

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

Interim Condensed Consolidated Financial Statements

30 June 2018

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the board of directors of Sinochem Hong Kong (Group) Company Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 2 to 34, which comprise the interim condensed consolidated statement of financial position of Sinochem Hong Kong (Group) Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related interim condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The directors of the Company are responsible for the preparation and presentation of interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
5 September 2018

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 (Unaudited) HK\$ million	(Restated and unaudited) 2017 HK\$ million
CONTINUING OPERATIONS			
Revenue from contracts with customers	3	44,262	34,347
Rental income		<u>912</u>	<u>750</u>
REVENUE	4	45,174	35,097
Cost of sales		(<u>32,908</u>)	(<u>26,286</u>)
Gross profit		12,266	8,811
Other income, gains and losses, net	5	1,017	504
Selling and distribution expenses		(948)	(801)
Administrative expenses		(1,755)	(1,339)
Fair value changes of investment properties		255	494
Finance costs:			
Interest expenses		(2,180)	(1,596)
Transaction costs		(34)	(27)
Share of profits and losses of:			
Joint ventures		(12)	(39)
Associates		<u>57</u>	<u>67</u>
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	8,666	5,940
Income tax expense	7	(<u>3,070</u>)	(<u>2,076</u>)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		5,596	3,864
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations, net of tax	8	<u>-</u>	<u>1,417</u>
PROFIT FOR THE PERIOD		<u><u>5,596</u></u>	<u><u>5,281</u></u>
Attributable to:			
Owners of the parent		1,891	2,977
Non-controlling interests		<u>3,705</u>	<u>2,304</u>
		<u><u>5,596</u></u>	<u><u>5,281</u></u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Restated and unaudited)
	HK\$ million	HK\$ million
PROFIT FOR THE PERIOD	<u>5,596</u>	<u>5,281</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	-	89
Cash flow hedges, net of tax	24	(43)
Net investment hedge, net of tax	17	(30)
Exchange differences on translation of foreign operations	(1,384)	3,316
Reclassification adjustments of exchange reserve to profit or loss:		
Disposal of subsidiaries	<u>-</u>	<u>25</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>(1,343)</u>	<u>3,357</u>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation, net of tax	12	-
Net loss on equity investment at fair value through other comprehensive incomes	<u>(156)</u>	<u>-</u>
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	<u>(144)</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(1,487)</u>	<u>3,357</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>4,109</u>	<u>8,638</u>
Total comprehensive income attributable to:		
Owners of the parent	1,123	4,808
Non-controlling interests	<u>2,986</u>	<u>3,830</u>
	<u>4,109</u>	<u>8,638</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK\$ million	31 December 2017 (Audited) HK\$ million
NON-CURRENT ASSETS			
Property, plant and equipment		15,749	15,964
Land under development	9	12,500	10,765
Properties under development		63,950	50,097
Investment properties		35,169	34,149
Prepaid land lease payments		2,341	2,398
Goodwill	10	4,051	4,057
Intangible assets		700	729
Investments in joint ventures		5,321	4,043
Investments in associates		5,711	5,585
Available-for-sale investments		-	2,284
Financial assets at fair value through other comprehensive income ("FVOCI")		2,001	-
Amounts due from related parties		30,820	33,643
Deferred tax assets		2,011	1,866
Amounts due from non-controlling shareholders		4,861	3,591
Derivative financial instruments		3	-
Financial assets at fair value through profit or loss ("FVPL")		401	-
Non-current financial assets at amortised cost		356	-
Other non-current assets		132	503
Total non-current assets		186,077	169,674
CURRENT ASSETS			
Inventories		5,497	6,638
Land under development	9	3,149	8,227
Properties under development		30,708	29,489
Properties held for sale		8,921	14,083
Prepaid land lease payments		80	80
Trade and bills receivables		4,338	1,662
Contract assets		279	-
Prepayments, deposits and other receivables		23,791	25,696
Amounts due from related parties		47,053	40,617
Financial assets at FVPL		213	-
Tax recoverable		2,735	2,563
Derivative financial instruments		15	12
Restricted bank balances		4,679	3,870
Cash and cash equivalents		39,460	27,672
Other financial assets		-	7,183
Assets held for sale	11	-	9,628
Total current assets		170,918	177,420

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK\$ million	31 December 2017 (Audited) HK\$ million
CURRENT LIABILITIES			
Trade and bills payables		12,755	13,595
Other payables and accruals		28,633	74,375
Contract liabilities		44,976	-
Derivative financial instruments		170	175
Interest-bearing borrowings	12	30,311	34,726
Amounts due to related parties		18,779	15,825
Tax payable		1,791	1,796
Provision for land appreciation tax		2,726	4,347
Total current liabilities		<u>140,141</u>	<u>144,839</u>
NET CURRENT ASSETS		<u>30,777</u>	<u>32,581</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>216,854</u>	<u>202,255</u>
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	12	94,078	80,191
Deferred tax liabilities		6,496	6,416
Deferred income		95	104
Amounts due to related parties		-	1,794
Derivative financial instruments		5	-
Other non-current liabilities		207	118
Total non-current liabilities		<u>100,881</u>	<u>88,623</u>
NET ASSETS		<u>115,973</u>	<u>113,632</u>
CAPITAL AND RESERVES			
Issued capital	13	24,468	24,468
Perpetual capital securities	14	4,619	4,619
Reserves		22,993	22,854
Equity attributable to owners of the parent		<u>52,080</u>	<u>51,941</u>
Non-controlling interests		63,893	61,691
TOTAL EQUITY		<u>115,973</u>	<u>113,632</u>

Director

Director

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the parent												Attributable to non-controlling interests		
	Issued capital	Capital reserve	Asset revaluation reserve	Merger reserve	Statutory reserve	Investment revaluation reserve	Translation reserve	Other contribution reserve	Perpetual capital securities	Hedging reserve	Retained profits	Total	Share of net assets of subsidiaries	Share option reserve of subsidiaries	Total equity
	HK\$ million	HK\$ million (Note a)	HK\$ million	HK\$ million (Note b)	HK\$ million (Note c)	HK\$ million	HK\$ million	HK\$ million (Note d)	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
(Unaudited)															
At 31 December 2017	24,468	(1,604)	573	(3,837)	3,875	474	1,667	2,427	4,619	(35)	19,314	51,941	61,664	27	113,632
Adjustment on adoption of HKFRS 15, net of tax (Note 2)	-	-	-	-	-	-	-	-	-	-	34	34	72	-	106
Adjustment on adoption of HKFRS 9, net of tax (Note 2)	-	-	-	-	-	(20)	-	-	-	-	57	37	34	-	71
At 1 January 2018	<u>24,468</u>	<u>(1,604)</u>	<u>573</u>	<u>(3,837)</u>	<u>3,875</u>	<u>454</u>	<u>1,667</u>	<u>2,427</u>	<u>4,619</u>	<u>(35)</u>	<u>19,405</u>	<u>52,012</u>	<u>61,770</u>	<u>27</u>	<u>113,809</u>
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,891	1,891	3,705	-	5,596
Other comprehensive income for the period															
Net loss on financial assets at FVOCI	-	-	-	-	-	(155)	-	-	-	-	-	(155)	(1)	-	(156)
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	24	-	24	-	-	24
Net investment hedge, net of tax	-	-	-	-	-	-	-	-	-	9	-	9	8	-	17
Exchange differences on translation of foreign operations	-	-	-	-	-	(655)	-	-	-	-	-	(655)	(729)	-	(1,384)
Gains on property revaluation, net of tax	-	-	9	-	-	-	-	-	-	-	-	9	3	-	12
Total comprehensive income for the period, net of tax	-	-	9	-	-	(155)	(655)	-	-	33	1,891	1,123	2,986	-	4,109
Issue of shares to non-controlling shareholders (Note f)	-	(323)	-	-	-	-	-	-	-	-	-	(323)	3,628	-	3,305
Repurchase of shares to non-controlling shareholders	-	4	-	-	-	-	-	-	-	-	-	4	(70)	-	(66)
Exercise of share options of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	5	-	5
Dividends distributed (Note e)	-	-	-	-	-	-	-	-	-	(471)	(471)	-	-	-	(471)
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(1,286)	-	(1,286)
Transfer from retained profits	-	-	-	-	13	-	-	-	-	(13)	-	-	-	-	-
Acquisition of non-controlling interests	-	(151)	-	-	-	-	-	-	-	-	-	(151)	(3,292)	-	(3,443)
Distribution paid on issued perpetual securities of China Jinmao Holdings Group Limited ("Jinmao")	-	-	-	-	-	-	-	-	-	-	-	-	(534)	-	(534)
Equity-settled share-based payment of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	7	7	14
Distribution paid on perpetual capital securities	-	-	-	-	-	-	-	-	-	(118)	(118)	-	-	-	(118)
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	-	-	-	-	-	-	1	1	-	(1)	-
Capital contribution from non-controlling shareholders	-	3	-	-	-	-	-	-	-	-	-	3	646	-	649
Maintenance and production fund	-	-	-	-	-	-	-	6	-	-	(6)	-	-	-	-
At 30 June 2018	<u>24,468</u>	<u>(2,071)*</u>	<u>582*</u>	<u>(3,837)*</u>	<u>3,888*</u>	<u>299*</u>	<u>1,012*</u>	<u>2,433*</u>	<u>4,619</u>	<u>(2)*</u>	<u>20,689*</u>	<u>52,080</u>	<u>63,860</u>	<u>33</u>	<u>115,973</u>

* These reserve accounts comprise the consolidated reserves of HK\$22,993 million in the interim condensed consolidated statement of financial position.

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2018

	Attributable to owners of the parent											Attributable to non-controlling interests		Total equity HK\$ million	
	Issued capital HK\$ million	Capital reserve HK\$ million (Note a)	Asset revaluation reserve HK\$ million	Merger reserve HK\$ million (Note b)	Statutory reserve HK\$ million (Note c)	Investment revaluation reserve HK\$ million	Translation reserve HK\$ million	Other contribution reserve HK\$ million (Note d)	Perpetual capital securities HK\$ million	Hedging reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Share of net assets of subsidiaries HK\$ million		Share option reserve of subsidiaries HK\$ million
(Unaudited)															
At 1 January 2017	24,468	(1,627)	393	(3,837)	3,017	308	(2,168)	2,433	4,619	33	20,302	47,941	50,264	16	98,221
Profit for the period	-	-	-	-	-	-	-	-	-	-	2,977	2,977	2,304	-	5,281
Other comprehensive income for the period															
Change in fair value of available-for-sale investments	-	-	-	-	-	100	-	-	-	-	-	100	(11)	-	89
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	(43)	-	(43)	(43)	-	-	(43)
Net investment hedge, net of tax	-	-	-	-	-	-	-	-	(15)	-	(15)	(15)	(15)	-	(30)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,764	-	-	-	-	1,764	1,552	-	3,316
Reclassification adjustments of exchange reserve to profit or loss:															
Disposal of subsidiaries	-	-	-	-	-	-	25	-	-	-	-	25	-	-	25
Total comprehensive income for the period, net of tax	-	-	-	-	-	100	1,789	-	(58)	-	2,977	4,808	3,830	-	8,638
Exercise of share options	-	(6)	-	-	-	-	-	-	-	-	(6)	(6)	15	(1)	8
Dividends distributed	-	-	-	-	-	-	-	-	-	(616)	(616)	(616)	-	(616)	(616)
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(3,284)	(3,284)	(3,284)
Transfer from retained profits	-	-	-	-	102	-	-	-	-	(102)	-	-	-	-	-
Repurchase of perpetual convertible securities of Jinmao	-	-	-	-	-	-	-	-	-	(202)	(202)	(202)	(3,230)	(3,432)	(3,432)
Distribution paid on issued perpetual convertible securities of Jinmao	-	-	-	-	-	-	-	-	-	-	-	-	(106)	(106)	(106)
Equity-settled share-based payment of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	6	7	13
Distribution paid on perpetual capital securities	-	-	-	-	-	-	-	-	-	(117)	(117)	(117)	-	(117)	(117)
Issuance of Jinmao's perpetual capital securities, net of issue expenses	-	-	-	-	-	-	-	-	-	-	-	-	3,829	-	3,829
Capital contribution from non-controlling shareholders	-	337	-	-	-	-	-	-	-	-	-	337	2,210	-	2,547
Maintenance and production fund	-	-	-	-	-	-	-	4	-	(4)	-	-	-	-	-
At 30 June 2017	24,468	(1,296)	393	(3,837)	3,119	408	(379)	2,437	4,619	(25)	22,238	52,145	53,534	22	105,701

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2018

Notes:

- (a) The capital reserve of the Group mainly comprises (i) contributions from owners in respect of settlement of doubtful receivables which have been written off and the transfer of an equity interest in a joint venture to the Group in previous years; and (ii) contributions made by the shareholders to the Company's subsidiaries.
- (b) The merger reserve of the Group comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the holding companies of the acquirees as consideration for the group restructuring transactions.
- (c) Statutory reserve comprises the statutory reserve fund, reserve fund and enterprise expansion fund. In accordance with the relevant PRC rules and regulations, each of the Group's PRC subsidiaries is required to transfer an amount of its profit after income tax to the statutory reserve fund, until the accumulated total of the fund reaches 50% of its registered capital. The appropriations to the reserve fund and enterprise expansion fund are determined by the articles of association of the Company's subsidiaries and are subject to the approval by the boards of directors of the subsidiaries.
- (d) Other contribution reserve mainly comprises capital contributions, maintenance and production fund, capital contribution for energy saving and emission reduction projects, and deemed contributions from equity owners net of deemed distributions to equity owners. The maintenance and production fund is appropriated/utilised in accordance with relevant PRC regulations on certain enterprises.
- (e) Dividends amounting to US\$60 million (equivalent to HK\$471 million) were paid to the immediate parent during the six months ended 30 June 2018.
- (f) On 17 January 2018, China Jinmao Holdings Group Limited ("Jinmao") completed a private placement of an aggregate of 900,124,000 shares to 53 independent third parties at the price of HK\$3.70 per share. After the placing, the Group's equity interest in Jinmao decreased from 53.95% to 49.76%. The difference between the change of the shares of net assets attributable to the non-controlling interests due to the placing, and the consideration of the placing and the impact of reallocation of a proportion of the goodwill amounting to HK\$323 million was recorded in the consolidated capital reserve.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 (Unaudited) HK\$ million	2017 (Unaudited) HK\$ million
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations		3,583	(10,256)
Income tax paid		(2,305)	(2,628)
		<u>1,278</u>	<u>(12,884)</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES			
Decrease/(Increase) in amounts due from related parties		2,113	(4,640)
Increase in restricted bank deposits		(868)	(1,357)
Disposal/deemed disposal of subsidiaries	15	(2,213)	(801)
Proceeds from disposal of associates		6,884	-
Increase in entrusted loans to non-controlling shareholders		407	(2,791)
Additions to investments in associates		(108)	(1,214)
Additions to investments in joint ventures		(2,339)	(136)
Advances of investment to a third party		(7,131)	-
Decrease/(Increase) of other financial assets		6,983	(6)
Other investing activities		(748)	(852)
		<u>2,980</u>	<u>(11,797)</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other loans		37,885	51,472
Repayment of bank loans and other loans		(25,387)	(29,626)
Issue of shares to non-controlling shareholders		3,305	3,829
Repurchase of Jinmao's perpetual convertible securities		-	(3,436)
Interest paid		(3,700)	(2,199)
Loans from non-controlling shareholders		99	7,227
Repayment of short-term commercial paper		-	(2,263)
Dividends paid		(471)	(616)
Acquisition of non-controlling interests		(3,443)	-
(Decrease)/Increase in amount due to related parties		(3,002)	4
Advanced of investment received from third parties		5,158	-
Repayment of loans to non-controlling shareholders		(1,746)	-
Repurchase of shares to non-controlling shareholders		(66)	-
Other financing activities		(516)	(541)
		<u>8,116</u>	<u>23,851</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		12,374	(830)
Cash and cash equivalents at beginning the period		27,672	23,669
Effect of foreign exchange rate changes, net		(586)	571
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>39,460</u>	<u>23,410</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position		<u>39,460</u>	<u>23,410</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. CORPORATE INFORMATION

Sinochem Hong Kong (Group) Company Limited (the "Company") is a limited company incorporated in Hong Kong. Its registered office is located at 46th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

In the opinion of the directors, the Company's ultimate holding company is Sinochem Group (the "Ultimate Parent"), and the immediate parent is Sinochem Corporation Co., Ltd. ("Sinochem Corporation"), both of which were established in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of the adoption of HKFRS 15 and HKFRS 9, the adoption of above revised HKFRSs has had no significant financial effect on the interim condensed consolidated financial statements.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*. As required by HKAS 34, the nature and effect of these changes are disclosed below:

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group elected to use a modified retrospective method of adoption, with the cumulative catch-up adjustments to the opening balance of retained earnings as at 1 January 2018, only for contracts that are not completed at the date of initial application. Therefore, the comparative information was not restated. The nature of the adjustments on the adoption of HKFRS 15 as at 1 January 2018 is described below.

The principal business of the Group includes manufacture and sale of fertilisers, sale of properties, land development, commercial leasing and retail operations, hotel operations, the provision of property management, design and decoration services, sale of chemical products and securities investment.

For contracts where the period between the advances made by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant. Besides, the advances from customers as at 1 January 2018 were reclassified from "Other payables and accruals" to "Contract liabilities".

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract that would require capitalisation and amortisation when the related revenue is recognised. Accordingly, the unamortised incremental costs as at 1 January 2018 were capitalised as "Contract assets".

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

The cumulative effect of the changes made to the consolidated financial position as at 1 January 2018 for the adoption of HKFRS 15 *Revenue from Contracts with Customers* were as follows:

	Amounts prepared under previous HKFRS HK\$ million	Reclassifications under HKFRS 15 HK\$ million	Adjustments under HKFRS 15 HK\$ million	Amounts prepared under HKFRS 15 HK\$ million
Assets				
Investment in joint ventures	4,043	-	5	4,048
Contract assets	-	-	134	134
Liabilities				
Other payables and accruals	74,375	(50,610)	-	23,765
Contract liabilities	-	50,610	-	50,610
Deferred tax liabilities	6,416	-	33	6,449
Equity				
Reserves	22,854	-	34	22,888
Retained profits	19,314	-	34	19,348
Non-controlling interests	61,691	-	72	61,763

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of HKFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with the transitional provision in HKFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

(a) Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and bills receivables, financial assets included in prepayments, deposits and other receivables, amount due from related parties, amounts due from non-controlling shareholders and non-current financial assets at amortised cost.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Currently the Group does not hold any assets of this category.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its equity instruments as financial assets at FVOCI. Financial assets at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's equity instruments were classified as available for sale financial assets.
- Financial assets at FVPL comprise derivative instruments and some unquoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

HKFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the expected credit losses requirements of HKFRS 9 did not have material impact on the Group's debt financial assets.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

HKFRS 9 Financial Instruments (continued)

(c) Hedge accounting

The Group has chosen not to retrospectively apply HKFRS 9 on transition to the hedges. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. The adoption of the hedge accounting requirements of HKFRS 9 did not have significant impact on the Groups' financial statements.

(d) Other adjustments

In addition to the adjustments described above, upon adoption of HKFRS 9, other items of the primary financial statements such as non-controlling interests, were adjusted as necessary.

The cumulative effect of the changes made to the consolidated financial position as at 1 January 2018 for the adoption of HKFRS 9 *Financial Instruments* were as follows:

	Notes	Amounts prepared under previous HKFRS HK\$ million	Reclassifications under HKFRS 9 HK\$ million	Adjustments under HKFRS 9 HK\$ million	Amounts prepared under HKFRS 9 HK\$ million
Assets					
Available-for-sale investments	(a)	2,284	(2,284)	-	-
Financial assets at fair value through other comprehensive income	(a)	-	2,067	95	2,162
Other non-current assets	(a)	503	(428)	-	75
Financial assets at fair value through profit or loss	(a)	-	268	-	268
Non-current financial assets at amortised cost	(a)	-	377	-	377
Liabilities					
Deferred tax liabilities		-	-	24	24
Equity					
Reserves	(d)	22,854	-	37	22,891
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	(474)	-	(474)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	474	(20)	454
Retained profits		19,314	-	57	19,371
Non-controlling interests	(d)	61,691	-	34	61,725

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Six months ended 30 June 2018 HK\$ million
Type of goods or service	
Sales of fertilisers	15,943
Sales of chemical products	2,125
Sale of properties	16,647
Land development	7,206
Hotel operations	1,268
Others	<u>1,073</u>
Total revenue from contracts with customers	<u>44,262</u>
Timing of revenue recognition	
Goods transferred at a point of time	42,248
Services transferred over time	<u>2,014</u>
Total revenue from contracts with customers	<u>44,262</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

4. BUSINESS ANALYSIS

The Group analyses its business activities into the following operating segments: (i) fertilisers; (ii) real estate; and (iii) others (mainly chemical product trading and securities investments).

The Group disposed of its equity interests of oil and gas exploration business in the oil and gas segment in January 2017, and oil trading business in the oil and gas segment and chartered shipping services business in the others segment in October 2017, respectively. Accordingly, the oil and gas segment and chartered shipping services business in the other segment have been classified as discontinued operations and excluded from the segment information for the six months ended 30 June 2017.

As a result, the comparative figures of segment information have been restated accordingly.

The following is an analysis of the Group's revenue and results by operating segment:

	Fertilisers HK\$ million	Real estate HK\$ million	Others HK\$ million	Elimination HK\$ million	Consolidated HK\$ million
<u>Six months ended 30 June 2018</u>					
REVENUE					
External sales	15,943	26,811	2,420	-	45,174
Inter-segment sales-continuing	<u>-</u>	<u>16</u>	<u>3,122</u>	<u>(3,138)</u>	<u>-</u>
Total	<u>15,943</u>	<u>26,827</u>	<u>5,542</u>	<u>(3,138)</u>	<u>45,174</u>
Segment profit/(loss)	416	9,262	3,352	(3,109)	9,921
Interest income					824
Finance costs				(2,214)
Gain on disposal/deemed disposal of subsidiaries					90
Share of profits and losses of:					
Joint ventures				(12)
Associates					<u>57</u>
Profit before tax from continuing operations					<u>8,666</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

4. BUSINESS ANALYSIS (continued)

	Fertilisers HK\$ million	Real estate HK\$ million	Others HK\$ million	Elimination HK\$ million	Consolidated HK\$ million
<u>Six months ended 30 June 2017</u>			(Restated)	(Restated)	(Restated)
REVENUE					
External sales	11,846	20,171	3,080	-	35,097
Inter-segment sales-discontinued	-	-	2	(2)	-
Inter-segment sales-continuing	<u>-</u>	<u>12</u>	<u>572</u>	<u>(584)</u>	<u>-</u>
Total	<u>11,846</u>	<u>20,183</u>	<u>3,654</u>	<u>(586)</u>	<u>35,097</u>
Segment profit/(loss)	358	6,069	1,153	(564)	7,016
Interest income					567
Finance costs					(1,623)
Gain on disposal of subsidiaries					86
Share of profits and losses of:					
Joint ventures					(39)
Associates					<u>(67)</u>
Profit before tax from continuing operations					<u>5,940</u>

Segment profit or loss represents the results earned by or loss from each segment without allocation of interest income, finance costs, gain on disposal/deemed disposal of subsidiaries and share of results of joint ventures and associates.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

5. OTHER INCOME, GAINS AND LOSSES, NET

	Six months ended 30 June	
	2018	2017
	HK\$ million	HK\$ million
		(Restated)
<u>Other income</u>		
Bank interest income	192	132
Interest on other advances	532	352
Interest on other financial assets	100	83
Dividend income from available-for-sale investments	-	2
Dividend income from financial assets at fair value through other comprehensive income	5	-
Government grants (Note i)	21	23
Compensation received	1	3
Sales of scrapped materials	9	3
Penalty income	2	6
Sundry income, net	<u>120</u>	<u>136</u>
	<u>982</u>	<u>740</u>
<u>Gains and losses</u>		
Gain/(loss) on disposal of property, plant and equipment	5	(6)
Gain on disposal/deemed disposal of subsidiaries	90	86
Impairment of trade receivables	(1)	-
Write-off of non-demand payables	1	21
Foreign exchange difference, net	(10)	(194)
Fair value gains/(losses), net:		
Derivative financial instruments	(13)	34
Transfers from properties held for sale to investment properties	-	2
Accrued value-added tax expenses	-	(145)
Other expenses	(37)	(34)
	<u>35</u>	(236)
Other income, gains and losses, net	<u>1,017</u>	<u>504</u>

Note:

- (i) Government grants mainly comprised grants from the PRC government to support the development of the businesses of group entities in accordance with applicable regulations in the PRC.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	HK\$ million	HK\$ million
		(Restated)
Amortisation of other long-term assets	3	4
Amortisation of prepaid land lease payments	48	36
Amortisation of intangible assets	27	24
Depreciation of property, plant and equipment	385	394
Write-down of inventories	<u>4</u>	<u>8</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

7. INCOME TAX

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Hong Kong profits tax:		
Current tax	-	9
PRC tax:		
PRC enterprise income tax	2,302	1,835
Land appreciation tax ("LAT")	865	176
Underprovision in prior year	(5)	-
	3,162	2,011
Tax in other jurisdictions:		
Current tax	2	1
Deferred taxation	(94)	55
Total tax charge for the year from continuing operations	3,070	2,076
Total tax charge for the year from a discontinued operation	-	5
	<u>3,070</u>	<u>2,081</u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for both periods.

PRC corporate income tax has been provided at the rate of 25% on the taxable profits of the Group's PRC subsidiaries for both periods.

A non-wholly-owned subsidiary of the Group incorporated in the Macao SAR is exempted from income tax.

Corporate income tax in other jurisdictions has been provided at rates ranging from 17% to 19%.

According to the requirements of *the Provisional Regulations of the PRC on LAT* (中华人民共和国土地增值税暂行条例) effective from 1 January 1994, and *the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT* (中华人民共和国土地增值税暂行条例实施细则) effective from 27 January 1995, all gains arising from a transfer of real estate property in Mainland China effective from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including borrowing costs and all property development expenditures.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

8. DISCONTINUED OPERATIONS

On 1 January 2017, the Company disposed of all of its equity interests in Sinochem Petroleum Limited, Sinochem Resources UK Limited, and 99.8981% of the membership rights in Sinochem Petroleum Netherlands Cooperatief U.A. ("SPNC") to SPEP Energy Hong Kong Limited, an associate of the Group's ultimate parent. The sales and transfers of the shares and membership rights were effectuated as of 1 January 2017. In October 2017, the Company disposed of all of its equity interests in Sinochem International Petroleum (Bahamas) Co., Ltd. and Sinochem International Oil (London) Co., Ltd. to Sinochem Energy Hong Kong Co., Limited, a fellow subsidiary of the Company, for a cash consideration of US\$1 and US\$1, respectively. The disposals are parts of the internal reorganisation of Sinochem Group. The oil and gas business and chartered shipping services business were classified as a discontinued operation after completion of disposal on 31 October 2017.

The results of the oil and gas business and chartered shipping services business for the six months ended 30 June 2017 are presented below:

	Six months ended 30 June 2017 HK\$ million
REVENUE	207,904
Cost of sales	(206,433)
Gross profit	1,471
Other income, gains and losses, net	54
Selling and distribution expenses	(31)
Administrative expenses	(47)
Finance costs	(53)
Share of profits and losses of associates	<u>34</u>
Profit before tax from the discontinued operations	1,428
Income tax expense	(5)
	1,423
Loss on disposal of the discontinued operation	(6)
Profit after tax for the period from discontinued operations	<u><u>1,417</u></u>

The net cash flows incurred by the oil and gas exploration business are as follows:

	Six months ended 30 June 2017 HK\$ million
Operating activities	1,334
Investing activities	(1,139)
Financing activities	(51)
Effect of foreign exchange rate changes, net	(62)
Net cash inflow	<u><u>82</u></u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

9. LAND UNDER DEVELOPMENT

Land under development represents the project costs, land requisition costs, compensation costs and other preliminary infrastructure costs incurred by Jinmao, in relation to the land development projects in Changsha Meixi Lake International New City and Nanjing Qinglong Mountain International Ecological New City (the "Projects") which are situated in Mainland China. Though Jinmao does not have the ownership title or land use rights of this land, it is given the right to carry out construction and preparation works in respect of land infrastructure and ancillary public facilities as well as other development works in the Projects. When the land plots are sold by the local government, Jinmao is entitled to receive from the local authorities the land development fee.

10. GOODWILL

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
At 1 January:		
Cost	4,057	4,015
Accumulated impairment	-	-
Net carrying amount	<u>4,057</u>	<u>4,015</u>
Cost at 1 January, net of accumulated impairment	-	4,015
Exchange realignment	(6)	42
Net carrying amount at the end of the period	<u>4,051</u>	<u>4,057</u>
At the end of the period:		
Cost	4,051	4,057
Accumulated impairment	-	-
Net carrying amount	<u>4,051</u>	<u>4,057</u>

Goodwill has been allocated to two groups of cash-generating units relating to the fertilisers division and the real estate division. The carrying amounts of goodwill as at 30 June 2018 and 31 December 2017 allocated to these divisions are as follows:

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Fertilisers division	2,051	2,057
Real estate division	<u>2,000</u>	<u>2,000</u>
	<u>4,051</u>	<u>4,057</u>

Impairment testing of goodwill

According to the Group's accounting policy, the goodwill impairment test will be performed annually. In the opinion of the directors, there was no impairment of goodwill recognised for the six months ended 30 June 2018 (2017: Nil). The Company will perform impairment test on goodwill at year-end of 2018 and determine if impairment is necessary.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

11. ASSETS HELD FOR SALE

On 24 October 2017, Sinochem Fertiliser Co., Ltd. ("Sinochem Fertiliser", a subsidiary of Sinofert Holdings Limited ("Sinofert")) entered into a share transfer agreement with Sinochem Group, pursuant to which Sinochem Fertiliser agreed to sell and Sinochem Group agreed to purchase all the shares of Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") held by Sinochem Fertiliser, representing 20.52% of its total issued share capital of Qinghai Salt Lake, at a consideration of RMB8,063,198,000 (equivalent to HK\$9,646,004,000). Accordingly, the Company classified investment in Qinghai Salt Lake from interests in associates to assets held for sale as at 31 December 2017. As at 31 December 2017, the recoverable amount of RMB8,048,139,000 (equivalent to HK\$9,627,989,000) was determined based on the consideration less the transaction costs of approximately RMB15,059,000 (equivalent to HK\$18,015,000).

As at 30 June 2018, the transaction has been completed.

12. INTEREST-BEARING BORROWINGS

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Current:		
Bank loans, secured	3,067	6,409
Bank loans, unsecured	11,790	11,252
Guaranteed senior notes, unsecured	4,935	1,024
Notes issued under the medium-term note programme, unsecured	3,762	-
Notes, unsecured	1,186	1,196
Other loans, unsecured	5,571	14,845
	<u>30,311</u>	<u>34,726</u>
Non-current:		
Bank loans, secured	8,025	8,900
Bank loans, unsecured	14,559	14,267
Guaranteed senior notes, unsecured	26,492	28,794
Notes issued under the medium term note programme, unsecured	5,857	8,430
Domestic corporate bonds, unsecured	2,602	2,623
Bonds, unsecured	13,584	10,119
Other loans, unsecured	22,959	7,058
	<u>94,078</u>	<u>80,191</u>
Carrying amounts repayable:		
Within one year	30,311	34,726
More than one year, but not more than five years	84,081	70,234
More than five years	9,997	9,957
	<u>124,389</u>	<u>114,917</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

13. SHARE CAPITAL

	30 June 2018	31 December 2017
	HK\$ million	HK\$ million
Issued and fully paid:		
24,468,400,000 (2017: 24,468,400,000) ordinary shares	<u>24,468</u>	<u>24,468</u>

14. PERPETUAL CAPITAL SECURITIES

On 2 May 2013, Sinochem Global Capital Co., Ltd., a wholly-owned subsidiary of the Company, issued subordinated guaranteed perpetual capital securities with a nominal amount of US\$600 million (approximately HK\$4,654 million), which are guaranteed on a subordinated basis by the Group. The direct transaction costs attributable to the perpetual capital securities amounted to HK\$35 million.

The perpetual capital securities have no fixed maturity, and confer to the holders a right to receive distributions for the period from and including 2 May 2013 at the applicable rate. Sinochem Global Capital Co., Ltd. and the Company, as the issuer and the guarantor, respectively, may at their sole discretion elect to defer payment of distributions, in whole or in part, by giving notice to the holders not more than ten nor less than five business days prior to a scheduled distribution payment date. The Group is not subject to any limits as to the number of times of distributions and arrears of distribution may be deferred.

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of perpetual capital securities other than an unforeseen liquidation of the Group or Sinochem Global Capital Co., Ltd.. Accordingly, the perpetual capital securities are classified as equity instruments.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

15. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES

For the six months ended 30 June 2018, Jinmao disposed/lost control over certain subsidiaries.

Details of the financial impacts are summarised below:

	Note	30 June 2018 HK\$ million
Net liabilities disposed of:		
Property, plant and equipment		3
Deferred tax assets		4
Cash and cash equivalents		2,228
Properties under development		7,610
Prepayments, deposits and other receivables		467
Tax recoverable		27
Trade and bills payables		(117)
Other payables and accruals		(7,997)
Interest-bearing borrowings		(2,286)
		<u>(61)</u>
Gain on disposal/deemed disposal of subsidiaries	5	<u>90</u>
		<u>29</u>
Satisfied by		
Cash		15
Fair value of interests retained by Jinmao		<u>14</u>
		<u>29</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries is as follows:

	30 June 2018 HK\$ million
Cash consideration	15
Cash and cash equivalents disposed of	(2,228)
Net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries	<u>(2,213)</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

16. CAPITAL COMMITMENTS

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Contracted, but not provided for:		
Property, plant and equipment	142	35
Properties under development	25,977	21,105
Land under development	1,947	1,644
Capital contributions to joint ventures	1,830	556
	<u>29,896</u>	<u>23,340</u>
Authorised, but not contracted for:		
Property, plant and equipment	1,917	2,118
	<u>1,917</u>	<u>2,118</u>
	<u>31,813</u>	<u>25,458</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

17. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
The ultimate parent:		
Sale of fertilisers	50	13
Purchase of fertilisers	180	101
Import service fee	-	2
Interest expense	17	-
Rental income	5	4
The immediate parent:		
Rental income	53	42
Property management fee income	6	8
Interest income and other income	139	44
Interest expense	9	4
Fellow subsidiaries:		
Sales of fertilisers	78	-
Sale of crude oil and petroleum products	-	10,732
Sale of chemical products	643	1,229
Purchase of chemical products	-	17
Interest expense	27	52
Rental income	109	69
Property management fee income	23	15
Building decoration services income	19	-
Interest income and other income	70	390
Interests income for financial assets from related parties	8	-
Transfer investment in subsidiaries to a related party	-	22,623
Ship rental expense	-	213
Purchase of fertilisers	6	-
Purchase of crude oil and petroleum products	-	523
Purchase of financial assets from related parties	362	-
Property management fee expense	1	-
Consigned processing fee	-	823
Storage fee expenses	2	2
Associates:		
Sale of crude oil and petroleum products	-	5,414
Purchase of fertilisers	145	1,071
Property management fee income	14	6
Transportation income	-	112
Interest income and other income	129	114
Consulting fee income	11	7
Interest expense	1	20
Building decoration services income	20	-
Other operating expenses	132	-

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

17. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Joint ventures:		
Sale of fertilisers	169	121
Interest income and other income	165	452
Purchase of fertilisers	601	512
Consulting fee income	42	4
Rental income	1	1
Property management fee income	16	5
Other operating expenses	172	72
Building decoration services income	68	-
Interest expense	1	-
An associate of the Group's ultimate holding company:		
Rental income	40	33
Sales of fertilisers	551	-
Interest income	5	-
Purchase of fertilisers	723	-
Interest expense	1	-
Property management fee income	<u>5</u>	<u>1</u>

(b) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("SOEs"). In addition, the Group itself is part of a larger group of companies under Sinochem Group which is controlled by the PRC government. Apart from the transactions with Sinochem Group and fellow subsidiaries and other related parties disclosed above, the Group also conducts business with other SOEs. The directors of the Company consider those SOEs are independent third parties so far as the Group's business transactions with them are concerned.

During the period, the Group has entered into various transactions with other SOEs including, but not limited to, borrowings, deposits, sale of properties developed, provision of property lease and management service, provision of sub-contracting services, sale of fertilisers, purchase of fertilisers and sale of crude oil and petroleum products. The directors of the Company consider that these transactions with other SOEs are activities conducted in the ordinary course of business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for its products and services and such pricing policies do not depend on whether or not the customers are SOEs.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

18. CONTINGENT LIABILITIES

At the end of the reporting period, Jinmao has provided guarantees in respect of mortgage facilities for certain purchasers of Jinmao's properties amounted to approximately HK\$32,080 million (31 December 2017: HK\$22,973 million).

19. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	<u>30 June 2018</u>		<u>31 December 2017</u>	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Financial liabilities:				
Interest-bearing borrowings	<u>124,389</u>	<u>125,841</u>	<u>114,917</u>	<u>116,802</u>

Management has assessed that the fair values of cash and cash equivalents, restricted bank balances, trade and bills receivables, amounts due from/to related parties, amounts due from non-controlling shareholders, non-current financial assets at amortised cost, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and contract liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's corporate finance is responsible for determining the policies and procedures for the fair value measurement of financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings except for bonds and notes have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of bonds and notes are based on quoted market prices.

The Group enters into derivative financial instruments with counterparties, principally financial institutions with good credit ratings. Derivative financial instruments are measured using present value calculations or similar calculations. The models incorporate market observable inputs including the foreign exchange spot, forward rates and the interest rate curves of the underlying currency.

Fair value of the unquoted equity instruments included in financial assets at FVOCI and financial assets at FVPL, and the management products included in financial assets at FVPL have been estimated by using valuation techniques, including price of recent investment, market multiples methods, discounted cash flows from the investment, etc.. The fair value was based on value inputs that are not observable market data, but change of these value inputs to reasonably possible alternatives would not have material effect on the Group's results and financial position.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

19. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Assets measured at fair value:

As at 30 June 2018

	Fair value measurement using			Total HK\$ million
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million	
Financial assets at FVOCI	1,527	-	474	2,001
Derivative financial instruments	-	18	-	18
Financial assets at FVPL	-	-	614	614
	<u>1,527</u>	<u>18</u>	<u>1,088</u>	<u>2,633</u>

As at 31 December 2017

	Fair value measurement using			Total HK\$ million
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million	
Listed available-for-sale investments	1,684	-	-	1,684
Derivative financial instruments	-	12	-	12
	<u>1,684</u>	<u>12</u>	<u>-</u>	<u>1,696</u>

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

19. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 30 June 2018

	Fair value measurement using			Total HK\$ million		
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million			
	Derivative financial instruments	-	175		-	175

As at 31 December 2017

	Fair value measurement using			Total HK\$ million		
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million			
	Derivative financial instruments	-	175		-	175

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

19. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

The Group did not have any financial assets that were not measured at fair value in the statement of financial position but for which the fair values were disclosed as at 30 June 2018 (2017: Nil).

Liabilities for which fair values are disclosed:

As at 30 June 2018

	Fair value measurement using			Total HK\$ million	
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million		
	Interest-bearing borrowings	60,071	65,770		-
		125,841			125,841

As at 31 December 2017

	Fair value measurement using			Total HK\$ million	
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million		
	Interest-bearing borrowings	50,043	66,759		-
		116,802			116,802

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2018

20. EVENT AFTER THE REPORTING PERIOD

- (a) On 27 July 2018, China Jin Mao (Group) Company Limited, a subsidiary of Jinmao, issued short-term notes in the national inter-bank market in the PRC, of an amount of RMB700 million (equivalent to HK\$809 million) and with a maturity period of 270 days and an interest rate of 4.27% per annum.

21. COMPARATIVE AMOUNTS

The comparative interim condensed consolidated statement of comprehensive income has been re-presented as if the operations discontinued as referred to in note 8 had been discontinued at the beginning of the comparative period. In addition, certain comparative amounts have been reclassified to conform with the current period's presentation.

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 5 September 2018.