u>3,346,393</u>	<u>(1,878,305)</u>	<u>17,643,812</u>
Segment gross profit	<u>793,110</u>	<u>386,110</u>	<u>192,403</u>	<u>–</u>	<u>1,371,623</u>
Segment profit/(loss)	<u>579,158</u>	<u>(33,122)</u>	<u>(1,327,327)</u>	<u>–</u>	<u>(781,291)</u>
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					<u>(340,990)</u>
Loss before taxation					<u><u>(2,269,946)</u></u>

(ii) *Other segment information*

2018	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measures of segment profit:					
Impairment of trade receivables	(66)	–	(1,462)	–	(1,528)
Impairment of other receivables and prepayments	–	–	(5,622)	–	(5,622)
Impairment of prepayments for acquisition of property, plant and equipment	–	–	(400)	–	(400)
Depreciation and amortization	(846)	(31,023)	(280,646)	(3,453)	(315,968)
Write-down of inventories	(2,641)	(5,263)	(4,331)	–	(12,235)
(Loss)/gain on disposal of property, plant and equipment	(28)	219	7,015	–	7,206
Write-off of payables	<u>240</u>	<u>240</u>	<u>73</u>	<u>–</u>	<u>553</u>

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):					
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)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(711,561)</u>	<u>(711,561)</u>

(iii) *Geographical information*

The Group's operations are mainly located in the 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 other equity securities/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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Mainland China	22,032,834	16,767,543	5,349,145	5,275,527
Others	963,494	876,269	4,827	7,586
	<u>22,996,328</u>	<u>17,643,812</u>	<u>5,353,972</u>	<u>5,283,113</u>

4. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2018 RMB'000	2017 RMB'000
Interest on borrowings	213,452	342,365
Less: interest expense capitalized <i>(Note)</i>	(820)	(1,375)
	<u>212,632</u>	<u>340,990</u>

Note: The capitalization rates used to determine the amount of borrowing costs eligible for capitalization related to construction of production lines are 5.00% (2017: 5.00%) for the year ended 31 December 2018.

(b) Other items

	2018 RMB'000	2017 RMB'000
Depreciation of property, plant and equipment	258,447	327,061
Amortization of lease prepayments	13,242	13,033
Amortization of mining rights	32,901	32,290
Amortization of other long-term assets	11,378	6,436
(Gain)/loss on disposal of property, plant and equipment	(7,206)	396
Loss on disposal of a joint venture	—	13
Impairment of trade receivables	1,528	—
Impairment of other receivables and prepayments	5,622	42
Impairment of prepayments for acquisition of property, plant and equipment	400	—
Write-down of inventories	12,235	32,825
Impairment loss on property, plant and equipment	—	917,662
Reversal of loss on interests in associates	—	(30,754)
Impairment loss on available-for-sale investments	—	80,668
Foreign exchange (gain)/loss	(8,430)	2,891
Provision for onerous contract in relation to the disposal of interests in an associate	—	711,561
Dividend income from listed equity securities	(4,347)	(1,930)
Interest income from related parties	(38,971)	(35,302)
Interest income from time deposits	(8,243)	—
Other interest income	(157,326)	(80,913)
Write-off of payables	(553)	(7,751)

5. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Tax credit/(expense) in the consolidated statement of profit or loss represents:

	2018 RMB'000	2017 RMB'000
Provision for the year		
PRC Enterprise Income Tax	(14,352)	(9,681)
Over-provision in prior years		
PRC Enterprise Income Tax	213	1,265
Deferred tax		
Origination and reversal of temporary differences	51,972	(2,522)
	<u>37,833</u>	<u>(10,938)</u>

- (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 2018 is calculated at 16.5% (2017: 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.

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

	2018 RMB'000	2017 RMB'000
Profit/(loss) before taxation	451,132	(2,269,946)
Tax calculated at the applicable tax rate of 25%	(112,783)	567,487
Effect of different income tax rates	45,294	40,350
Tax effect of non-deductible expenses	(14,970)	(14,080)
Tax effect of non-taxable income	38	1,962
Tax effect of share of results of associates	4,417	(42,851)
Tax effect of share of results of joint ventures	7,079	3,434
Effect of prior year's tax losses and deductible temporary differences recognized/utilized during the year	118,004	14,182
Effect of tax losses and deductible temporary difference not recognized	(9,459)	(582,687)
Over-provision in prior years	213	1,265
Income tax credit/(expense) for the year	<u>37,833</u>	<u>(10,938)</u>

6. DIVIDENDS

2018	2017
RMB'000	RMB'000

Proposed final dividend of HK\$0.0224, equivalent to approximately RMB0.0196 per share (2017: Nil)

137,868	—
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The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

7. EARNINGS/(LOSS) PER SHARE

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

2018	2017
RMB'000	RMB'000

Earnings/(loss) attributable to owners of the Company

Earnings/(loss) for the purpose of basic/diluted loss per share

460,486	(2,207,504)
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2018	2017
'000 shares	'000 shares

Number of shares

Weighted average number of ordinary shares for the purpose of basic/diluted earnings/(loss) per share

7,024,456	7,024,456
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The Group has no dilutive ordinary shares outstanding during the years ended 31 December 2018. Therefore, there was no difference between basic and diluted earnings/(loss) per share.

8. TRADE AND BILLS RECEIVABLES

As at 31 December	
2018	2017
RMB'000	RMB'000

Trade receivables

46,743	46,565
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Less: allowance for doubtful debts *(Note (b))*

(2,674)	(1,212)
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44,069	45,353
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Bills receivables

490,648	190,638
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Total trade and bills receivables, net of loss allowance

534,717	235,991
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(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	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	338,987	158,989
More than 3 months but within 6 months	129,899	72,608
More than 6 months but within 12 months	63,581	158
Over 12 months	2,250	4,236
	534,717	235,991

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.

(b) Impairment of trade receivables

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

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January	1,212	7,937
Impairment recognized	1,528	—
Write-off of uncollectible receivables	(66)	(6,725)
	2,674	1,212

9. LOANS TO RELATED PARTIES

	<i>Note</i>	As at 31 December	
		2018	2017
		RMB'000	RMB'000
Sinochem Agriculture Holdings Limited (“Sinochem Agriculture”)	(i)	800,000	—
Sinochem Corporation	(ii)	500,000	—
Yangmei Pingyuan	(iii)	670,000	670,000
Balance at 31 December		1,970,000	670,000

Notes:

- (i) During the year ended 31 December 2018, the Group lent entrusted loans to Sinochem Agriculture, a subsidiary of Sinochem Group, through Sinochem Finance Co., Ltd. (“Sinochem Finance”) of RMB800,000,000 with a term of 1 year. The entrusted loans are unsecured and bear fixed interest rate of 4.385% per annum.
- (ii) During the year ended 31 December 2018, the Group entered into an agreement with Sinochem Corporation, a subsidiary of Sinochem Group and the indirect controlling shareholder of the Group, and lent RMB500,000,000 to Sinochem Corporation with a term of 1 year. The loans are unsecured and bear fixed interest rate of 3.915% per annum.
- (iii) The entrusted loans lent to Yangmei Pingyuan through Sinochem Finance are unsecured, bear annual interest rate of 6.1% (2017: 5.5%) per annum and are repayable within one year.

10. TRADE AND BILLS PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables	1,264,013	1,455,851
Bills payable	1,879,121	1,996,825
Trade and bills payables	3,143,134	3,452,676

As at 31 December 2018, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	2,347,968	1,832,456
More than 3 months but within 6 months	676,689	741,346
More than 6 months but within 12 months	31,184	825,112
Over 12 months	87,293	53,762
	3,143,134	3,452,676

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK\$0.0224 (equivalent to approximately RMB0.0196) per share for the year ended 31 December 2018 (2017: nil) to the shareholders, estimated to be HK\$157,348,000 (equivalent to approximately RMB137,868,000) out of the contributed surplus of the Company. It is expected that the relevant dividend will be paid by 15 July 2019 to those entitled, subject to shareholders' approval at the forthcoming annual general meeting.

Further announcement will be made in respect of the date of closure of the register of members and the date of the forthcoming annual general meeting.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three members, including Mr. Tse Hau Yin, Aloysius as Chairman, Mr. Ko Ming Tung, Edward and Mr. Lu Xin as members, all of whom are independent non-executive directors of the Company.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, financial control, internal controls system, risk management and financial reporting matters including the review of the consolidated financial statements of the Company for the year ended 31 December 2018.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and its amendments from time to time as its own code of conduct regarding securities transaction by directors. Having made specific enquiries with all directors of the Company, all directors confirmed through a confirmation that they had complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

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

CORPORATE GOVERNANCE STANDARDS

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Company 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 Listing Rules.

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 2018 and up to the date of this announcement, 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 announcement, 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 7 June 2018 (the "2018 AGM"), Mr. Zhang Wei, the former Chairman of the Board, did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2018 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 2018 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2.

Save as disclosed above, please refer to the "Corporate Governance Report" contained in the Company's 2018 annual report for more information about the corporate governance practices of the Company to be published soon.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr. Qin Hengde (Chief Executive Officer) and Mr. Harry Yang; the non-executive director of the Company is Mr. Yang Lin; and the independent non-executive directors of the Company are Mr. Ko Ming Tung, Edward, Mr. Lu Xin and Mr. Tse Hau Yin, Aloysius.

For and on behalf of the Board of
SINOFERT HOLDINGS LIMITED
Qin Hengde

Executive Director and Chief Executive Officer

Hong Kong, 28 March 2019

* *For identification purposes only*