SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

Report of the Directors and Audited Consolidated Financial Statements

31 December 2018

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

Principal activities and business review

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries, joint ventures and associates are set out in notes 1, 18 and 19 to the consolidated financial statements, respectively. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the consolidated financial statements on pages 7 to 152.

Dividends amounting to US$110,198,000 (equivalent to HK$862,353,000) were declared to the immediate parent during the year ended 31 December 2018.

Details of dividends distribution during the year are set out in note 10 to the consolidated financial statements.

Share capital

There were no movements in the Company's share capital during the year.

Distributable reserves

At 31 December 2018, the Group's reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance, amounted to HK$20,373,872,000.

Directors

The directors of the Company during the year and as at the date of this report are as follows:

Li Lin
Lin Yu (appointed on 1 June 2018)
Hu Xuejing (resigned on 1 June 2018)
Ning Gaoning

In accordance with the Company's articles of association, all the directors shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' rights to acquire shares

At no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, nor were any such rights exercised by them.

Directors' interests in transactions, arrangements or contracts

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transaction, arrangements or contracts of significance to the business of the Company to which the holding companies of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

Events after the reporting period

Details of the significant events of the Group after the reporting period are set out in note 52 to the consolidated financial statements.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

宁高宁

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Ning Gaoning
Director

Hong Kong
30 April 2019

EY 安永

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report
To the members of Sinochem Hong Kong (Group) Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion
We have audited the consolidated financial statements of Sinochem Hong Kong (Group) Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 152, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
The Group recorded goodwill amounting to approximately HK$4 billion as at 31 December 2018, arising from the acquisitions of subsidiaries of the real estate and fertiliser business segments. The Group is required to perform impairment testing for goodwill according to the accounting standards on an annual basis, and the assessment process is complex and highly judgemental. In addition, the fertiliser market suffered a downturn in recent years and only modestly recovered in 2018, which indicates potential impairment of goodwill. The accounting policies and disclosures of impairment of goodwill are included in note 2.4 "Business combinations and goodwill", note 3 "Estimation uncertainty - (k) Impairment of goodwill" and note 16 "Goodwill" to the consolidated financial statements.	We performed audit procedures on the key assumptions and methodologies used by management for the impairment testing of goodwill. We assessed whether management's assumptions on future revenue and the growth rate were appropriate by comparing with the historical growth rate, external market/industry forecast data and inflation estimates; and we reviewed the operating cost projections by comparing with historical information and other evidence of determining the future operating costs provided by management. In addition, we also involved our internal valuation specialists in reviewing the model and key assumptions used, such as the discount rate and growth rate. Moreover, we reviewed the adequacy of the relevant disclosures about those assumptions regarding goodwill impairment testing in the consolidated financial statements.

EY 安永

Independent auditor's report (continued)
To the members of Sinochem Hong Kong (Group) Company Limited
(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Revaluation of investment properties	
The Group adopted the fair value model for its investment properties in accordance with HKAS 40 *Investment Property*. Changes in fair values were recorded in profit or loss. As at 31 December 2018, the Group's investment properties were revalued individually based on the valuations performed by independent professionally qualified appraisers. Different valuation techniques were applied to different types of investment properties. Both the year-end balance of the Group's investment properties of HK$33,856 million and the changes in fair value of HK$235 million were significant to the consolidated financial statements, and the valuations involved management judgement and estimates on future rental income, the growth rate, vacancy rate, discount rate and reversionary yield. The accounting policies and disclosures of the revaluation of investment properties are included in note 2.4 "Investment properties", note 3 "Estimation uncertainty - (e) Estimation of fair value of investment properties" and note 14 "Investment properties" to the consolidated financial statements.	We obtained an understanding of the work of the Group's external specialists, and considered the competence, capabilities and objectivity of the specialists. We involved our internal valuation specialists to assist us in evaluating the valuation techniques and reviewing the underlying assumptions for selected samples. We compared market rental assumptions against actual rents of existing leasing contracts and external market rents; the expected vacancy rate against historical data maintained by the Group; and the discount rate, the growth rate and reversionary yield against those of peers with properties with similar nature and location. We also assessed the adequacy of the disclosures of investment properties, including valuation sensitivity and the fair value hierarchy in the consolidated financial statements.

EY 安永

Independent auditor's report (continued)
To the members of Sinochem Hong Kong (Group) Company Limited
(Incorporated in Hong Kong with limited liability)

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

Independent auditor's report (continued)
To the members of Sinochem Hong Kong (Group) Company Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

Ernst & Young
Certified Public Accountants
Hong Kong

30 April 2019

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CONTINUING OPERATIONS			
REVENUE	4	76,287,032	64,093,911
Cost of sales		(56,280,005)	(49,648,550)
Gross profit		20,007,027	14,445,361
Other income, gains and losses, net	5	3,208,468	2,311,478
Selling and distribution expenses		(2,323,274)	(2,096,278)
Administrative expenses		(3,624,661)	(3,182,502)
Fair value changes of investment properties		235,291	208,496
Finance costs:	6		
Interest expenses		(4,256,563)	(3,545,273)
Transaction costs		(55,172)	(48,129)
Share of profits and losses of:			
Joint ventures		470,081	52,053
Associates		148,649	(65,365)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	13,809,846	8,079,841
Income tax expense	8	(5,094,138)	(4,275,275)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		8,715,708	3,804,566
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	9	-	691,808
PROFIT FOR THE YEAR		8,715,708	4,496,374
Attributable to:			
Owners of the parent		2,772,654	2,322,483
Non-controlling interests		5,943,054	2,173,891
		8,715,708	4,496,374

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR		8,715,708	4,496,374
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		-	413,889
Reclassification adjustments for losses included in profit or loss - disposal of investments		-	(231,693)
Exchange differences:			
Exchange differences on translation of foreign operations		(6,063,308)	6,906,819
Reclassification adjustments for foreign operations disposed of during the year	42	(45,666)	311,617
Net investment hedges, net of tax		3,646	(91,329)
Cash flow hedges, net of tax		29,520	(18,674)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		(6,075,808)	7,290,629
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation, net of tax		38,786	179,767
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		(367,225)	-
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(328,439)	179,767
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(6,404,247)	7,470,396
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,311,461	11,966,770
Attributable to:			
Owners of the parent		(500,526)	6,435,259
Non-controlling interests		2,811,987	5,531,511
		2,311,461	11,966,770

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	31 December 2018 HK$'000	31 December 2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	15,539,294	15,964,002
Land under development	12	10,924,008	10,764,743
Properties under development	13	57,201,366	50,096,965
Investment properties	14	33,856,049	34,148,727
Prepaid land lease payments	15	2,215,984	2,397,575
Goodwill	16	4,027,608	4,056,810
Intangible assets	17	674,498	730,134
Investments in joint ventures	18	8,857,161	4,043,164
Investments in associates	19	8,704,818	5,584,783
Available-for-sale investments		-	2,284,356
Equity investments designated at fair value through other comprehensive income	20	1,767,098	-
Amounts due from related parties	21	30,858,344	33,643,023
Deferred tax assets	36	2,292,500	1,866,535
Amounts due from non-controlling shareholders	22	4,137,590	3,590,662
Other non-current assets	23	1,853,694	502,764
Total non-current assets		182,910,012	169,674,243
CURRENT ASSETS			
Inventories	24	6,476,494	6,638,299
Land under development	12	3,537,625	8,226,615
Properties under development	13	55,320,904	29,488,514
Properties held for sale	25	10,261,498	14,083,435
Prepaid land lease payments	15	77,327	80,423
Trade and bills receivables	26	1,501,595	1,661,962
Contract assets	27	176,331	-
Prepayments, other receivables and other assets	28	25,126,765	25,696,013
Amounts due from related parties	21	54,647,894	40,617,081
Tax recoverable		3,408,620	2,563,049
Derivative financial instruments	29	8,303	11,988
Restricted bank balances	30	5,087,435	3,870,247
Cash and cash equivalents	30	28,319,827	27,671,639
Other financial assets	23	305,663	7,182,594
Assets held for sale	31	-	9,627,989
Total current assets		194,256,281	177,419,848

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2018

	Notes	31 December 2018 HK$'000	31 December 2017 HK$'000
CURRENT LIABILITIES			
Trade and bills payables	32	16,511,002	13,595,358
Other payables and accruals	33	82,189,029	74,375,266
Derivative financial instruments	29	74,981	174,829
Interest-bearing borrowings	34	32,360,908	34,726,336
Amounts due to related parties	21	19,544,985	15,824,905
Tax payable		1,955,525	1,795,759
Provision for land appreciation tax	35	3,059,697	4,346,920
Total current liabilities		155,696,127	144,839,373
NET CURRENT ASSETS		38,560,154	32,580,475
TOTAL ASSETS LESS CURRENT LIABILITIES		221,470,166	202,254,718
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	34	95,883,892	80,191,096
Deferred tax liabilities	36	6,395,017	6,416,073
Deferred income		83,400	103,376
Amounts due to related parties	21	-	1,794,450
Derivative financial instruments	29	51,095	-
Other non-current liabilities	37	118,675	117,863
Total non-current liabilities		102,532,079	88,622,858
NET ASSETS		118,938,087	113,631,860
CAPITAL AND RESERVES			
Issued capital	38	24,468,400	24,468,400
Perpetual capital securities	39	-	4,619,260
Reserves		20,581,092	22,852,848
Equity attributable to owners of the parent		45,049,492	51,940,508
Non-controlling interests		73,888,595	61,691,352
TOTAL EQUITY		118,938,087	113,631,860

宁高宁

Director

Director

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to owners of the parent												Attributable to non-controlling interests	
		Issued capital HK$'000	Capital reserve HK$'000 (Note a)	Asset revaluation reserve HK$'000	Merger reserve HK$'000 (Note b)	Statutory reserve HK$'000 (Note c)	Investment revaluation /Fair value reserve HK$'000	Translation reserve HK$'000	Other contribution reserve HK$'000 (Note d)	Perpetual capital securities HK$'000	Cash flow hedge reserve HK$'000	Retained profits HK$'000	Total HK$'000	Share of net assets of subsidiaries HK$'000	Total equity HK$'000
At 31 December 2017		24,468,400	(1,604,008)	572,726	(3,836,771)	3,874,941	473,824	1,665,236	2,427,365	4,619,260	(34,693)	19,314,228	51,940,508	61,691,352	113,631,860
Effect of adoption of HKFRS 9		-	-	-	-	-	(19,319)	-	-	-	-	56,660	37,341	33,582	70,923
Effect of adoption of HKFRS 15		-	-	-	-	-	-	-	-	-	-	36,794	36,794	69,234	106,028
At 1 January 2018 (restated)		24,468,400	(1,604,008)	572,726	(3,836,771)	3,874,941	454,505	1,665,236	2,427,365	4,619,260	(34,693)	19,407,682	52,014,643	61,794,168	113,808,811
Profit for the year		-	-	-	-	-	-	-	-	-	-	2,772,654	2,772,654	5,943,054	8,715,708
Other comprehensive income/(loss) for the year															
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	(351,656)	-	-	-	-	-	(351,656)	(15,569)	(367,225)
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	55,725	-	55,725	(26,205)	29,520
Net investment hedges, net of tax	29	-	-	-	-	-	-	-	-	-	1,818	-	1,818	1,828	3,646
Gains on property revaluation, net of tax		-	-	31,094	-	-	-	-	-	-	-	-	31,094	7,692	38,786
Reclassification adjustments of exchange differences for foreign operations disposed of during the year	42	-	-	-	-	-	-	(22,766)	-	-	-	-	(22,766)	(22,900)	(45,666)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(2,987,395)	-	-	-	-	(2,987,395)	(3,075,913)	(6,063,308)
Total comprehensive income/(loss) for the year, net of tax		-	-	31,094	-	-	(351,656)	(3,010,161)	-	-	57,543	2,772,654	(500,526)	2,811,987	2,311,461
Issue of shares to non-controlling shareholders (Note e)		-	(323,229)	-	-	-	-	-	-	-	-	-	(323,229)	3,628,352	3,305,123
Exercise of share options (Note e)		-	(3,722)	-	-	-	-	-	-	-	-	-	(3,722)	15,331	11,609
Repurchase of shares by China Jinmao Holdings Group Limited ("Jinmao") under the Companies Ordinance (Cap.622) (Note e)		-	59,446	-	-	-	-	-	-	-	-	(52,059)	7,387	(111,810)	(104,423)
Equity-settled share-based payments of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	25,912	25,912
Acquisition of non-controlling interests		-	(401,214)	-	-	-	-	-	-	-	-	-	(401,214)	(4,203,196)	(4,604,410)
Transfer from retained profits		-	-	-	-	697,179	-	-	-	-	-	(697,179)	-	-	-
Dividends distributed	10	-	-	-	-	-	-	-	-	-	-	(862,353)	(862,353)	-	(862,353)
Dividends declared by subsidiaries to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	(2,862,687)	(2,862,687)
Transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	-	-	-	-	-	-	-	1,983	1,983	(1,983)	-
Capital contribution from non-controlling interests		-	20,765	-	-	-	-	-	-	-	-	-	20,765	7,429,855	7,450,620
Distribution paid for perpetual capital securities		-	-	-	-	-	-	-	-	-	-	(191,325)	(191,325)	-	(191,325)
Distribution paid for perpetual securities issued by Jinmao		-	-	-	-	-	-	-	-	-	-	-	-	(949,724)	(949,724)
Issue of Jinmao's perpetual securities, net of issue expenses (Note f)		-	-	-	-	-	-	-	-	-	-	-	-	4,591,356	4,591,356
Acquisition of subsidiaries	41	-	-	-	-	-	-	-	-	-	-	-	-	1,678,561	1,678,561
Repurchase of Jinmao's perpetual securities		-	-	-	-	-	-	-	-	-	-	-	-	(11,774)	(11,774)
Repurchase of perpetual capital securities	39	-	(39,410)	-	-	-	-	-	-	(4,619,260)	-	-	(4,658,670)	-	(4,658,670)
Capital contribution to a subsidiary of Sinofert Holdings Limited ("Sinofert") through the conversion of its shareholder's loans		-	(54,247)	-	-	-	-	-	-	-	-	-	(54,247)	54,247	-
Maintenance and production fund		-	-	-	-	-	-	-	5,531	-	-	(5,531)	-	-	-
At 31 December 2018		24,468,400	(2,345,619)*	603,820*	(3,836,771)*	4,572,120*	102,849*	(1,344,925)*	2,432,896*	-	22,850*	20,373,872*	45,049,492	73,888,595	118,938,087

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2018

	Notes	Attributable to owners of the parent												Attributable to non-controlling interests	
		Issued capital HK$'000	Capital reserve HK$'000 (Note a)	Asset revaluation reserve HK$'000	Merger reserve HK$'000 (Note b)	Statutory reserve HK$'000 (Note c)	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Other contribution reserve HK$'000 (Note d)	Perpetual capital securities HK$'000	Cash flow hedge reserve HK$'000	Retained profits HK$'000	Total HK$'000	Share of net assets of subsidiaries HK$'000	Total equity HK$'000
At 1 January 2017		24,468,400	(1,626,749)	393,469	(3,836,771)	3,017,174	307,725	(2,170,134)	2,433,070	4,619,260	33,257	20,302,307	47,941,008	50,280,467	98,221,475
Profit for the year		-	-	-	-	-	-	-	-	-	-	2,322,483	2,322,483	2,173,891	4,496,374
Other comprehensive income/(loss) for the year															
Change in fair value of available-for-sale investments		-	-	-	-	-	397,792	-	-	-	-	-	397,792	16,097	413,889
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	(18,674)	-	(18,674)	-	(18,674)
Net investment hedges, net of tax		-	-	-	-	-	-	-	-	-	(49,276)	-	(49,276)	(42,053)	(91,329)
Gains on property revaluation, net of tax		-	-	179,257	-	-	-	-	-	-	-	-	179,257	510	179,767
Reclassification adjustments of losses included in profit or loss – disposal of available-for-sale investments		-	-	-	-	-	(231,693)	-	-	-	-	-	(231,693)	-	(231,693)
Reclassification adjustments of exchange differences for foreign operations disposed of during the year		-	-	-	-	-	-	183,413	-	-	-	-	183,413	128,204	311,617
Exchange differences on translation of foreign operations		-	-	-	-	-	-	3,651,957	-	-	-	-	3,651,957	3,254,862	6,906,819
Total comprehensive income/(loss) for the year, net of tax		-	-	179,257	-	-	166,099	3,835,370	-	-	(67,950)	2,322,483	6,435,259	5,531,511	11,966,770
Exercise of share options		-	(8,923)	-	-	-	-	-	-	-	-	-	(8,923)	17,869	8,946
Acquisition of non-controlling interests		-	237	-	-	-	-	-	-	-	-	-	237	(101,016)	(100,779)
Disposal of subsidiaries	42	-	(712,164)	-	-	-	-	-	(9,897)	-	-	9,897	(712,164)	(3,438,794)	(4,150,958)
Disposal of an associate		-	(31,721)	-	-	-	-	-	-	-	-	-	(31,721)	-	(31,721)
Transfer from retained profits		-	-	-	-	857,767	-	-	-	-	-	(857,767)	-	-	-
Dividends distributed	10	-	-	-	-	-	-	-	-	-	-	(2,025,736)	(2,025,736)	-	(2,025,736)
Dividends declared by subsidiaries to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	(5,050,417)	(5,050,417)
Transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	-	-	-	-	-	-	-	2,939	2,939	(2,939)	-
Capital contribution from non-controlling interests		-	343,356	-	-	-	-	-	-	-	-	-	343,356	6,941,202	7,284,558
Distribution paid for perpetual capital securities		-	-	-	-	-	-	-	-	-	-	(234,047)	(234,047)	(431,136)	(665,183)
Distribution paid for perpetual convertible securities issued by China Jinmao Holdings Group Limited ("Jinmao")		-	-	-	-	-	-	-	-	-	-	-	-	(106,080)	(106,080)
Repurchase of Jinmao's perpetual convertible securities		-	-	-	-	-	-	-	-	-	-	(201,656)	(201,656)	(3,230,738)	(3,432,394)
Equity-settled share-based payment of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	28,197	28,197
Issue of Jinmao's perpetual securities, net of issue expenses		-	-	-	-	-	-	-	-	-	-	-	-	10,697,189	10,697,189
Maintenance and production fund		-	-	-	-	-	-	-	4,192	-	-	(4,192)	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	167,563	167,563
Reclassification of capital reserve for a held-for-sale associate		-	431,956	-	-	-	-	-	-	-	-	-	431,956	388,474	820,430
At 31 December 2017		24,468,400	(1,604,008)	572,726	(3,836,771)	3,874,941	473,824	1,665,236	2,427,365	4,619,260	(34,693)	19,314,228	51,940,508	61,691,352	113,631,860

Notes:

(a) The capital reserve of the Group mainly comprises (i) contributions from owners in respect of settlement of doubtful receivables; (ii) contribution transfer of equity interest in a joint venture to the Group in previous years; and (iii) 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 acquiree as consideration for the group restructuring transactions.

(c) The statutory reserve comprises the statutory reserve fund, reserve fund and enterprise expansion fund. In accordance with the relevant People's Republic of China (the "PRC") rules and regulations, the Group's PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The appropriation to the reserve fund and enterprise expansion fund is determined by the articles of association of the Company's subsidiaries and approval by the boards of directors of the subsidiaries.

(d) The 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 the relevant PRC regulations on certain enterprises.

(e) 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 with net proceeds of approximately HK$3,305,123,000.

During the year ended 31 December 2018, Jinmao repurchased its 27,100,000 shares on the Hong Kong Stock Exchange for a total consideration of HK$104,423,000 which was paid wholly out of Jinmao's retained profits in accordance with section 257 of the Hong Kong Companies Ordinance (Cap.622). The purchased shares were cancelled.

During the year ended 31 December 2018, 5,026,980 share options of Jinmao were exercised at the subscription price of HK$2.44 per share or HK$2.196 per share for a total cash consideration, before issue expenses, of HK$11,609,000.

After the above equity transactions, the Group's equity interest in Jinmao decreased from 53.95% on 31 December 2017 to 49.85% on 31 December 2018. The difference between the change of the shares of net assets attributable to the non-controlling interests, and the consideration and the impact of reallocation of a proportion of the goodwill amounting to HK$267,505,000 was recorded in the consolidated capital reserve.

Notes: (continued)

(f) On 4 December 2018, Franshion Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued senior guaranteed perpetual capital securities in an aggregate principal amount of US$300,000,000 (equivalent to HK$2,344,917,000). The direct transaction costs attributable to the issuance amounted to US$1,997,700 (equivalent to HK$15,615,000). The securities confer a right to receive distributions at 6.90% per annum payable semi-annually in arrears beginning on 4 December 2018 with no stated maturity date. The issuer may, at its sole discretion, elect to defer a distribution pursuant to the terms of the securities. The securities may be redeemed at the option of the issuer, in whole but not in part.

On 18 December 2018, Jinmao Investment Management (Shanghai) Co., Ltd., a wholly-owned subsidiary of Jinmao, issued the unsecured perpetual medium-term notes, with an aggregate principal amount of RMB2,000,000,000 (equivalent to HK$2,269,865,000). The direct transaction costs attributable to the issuance amounted to RMB6,882,000 (equivalent to HK$7,811,000). The notes confer a right to receive distributions at 5.00% per annum payable annually beginning on 12 December 2018 and every three interest-bearing years shall be a cycle. Jinmao has the option for extension at the end of every three interest-bearing years.

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of the securities above due to redemption other than an unforeseen liquidation of Jinmao or the issuers. Accordingly, these securities are classified as equity instruments of Jinmao.

* These reserve accounts comprise the consolidated reserves of HK$20,581,092,000 (2017: HK$22,852,848,000) in the consolidated statement of financial position.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		13,809,846	8,079,841
From discontinued operations	9	-	703,263
Adjustments for:			
(Gains)/losses on disposal of:			
Property, plant and equipment	5	(7,087)	7,429
Subsidiaries	5	(85,431)	(3,148,480)
A joint venture	5	-	15
Gain on bargain purchase	5	(88,686)	(1,844)
Provision in relation to a held-for-sale associate	5	-	820,430
Write-off of non-demand payables	5	(654)	(8,937)
Impairment losses on:			
Property, plant and equipment	5	-	1,062,871
Intangible assets	5	43	-
Prepayments for acquisition of property, plant and equipment	5	473	-
Available-for-sale investments	5	-	93,010
Reversal of an impairment loss on an investment in an associate	5	-	(36,791)
Impairment losses on trade and bills receivables, and other receivables		14,396	4,285
Write-down of inventories	7	14,469	37,847
Fair value (gains)/losses on:			
Other financial assets	5	(1,472)	-
Derivative financial instruments - transactions not qualifying as hedges	5	4,652	(47,034)
Ineffectiveness of net investment hedges	5	30,143	(2,621)
Transfers from properties held for sale to investment properties	5	(52,007)	(8,616)
Equity interest previously held as investments in joint ventures	5	(120,359)	(28,041)
Finance costs	6	4,311,735	3,671,764
Share of profits and losses of joint ventures		(470,081)	(52,053)
Share of profits and losses of associates		(148,649)	5,514
Interest income		(2,328,680)	(1,314,560)
Fair value changes of investment properties		(235,291)	(208,496)
Depreciation of property, plant and equipment	7	759,497	799,494
Amortisation of:			
Other non-current assets	7	13,456	7,421
Intangible assets	7	51,628	48,389
Prepaid land lease payments	7	80,083	77,447
Dividend income from available-for-sale investments	5	-	(2,225)
Dividend income from equity investments designated at fair value through other comprehensive income	5	(5,141)	-
Expenditures of separation and hand-over of water/power/gas supply and property management facilities	5	34,522	-
Equity-settled share option expense	7	25,912	28,197
		15,607,317	10,587,519
Decrease in inventories		147,336	641,308
Decrease in land under development		4,249,823	2,078,133
Increase in properties under development		(50,203,269)	(49,423,049)
Decrease in properties held for sale		20,467,245	19,682,498

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CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Decrease/(increase) in trade and bills receivables		190,886	(2,116,311)
Decrease/(increase) in prepayments, other receivables and other assets		5,008,971	(12,756,991)
Increase in amounts due from related parties		(3,454,324)	(10,287,611)
Increase in contract assets		(182,712)	-
Increase/(decrease) in trade and bills payables		3,046,612	(1,651,383)
Increase in other payables and accruals		6,992,168	4,964,164
(Increase)/decrease in derivative financial instruments		-	560,326
Increase in amounts due to related parties		737,805	5,309,600
Increase in deferred income and other non-current liabilities		87,246	50,893
Cash generated from/(used in) operations		2,695,104	(32,360,904)
Income tax paid		(4,285,772)	(4,370,003)
Land appreciation tax paid		(3,133,076)	(742,304)
Net cash flows used in operating activities		(4,723,744)	(37,473,211)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,044,332	1,625,268
Dividends received from:			
Associates		39,161	59,218
Available-for-sale investments		-	2,225
Equity investments designated at fair value through other comprehensive income		5,141	-
Purchase of property, plant and equipment		(1,050,077)	(749,794)
Proceeds from disposal of available-for-sale investments		-	101,432
Proceeds from disposal of a joint venture		-	2,367
Proceeds from disposal of an associate		6,663,666	2,789,061
Disposal of subsidiaries	42	(2,585,885)	(676,561)
Purchase of investment properties		(1,341,728)	(4,273,913)
Increase in other non-current assets and intangible assets		(54,329)	(23,379)
Acquisition of subsidiaries	41	(30,860)	(80,995)
Additional investments in joint ventures		(5,788,705)	(869,476)
Additional investments in associates		(3,262,538)	(1,334,540)
Increase in restricted bank balances		(904,968)	(1,267,358)
Increase on derivative financial instruments		(25,535)	-
Payment for purchase of other financial assets		(12,974,957)	(4,121,644)
Proceeds from sale of other financial assets		18,561,592	4,156,553
(Increase)/decrease in amounts due from related parties		(8,502,766)	11,665,355
Decrease/(increase) in advances of loans to non-controlling interests		1,580,068	(4,487,822)
Decrease/(increase) in entrusted loans to third parties		1,432,982	(885,671)
Prepaid investment cost		(7,891,105)	-
Decrease in other investing activities		11,595	22,489
Net cash flows (used in)/from investing activities		(15,074,916)	1,652,815

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares to non-controlling shareholders		3,305,123	-
Repayment of short-term commercial paper		-	(2,306,000)
Distribution paid for perpetual capital securities		(1,141,049)	(665,183)
Distribution paid for perpetual convertible securities		-	(106,080)
Issue of perpetual securities, net of issue expenses		4,591,356	10,697,189
New bank loans and other loans		91,080,403	94,247,376
Repayment of bank loans and other loans		(71,765,587)	(66,107,029)
Capital contribution from non-controlling interests		7,450,620	7,284,558
Dividends paid		(470,708)	(2,025,736)
Dividends paid to non-controlling interests of subsidiaries		(2,672,348)	(4,747,022)
Advance from non-controlling shareholders		1,898,103	8,646,778
Repayment of investments to third parties		(1,498,226)	-
Interest paid		(6,999,024)	(5,518,405)
Advance of investments from third parties		1,962,481	5,871,094
Increase/(decrease) in amounts due to related parties		3,958,082	(1,646,673)
Proceeds from exercise of share options		11,609	8,946
Repurchase of Jinmao's perpetual capital securities		(11,774)	-
Repurchase of perpetual capital securities		(4,658,670)	-
Repurchase of shares by Jinmao under the Companies Ordinance (Cap.622)		(104,423)	-
Acquisition of non-controlling interests		(4,604,410)	(100,779)
Repurchase of perpetual convertible securities		-	(3,432,394)
Net cash flows from financing activities		20,331,558	40,100,640
NET INCREASE IN CASH AND CASH EQUIVALENTS		532,898	4,280,244
Cash and cash equivalents at beginning of year	30	27,671,639	23,669,346
Effect of foreign exchange rate changes, net		115,290	(277,951)
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	28,319,827	27,671,639

1. CORPORATE AND GROUP 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.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal joint ventures and associates are set out in notes 18 and 19 to the consolidated financial statements, respectively.

In the opinion of the directors, the Company's ultimate parent is Sinochem Group Co., Ltd. (the "ultimate parent" or "Sinochem Group"), and the immediate parent is Sinochem Corporation Co., Ltd. (the "immediate parent" or "Sinochem Corporation"). Both of them are established in the People's Republic of China (the "PRC").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of entity	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jinmao (note i)	Hong Kong	HK$11,580,628,000	49.85%	-	Investment holding
Sinochem International Oil (Hong Kong) Company Limited	Hong Kong	HK$20,000,000	100.00%	-	Investment holding
Sinofert Holdings Limited ("Sinofert")	Bermuda	HK$702,446,000	52.65%	-	Investment holding
Sinochem Asia Holdings Co., Ltd.	Singapore	US$50,642,154	100.00%	-	Investment holding
Sinochem Europe Holdings PLC	United Kingdom	US$13,031,000	100.00%	-	Investment holding
Sinochem (United Kingdom) Limited	United Kingdom	US$4,805,642	100.00%	-	Trading of chemicals
Sinochem Overseas Capital Company Limited	British Virgin Islands ("BVI")	US$1	100.00%	-	Financing vehicle for issuance of notes
Sinochem Offshore Capital Company Limited	BVI	US$1	100.00%	-	Financing vehicle for issuance of notes
Sinochem Overseas Trading Co., Ltd.	BVI	US$1	100.00%	-	Investment holding
Sinochem CP Co., Ltd.	BVI	US$1	100.00%	-	Financing vehicle for issuance of notes
Sinochem Global Capital Co., Ltd.	BVI	US$1	100.00%	-	Financing vehicle for issuance of capital securities

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of entity	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shanghai International Shipping Service Centre Co., Ltd. ("SISSC") (note ii)	PRC/Mainland China	RMB3,150,000,000	-	49.85%	Property development
Sinochem Franshion Property (Beijing) Co., Ltd. (note ii)	PRC/Mainland China	US$635,000,000	-	49.85%	Property development
Chongqing Xingtuo Development Co., Ltd. (note ii)	PRC/Mainland China	US$200,000,000	-	49.85%	Property development
Chongqing Xingqian Properties Development Co., Ltd. (note iii)	PRC/Mainland China	RMB2,884,540,000	-	22.43%	Property development
Jinmao Hangzhou Property Development Co., Ltd. ("Jinmao Hangzhou") (note iv)	PRC/Mainland China	RMB3,200,000,000	-	24.93%	Property development
Nanjing Xingtuo Investment Co., Ltd. (note ii)	PRC/Mainland China	RMB3,000,000,000	-	39.88%	Land development
Beijing Chemsunny Property Co., Ltd. (note ii)	PRC/Mainland China	US$102,400,000	-	49.85%	Property investment
Wangfujing Hotel Management Co., Ltd. (note ii)	PRC/Mainland China	US$73,345,000	-	33.28%	Hotel operation
China Jin Mao Group Co., Ltd. (note ii)	PRC/Mainland China	RMB2,635,000,000	-	33.28%	Hotel operation and property investment
Jin Mao (Beijing) Real Estate Co., Ltd. (note ii)	PRC/Mainland China	RMB1,600,000,000	-	33.28%	Hotel operation
Jin Mao Sanya Resort Hotel Co., Ltd. (note ii)	PRC/Mainland China	RMB300,000,000	-	33.28%	Hotel operation
Jin Mao Sanya Tourism Co., Ltd. (note ii)	PRC/Mainland China	RMB500,000,000	-	33.28%	Hotel operation
Jin Mao Shenzhen Hotel Investment Co., Ltd. (note ii)	PRC/Mainland China	RMB700,000,000	-	33.28%	Hotel operation
Jin Mao (Li Jiang) Hotel Investment Co., Ltd. (note ii)	PRC/Mainland China	RMB100,000,000	-	33.28%	Hotel operation

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of entity	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Changsha Jin Mao Meixi Lake International Plaza Properties Limited (note ii)	PRC/Mainland China	US$600,000,000	-	49.85%	Property development
Jin Mao Investment (Changsha) Co., Ltd. (note ii)	PRC/Mainland China	RMB3,750,000,000	-	39.88%	Land development
Franshion Brilliant Limited (note ii)	BVI/Hong Kong	US$1	-	49.85%	Investment holding
Franshion Properties (Suzhou) Limited (note ii)	PRC/Mainland China	US$395,000,000	-	49.85%	Property development
Franshion Properties (Ningbo) Limited (note ii)	PRC/Mainland China	US$254,000,000	-	49.85%	Property development
Beijing Franshion Yicheng Properties Limited (note ii)	PRC/Mainland China	RMB1,742,800,000	-	49.85%	Property development
Jinmao (China) Hotel Investments and Management Limited ("JCHIML") (notes ii and v)	Cayman Islands/ Hong Kong	HK$2,000,000	-	33.28%	Investment holding
Guangzhou Xingtuo Properties Limited (note ii)	PRC/Mainland China	RMB2,260,000,000	-	44.87%	Property development
Changsha Jinmao City Construction Limited (note ii)	PRC/Mainland China	RMB2,962,500,000	-	49.85%	Land development
Jinmao Investments Management Co., Ltd. (note ii)	PRC/Mainland China	US$8,000,000	-	49.85%	Investment holding
Qingdao Lanhai Xingang City Real Estate Co., Ltd. (note ii)	PRC/Mainland China	RMB2,000,000,000	-	24.93%	Property development
Shanghai Jin Mao Economic Development Company Ltd. (note ii)	PRC/Mainland China	RMB30,000,000	-	49.85%	Property development
Nanjing Taimao Properties Development Ltd. (note ii)	PRC/Mainland China	RMB1,400,000,000	-	49.85%	Property development

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of entity	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jinmao Assets Management Limited Partnership (note ii)	Cayman Islands/ Hong Kong	RMB11,811,608,710		49.85%	Property development
Suzhou Anmao Property Co., Ltd. ("Suzhou Anmao") (note vi)	PRC/Mainland China	RMB4,500,000,000	-	13.21%	Property development
Beijing Franshion Gezhouba Property Development Co., Ltd Co., Ltd (note ii)	PRC/Mainland China	RMB200,000,000	-	25.42%	Property development
Nanjing Jiamao Properties Development Ltd. (note ii)	PRC/Mainland China	RMB300,000,000	-	49.85%	Property investment
Tianjin Jinhui Properties Development Ltd. (note ii)	PRC/Mainland China	RMB2,580,000,000	-	49.85%	Property investment
Qingdao Fangsheng Investment Management Ltd. (note ii)	PRC/Mainland China	RMB20,000,000	-	49.85%	Property investment
Ningbo Xingmao Property Development Co., Ltd. (note ii)	PRC/Mainland China	US$200,000,000	-	49.85%	Property investment
Ningbo Yingmao Properties Development Ltd. (note iv)	PRC/Mainland China	RMB602,649,000	-	24.93%	Property investment
China Fertiliser (Holdings) Co., Ltd.	BVI	US$10,002	-	52.65%	Investment holding
Calories Ltd.	Hong Kong	HK$34,000	-	52.65%	Investment holding
Sinochem Fertiliser (Overseas) Holdings Ltd.	BVI	US$10,002	-	52.65%	Investment holding
Dohigh Trading Limited	Hong Kong	HK$15,000,000	-	52.65%	Fertiliser trading
Sinochem Fertiliser Co., Ltd. ("Sinochem Fertiliser")	PRC/Mainland China	RMB10,600,000,000	-	52.65%	Fertiliser trading
Sinochem Fertiliser Macao Commercial Offshore Limited	Macao SAR	MOP100,000	-	52.65%	Fertiliser trading
Suifenhe Xinkaiyuan Trading Co., Ltd.	PRC/Mainland China	RMB5,000,000	-	52.65%	Fertiliser trading

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of entity	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Fujian Sinochem Zhisheng Chemical Fertiliser Co., Ltd. (note vii)	PRC/Mainland China	RMB47,000,000	-	28.00%	Sale and manufacture of fertilisers
Sinochem Chongqing Fuling Chemical Fertiliser Co., Ltd. (note vii)	PRC/Mainland China	RMB148,000,000	-	31.59%	Sale and manufacture of fertilisers
Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong")	PRC/Mainland China	RMB500,000,000	-	52.65%	Sale and manufacture of feeds stuff
Sinochem Yantai Crop Nutrition Co., Ltd.	PRC/Mainland China	US$1,493,000	-	52.65%	Sale and manufacture of fertilisers
Manzhouli Kaiming Fertiliser Co., Ltd.	PRC/Mainland China	RMB5,000,000	-	52.65%	Fertiliser trading
Sinochem Jilin Changshan Chemical Co., Ltd.	PRC/Mainland China	RMB2,838,650,000	-	51.68%	Sale and manufacture of fertilisers
Sinochem Shandong Fertiliser Co., Ltd. (note vii)	PRC/Mainland China	RMB100,000,000	-	26.85%	Sale and manufacture of fertilisers
Hubei Sinochem Orient Fertiliser Co., Ltd. (note vii)	PRC/Mainland China	RMB30,000,000	-	42.12%	Sale and manufacture of fertilisers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd.	PRC/Mainland China	RMB100,000,000	-	52.65%	Fertiliser retailing
Sinochem Hainan Crop Science and Technology Co., Ltd.	PRC/Mainland China	RMB200,000,000	-	52.65%	Sale of fertilisers
Pingyuan County Xinglong Textile Co., Ltd. (note vii)	PRC/Mainland China	RMB15,000,000	-	39.49%	Sale and manufacture of textiles
Sinochem Agriculture (Xinjiang) Bio-Technology Co., Ltd.	PRC/Mainland China	RMB31,800,000	-	52.65%	Sale and manufacture of fertilisers
Sinochem Agriculture (Linyi) R&D Centre Co., Ltd.	PRC/Mainland China	RMB122,300,000	-	52.65%	Development of agricultural products

1. CORPORATE AND GROUP INFORMATION (continued)

Notes:

(i) Jinmao is accounted for as a subsidiary of the Group based on the factors explained in note 3 to the consolidated financial statements even though the Group has only a 49.85% equity interest in this company.

(ii) Jinmao holds more than 50% of the registered capital of these entities or the parent company of these entities. Therefore, these entities are accounted for as subsidiaries by virtue of the Company's control over them.

(iii) The entity is a subsidiary of a non-wholly-owned subsidiary of Jinmao and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

(iv) Jinmao holds 50% of the registered capital of these entities, but Jinmao controls the boards of directors of these entities by virtue of its power to cast the majority of votes at meetings of the boards, and therefore has the power to exercise control over their operating and financial activities. Since Jinmao is a subsidiary of the Company, these entities are accounted for as a subsidiary by virtue of the Company's control over them.

(v) Ordinary shares of JCHIML are stapled to units of a trust namely Jinmao Hotel, which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. JCHIML and its subsidiaries are collectively referred to as the JCHIML Group.

(vi) Jinmao is entitled to 52% voting rights at the shareholders' meetings, and therefore has the power to exercise control over the entity's operating and management activities. Since Jinmao is a subsidiary of the Company, the entity is accounted for as a subsidiary by virtue of the Company's control over it.

(vii) The Company holds 52.65% of the shares of Sinofert, and Sinofert holds more than 50% of the registered capital of these entities. Therefore, these entities are accounted for as subsidiaries by virtue of the Company's control over them.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for investment properties, equity investments designated at fair value through other comprehensive income, derivative financial instruments and other financial assets included in other assets which have been measured at fair value.

The financial information relating to the year ended 31 December 2018 included in the consolidated financial statements is not the Company's statutory annual consolidated financial statements for the year. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The statutory financial statements for the year ended 31 December 2018 will be delivered to the Registrar of Companies in due course. The Company has delivered the statutory financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on the statutory financial statements for the year ended 31 December 2018 on 30 April 2019. The auditor's report of the statutory financial statements was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. As the Company is a Hong Kong incorporated company, the directors of the Company consider that it is more appropriate to have the consolidated financial statements presented in HK$.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

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

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) 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.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement
The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement Category	HKAS 39 measurement Amount HK$'000	Re-classification HK$'000	Other HK$'000	HKFRS 9 measurement Amount HK$'000	HKFRS 9 measurement Category
Financial assets							
Equity investments at fair value through profit or loss included in other assets		N/A	-	7,392,215	-	7,392,215	FVPL[1]
From: Available-for-sale investments	(i)			216,799	-		
From: Financial assets included in other assets	(i)			7,175,416	-		
Other unlisted investments at fair value through profit or loss included in other assets		N/A		58,007		58,007	FVPL
From: Financial assets included in other assets	(ii)			58,007	-		
Equity investments designated at fair value through other comprehensive income		N/A	-	2,067,557	94,564	2,162,121	FVOCI[2] (equity)
From: Available-for-sale investments	(iii)			2,067,557	-		
Financial assets included in other assets		AFS[3]	7,610,258	(7,233,423)	-	376,835	AC[4]
To: Other unlisted investments at fair value through profit or loss included in other assets				(58,007)	-		
To: Equity investments at fair value through profit or loss included in other assets				(7,175,416)	-		
Available-for-sale investments		AFS	2,284,356	(2,284,356)	-	-	N/A
To: Equity investments at fair value through profit or loss included in other assets				(216,799)	-		
To: Equity investments designated at fair value through other comprehensive income				(2,067,557)	-		
Trade and bills receivables		L&R[5]	1,597,380	-	-	1,597,380	AC
Financial assets included in prepayments, other receivables and other assets		L&R	15,700,434	-	-	15,700,434	AC
Amounts due from related parties		L&R	74,260,104	-	-	74,260,104	AC
Amounts due from non-controlling shareholders		L&R	3,590,662	-	-	3,590,662	AC
Derivative financial instruments		FVPL	11,988	-	-	11,988	FVPL
Restricted bank balances		L&R	3,870,247	-	-	3,870,247	AC
Cash and cash equivalents		L&R	27,671,639	-	-	27,671,639	AC
			136,597,068	-	94,564	136,691,632	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

	Notes	HKAS 39 measurement Category	HKAS 39 measurement Amount	Re-classification	Other	HKFRS 9 measurement Amount	HKFRS 9 measurement Category
			HK$'000	HK$'000	HK$'000	HK$'000	
Financial liabilities							
Trade and bills payables		AC	13,595,358	-	-	13,595,358	AC
Financial liabilities included in other payables and accruals		AC	23,631,784	-	-	23,631,784	AC
Derivative financial instruments		FVPL	174,829	-	-	174,829	FVPL
Interest-bearing bank and and other borrowings		AC	114,917,432	-	-	114,917,432	AC
Amounts due to related parties		AC	17,619,355	-	-	17,619,355	AC
			169,938,758	-	-	169,938,758	
Other liabilities							
Deferred tax liabilities			6,416,073	-	23,641	6,439,714	
Total liabilities			233,462,231	-	23,641	233,485,872	

[1] FVPL: Financial assets or financial liabilities at fair value through profit or loss
[2] FVOCI: Financial assets at fair value through other comprehensive income
[3] AFS: Available-for-sale investments
[4] AC: Financial assets or financial liabilities at amortised cost
[5] L&R: Loans and receivables

Notes:

(i) The Group has classified certain of its previous available-for-sale equity investments as equity investments at fair value through profit or loss.

(ii) The Group has classified its other unlisted investments previously classified as financial assets included in other assets as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

(iii) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impairment
As a result of the application of HKFRS 9, the Group has changed the accounting policy with respect to recognising impairment provision for financial assets at amortised cost and contract assets based on their expected credit losses ("ECLs") in note 2.4 to the financial statements.

The adoption of the expected credit loss models under HKFRS 9 has had no significant impact on the Group's consolidated financial statements.

Hedge accounting
The Group has applied hedge accounting under HKFRS 9 prospectively. At the date of initial application of HKFRS 9, 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 has had no impact on the Group's financial statements.

Impact on reserves and retained profits
The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits HK$'000
Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	473,824
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	49,788
Deferred tax in relation to the above	(12,447)
Reversal of impairment losses under HKAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	(56,660)
Balance as at 1 January 2018 under HKFRS 9	454,505
Retained profits	
Balance as at 31 December 2017 under HKAS 39	19,314,228
Reversal of impairment losses under HKAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	56,660
Balance as at 1 January 2018 under HKFRS 9	19,370,888
Non-controlling interests	
Balance as at 31 December 2017 under HKAS 39	61,691,352
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	44,776
Deferred tax in relation to the above	(11,194)
Balance as at 1 January 2018 under HKFRS 9	61,724,934

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new 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 principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 4 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	Increase/(decrease) HK$'000
Assets		
Trade and bills receivables	(i)	(64,582)
Contract assets	(i)	64,582
Investments in joint ventures	(iv)	5,798
Contract costs included in prepayments, other receivables and other assets	(iii)	133,639
Total assets		139,437
Liabilities		
Other payables and accruals	(ii)	-
Deferred tax liabilities	(iv)	33,409
Total liabilities		33,409
Equity		
Reserves:		
Retained profits	(iii),(iv)	36,794
Non-controlling interests	(iv)	69,234
		106,028

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of comprehensive income for the year ended 31 December 2018:

		Amounts prepared under		
	Notes	HKFRS 15 HK$'000	Previous HKFRS HK$'000	Increase/ (decrease) HK$'000
CONTINUING OPERATIONS				
Profit before tax from continuing operations	(iii)	13,809,846	13,779,594	30,252
Income tax expense	(iv)	(5,094,138)	(5,086,575)	(7,563)
Profit for the year from continuing operations		8,715,708	8,693,019	22,689
Attributable to:				
Owners of the parent		2,772,654	2,761,168	11,486
Non-controlling interests		5,943,054	5,931,851	11,203
		8,715,708	8,693,019	22,689

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Notes	HKFRS 15 HK$'000	Previous HKFRS HK$'000	Increase/ (decrease) HK$'000
Trade and bills receivables	(i)	1,501,595	1,677,926	(176,331)
Contract assets	(i)	176,331	-	176,331
Contract costs included in prepayments, other receivables and other assets	(iii)	147,418	-	147,418
Investments in joint ventures	(iv)	8,857,161	8,847,110	10,051
Investments in associates	(iv)	8,704,818	8,698,221	6,597
Total assets		377,166,293	377,002,227	164,066
Other payables and accruals	(ii)	82,189,029	82,189,029	-
Deferred tax liabilities	(iv)	6,395,017	6,354,001	41,016
Total liabilities		258,228,206	258,187,190	41,016
Net assets		118,938,087	118,815,037	123,050
Reserves:				
Retained profits	(iv)	20,373,872	20,330,355	43,517
Non-controlling interests	(iv)	73,888,595	73,809,062	79,533
Total equity		118,938,087	118,815,037	123,050

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of comprehensive income for the year ended 31 December 2018 are described below:

(i) Design and decoration services

Before the adoption of HKFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as trade receivables in the statement of financial position before the customers were billed for the design and decoration services. Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified HK$64,582,000 from construction contracts to contract assets as at 1 January 2018.

Before the adoption of HKFRS 15, retention receivables arising from construction contracts, that were conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, were included in trade receivables. Upon adoption of HKFRS 15, retention receivables are reclassified to contract assets. The adoption of HKFRS 15 has had no significant impact on the financial position of the Group as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in trade receivables of HK$176,331,000 and an increase in contract assets of HK$176,331,000.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as receipts in advances. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$50,594,106,000 from receipts in advances to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$56,954,192,000 was reclassified from receipts in advances to contract liabilities in relation to the consideration received from customers in advance for the sale of completed properties.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

(iii) Contract costs

Under HKFRS 15, contract costs of obtaining contracts (i.e., costs that would not have been incurred if the contract had not been obtained) are recognised as contract costs if they are recoverable and subsequently amortised on a systematic basis consistent with the pattern of transfer of the revenue to which the related asset is recognised. The Group has involved real estate agents to sell its properties development projects. Upon the adoption of HKFRS 15, sales commissions paid to them that are directly related to the contracts obtained represent contract costs that require capitalisation and amortisation when the related revenue is recognised.

Therefore, upon adoption of HKFRS 15, the Group capitalised HK$133,639,000 sales commissions as contract costs as at 1 January 2018 in relation to the unamortised contract costs as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in an increase in contract costs of HK$147,418,000 and increases in profit before tax from continuing operations of HK$30,252,000 (after taking into account the financial impact of the investments in joint ventures and associates) for the year ended 31 December 2018.

(iv) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax, non-controlling interests, and investments in joint ventures and associates were adjusted as necessary. Retained profits were adjusted accordingly.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property, the amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-lnt 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group’s financial statements as the Group’s accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRS 3	*Definition of a Busniess*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17.Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group is in the process of finding the analysis of the impact of HKFRS 16, and does not expect that the adoption of HKFRS16 will have a significant impact on its opening balance of retained earnings.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group’s financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures
An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group’s investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

A decrease in an interest in an equity-accounted investee while maintaining equity accounting can result from a dilution. The Group’s policy is to recognise any gain or loss on dilution directly in equity, except when impairment indicators exist, then the Group first assesses and recognises any impairment loss in accordance with the accounting policies described below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments, held-for-trading investments and listed equity investments in available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Hotel properties	1.7% to 9.5%
Land and buildings	Over the shorter of the term of the lease and 20 to 50 years
Leasehold improvements	18% to 33.3%
Furniture and fixtures	3.8% to 33.3%
Office and machinery equipment	7.14% to 25%
Motor vehicles	8.3% to 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted prospectively if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leasehold land and buildings originally classified as investment properties at fair value are transferred to property, plant and equipment at a deemed cost equal to their fair value at the date of change in use.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for in asset revaluation reserve. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Intangible assets with finite lives are subsequently amortised over the useful economic life, while the pipeline usage rights acquired in business combination are amortised based on the units of production method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses and are amortised based on the units of production method utilising only recoverable reserves as the depletion base.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Land under development

Land under development is stated at the lower of cost and net realisable value and comprises the compensation for land requisition, project cost, other preliminary infrastructure costs, borrowing costs, professional fees and other costs directly attributable to such land under development during the development period.

Land under development which has been pre-sold or intended for sale and is expected to be completed within one year from the end of the reporting period is classified under current assets. Net realisable value takes into account the Group's proceeds derived from the sale of land under development by government authorities, less costs to completion and the costs to be incurred in realising the revenue derived from the sale of land under development based on prevailing market conditions.

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development which have been pre-sold or intended for sale and are expected to be completed within one year from the end of the reporting period are classified under current assets. On completion, the properties are transferred to properties held for sale.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Cost of properties held for sale is determined by an apportionment of total land and building costs attributable to the unsold properties.

Net realisable value is determined by reference to the sales proceeds from properties sold in the ordinary course of business, less applicable variable selling expenses, or by management's estimates based on the prevailing market conditions, on an individual property basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)
Subsequent measurement (continued)
Financial assets designated at fair value through other comprehensive income (equity investments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income, gains and losses, net in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income, gains and losses, net in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host: a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative: and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as other income, gains and losses, net in profit or loss. Crude oil derivative financial instruments are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as revenue in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derivative financial instruments are subsequently measured at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)
Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income, gains and losses in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other income, gains and losses for receivables.

Available-for-sale financial investments
Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:
- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)
The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach
ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other income, gains and losses, net in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, derivative financial instruments, interest-bearing borrowings, and amounts due to related parties.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Equity instrument

The equity instrument issued by the Group is recorded at the proceeds received, net of the direct issue cost.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as futures, forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method, except for the fertiliser-related inventories using the moving weighted-average method. In the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provision above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of industrial products (including fertilisers and chemical products)

Revenue from the sale of industrial products including fertilisers and chemical products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

(b) Sale of completed properties

Revenue from the sale of completed properties is recognised at the point in time when control of the asset is transferred to the customer, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has a present right to payment and the collection of the consideration is probable.

(c) Land development

Revenue from land development is recognised at the point in time when control of the land development are transferred, that is when the related construction works have been completed as well as land is sold, and the collectability of the proceeds from land sales is reasonably assured.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)
Revenue from contracts with customers (continued)

(d) Hotel operations

Hotel and other service income is recognised in the period in which such services are rendered.

(e) Property management services

Revenue from the rendering of property management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(f) Design and decoration services

Revenue from the provision of design and decoration services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the design and decoration services.

Revenue from other sources
Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)
Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the sale of physical commodities, which are not settled net, are presented on a gross basis as revenue and cost of goods sold in profit or loss. Activities related to trading and commodity-based derivative instruments are reported on a net basis, with the margin included in revenue;

(c) from the sale of completed properties, when the risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreements, and the collectability of related receivables is reasonably assured;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018) (continued)

(d) from land development, when the risks and rewards in connection with the land development are transferred, that is when the related construction works have been completed as well as the land is sold, and the collectability of the proceeds from land sales is reasonably assured;

(e) from crude oil, natural gas, and other items are recognised when title passes to the customer, which is when the risk of ownership passes to the purchaser and physical delivery of goods occurs, either immediately or within a fixed delivery schedule that is reasonable and customary in the industry;

(f) from the oil and gas producing properties in which the Group has an interest with other producers are recognised based on the actual crude oil and natural gas volumes the Group sold during the period. Any differences between volumes sold and entitlement volumes, based on the Group's net working interest, which are deemed to be recoverable through remaining production, are recognised as accounts receivable or accounts payable, as appropriate. Cumulative differences between volumes sold and entitlement volumes are generally not significant;

(g) rental income, on a time proportion basis over lease terms, except for contingent rental income which is recognised when it arises, where premiums received to terminate leases are recognised in profit or loss when they arise;

(h) hotel and other services income, in the period in which such services are rendered;

(i) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(j) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(k) dividend income, when the shareholders' right to receive payment has been established.

Contracts assets (applicable from 1 January 2018)
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract costs (applicable from 1 January 2018)
Other than the costs which are capitalised as properties under development, land under development, inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Contracts for services (applicable before 1 January 2018)
Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments
Jinmao operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of Jinmao's operations. Employees (including directors) of Jinmao receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 40 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and Jinmao's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)
Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of Jinmao's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Retirement benefit costs
The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e., the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the exchange rates at the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case the exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which case the exchange differences are also recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e., HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the parent are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

(a) Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(b) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes.

If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(c) Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation or both. Judgement is made by management in determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention of holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development if the properties are intended for sale after completion. Upon completion of construction, properties under development are transferred to properties held for sale and are stated at cost. Properties under construction are accounted for as investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation after completion.

(d) Consolidation of an entity in which the Group holds less than a majority of voting rights

The Group considers that it controls Jinmao even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Jinmao with a 49.85% equity interest. The remaining 50.15% of the equity shares in Jinmao are widely held by many other shareholders. There has been no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

(a) Impairment of non-financial assets other than goodwill and inventories

The Group assesses its non-financial assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable and, as a result, charges for impairment are recognised in the Group's results from time to time. Such indicators include changes in the Group's business plans, changes in commodity prices leading to sustained unprofitable performance, an increase in the discount rate, change in estimation on the future production period due to statutory requirements and approval, evidence of physical damage and significant downward revisions of estimated volumes or increases in estimated future development expenditure. If there are low fertiliser prices or marketing margins and disapproval of future productions during an extended period, the Group may need to recognise significant impairment charges.

The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as political risks in the locations where assets are located, future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for global or regional market supply-and-demand conditions for products.

(b) Measurement of land under development

The Group's land under development is stated at the lower of cost and net realisable value. Cost of land under development during the construction stage, before the final settlement of the development cost, and other costs relating to the land under development are accrued by the Group based on management's best estimate. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect profit or loss in future years. Based on the Group's recent experience and the nature of the subject land development, the Group makes estimates of cost allocated to each parcel of land under development, and its net realisable value, i.e., the revenue to be derived from the land under development for sale by government authorities, less costs to completion and the costs to be incurred in realising the revenue from the sale of land under development based on prevailing market conditions.

If the cost is higher than the estimated net realisable value, provision for the excess of cost of land under development over its net realisable value should be made. Such provision would require the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for land under development in the periods in which such estimate is changed will be adjusted accordingly. The carrying amount of land under development at 31 December 2018 was HK$14,461,633,000 (2017: HK$18,991,358,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(c) Measurement of properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties held for sale upon completion. An apportionment of these costs will be recognised in profit or loss upon recognition of the sale of properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of that phase. Common costs are allocated to individual phases based on the estimated saleable area of the entire development project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect profit or loss in future years. The carrying amount of properties under development at 31 December 2018 was HK$112,522,270,000 (2017: HK$79,585,479,000).

(d) PRC land appreciation tax ("LAT")

Some subsidiaries of the Group are subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT tax returns and payments with the local tax authorities for its property development projects. The final outcome may be different from the amounts that were initially recorded, and the differences will affect the current income tax expense and LAT provision in the period when LAT is ascertained. The carrying amount of provision for LAT at 31 December 2018 was HK$3,059,697,000 (2017: HK$4,346,920,000).

(e) Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- current prices in active markets for properties of a different nature, condition or location, adjusted to reflect those differences;
- recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and
- discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2018 was HK$33,856,049,000 (2017: HK$34,148,727,000). Further details, including the key assumptions used for the fair value measurement, are given in note 14 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(f) Estimation of net realisable value of properties held for sale
Properties held for sale are stated at the lower of cost and net realisable value. The net realisable value is assessed with reference to market conditions and prices existing at the end of the reporting period and is determined by the Group having taken suitable external advice and in light of recent market transactions. The carrying amount of properties held for sale at 31 December 2018 was HK$10,261,498,000 (2017: HK$14,083,435,000).

(g) Depreciation of property, plant and equipment
Property, plant and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's technological experience with similar assets taking into account anticipated technological changes. The depreciation expenses for a future period are adjusted if there are significant changes from previous estimations.

(h) Deferred tax assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018 was HK$457,989,000 (2017: HK$137,154,000).

(i) Deferred tax liabilities
Deferred tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. If these distributed earnings of the subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liabilities would have increased by the same amount of approximately HK$1,881,584,000 (2017: HK$1,334,211,000).

(j) PRC corporate income tax
Some subsidiaries of the Group are subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining in the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise. The carrying amount of PRC income tax payable at 31 December 2018 was HK$1,953,035,000 (2017: HK$1,794,281,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(k) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at 31 December 2018 was HK$4,027,608,000 (2017: HK$4,056,810,000).

(l) Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 26 and note 27 to the financial statements, respectively.

(m) Impairment of inventories

Determining whether inventories are impaired requires an estimation of their net realisable value. Net realisable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of a similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. The Group reassesses these estimates at the end of each reporting period. As at 31 December 2018, the carrying amount of inventories was HK$6,476,494,000 (2017: HK$6,638,299,000).

4. REVENUE AND BUSINESS ANALYSIS

Revenue

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers	74,045,923	-
Sale of fertilisers	-	20,343,315
Sale of chemical products	-	6,836,394
Sale of completed properties	-	25,328,210
Hotel operations	-	2,386,686
Land development	-	5,651,966
Property management	-	882,838
Revenue from other sources		
Gross rental income	1,693,554	1,555,308
Others	547,555	1,109,194
	76,287,032	64,093,911

4. REVENUE AND BUSINESS ANALYSIS (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Fertilisers HK$'000	Real estate HK$'000	Others HK$'000	Total HK$'000
Type of goods or services				
Sale of industrial products	27,195,457	-	2,759,774	29,955,231
Sale of completed properties	-	30,265,495	-	30,265,495
Hotel operations	-	2,421,862	-	2,421,862
Land development	-	9,628,528	-	9,628,528
Property management	-	1,774,807	-	1,774,807
Total revenue from contracts with customers	27,195,457	44,090,692	2,759,774	74,045,923
Geographical markets				
Mainland China	26,056,029	44,090,692	1,722,341	71,869,062
Other countries/regions	1,139,428	-	1,037,433	2,176,861
Total revenue from contracts with customers	27,195,457	44,090,692	2,759,774	74,045,923
Timing of revenue recognition				
Goods transferred at a point of time	27,195,457	39,894,023	2,759,774	69,849,254
Services transferred over time	-	4,196,669	-	4,196,669
Total revenue from contracts with customers	27,195,457	44,090,692	2,759,774	74,045,923

4. REVENUE AND BUSINESS ANALYSIS (continued)

Revenue from contracts with customers (continued)

(j) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	Fertilisers HK$'000	Real estate HK$'000	Others HK$'000	Total HK$'000
Revenue from contracts with customers:				
Sales to external customers	27,195,457	44,090,692	2,759,774	74,045,923
Intersegment sales	-	-	18,023	18,023
	27,195,457	44,090,692	2,777,797	74,063,946
Intersegment adjustments and eliminations	-	-	(18,023)	(18,023)
Total revenue from contracts with customers	27,195,457	44,090,692	2,759,774	74,045,923

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of industrial products	4,121,301
Sale of completed properties	15,924,924
Hotel operations	107,193
Land development	2,414,272
Property management	30,995
	22,598,685

4. REVENUE AND BUSINESS ANALYSIS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products (including fertilisers and chemical products)
The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery. Sale of goods is made in a short period of time and the performance obligation is mostly satisfied in one year or less from the end of each year.

Sale of completed properties
The performance obligation is satisfied upon delivery of the completed properties.

Land development
The performance obligation is satisfied when the land development is completed.

Hotel operations
The performance obligation is satisfied when as services are rendered. Short-term advances are sometimes required before rendering the services.

Property management services
The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Property management service contracts are for periods of one year or less, or are billed based on the time incurred.

Design and decoration services
The performance obligation is satisfied over time as services are rendered and payment is generally due within 60 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the customer satisfaction of the service quality over a certain period as stipulated in the contracts.

4. REVENUE AND BUSINESS ANALYSIS (continued)

Business analysis

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

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 others segment have been classified as discontinued operations and excluded from the segment information for the year ended 31 December 2017.

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

	Fertilisers HK$'000	Real estate HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Year ended 31 December 2018					
REVENUE					
External sales	27,195,457	45,774,910	3,316,665	-	76,287,032
Inter-segment sales	-	30,342	3,896,203	(3,926,545)	-
Total	27,195,457	45,805,252	7,212,868	(3,926,545)	76,287,032
Segment profit/(loss)	488,698	13,998,380	4,390,059	(3,877,083)	15,000,054
Interest income					2,328,680
Finance costs					(4,311,735)
Gain on disposal of subsidiaries					85,431
Gain on bargain purchase					88,686
Share of results of:					
Joint ventures					470,081
Associates					148,649
Profit before tax from continuing operations					13,809,846

4. REVENUE AND BUSINESS ANALYSIS (continued)

Business analysis (continued)

	Fertilisers HK$'000	Real estate HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Year ended 31 December 2017					
REVENUE					
External sales	20,343,315	35,805,008	7,945,588	-	64,093,911
Inter-segment sales - discontinued	-	-	1,079,915	(1,079,915)	-
Inter-segment sales - continuing	-	24,288	1,092,416	(1,116,704)	-
Total	20,343,315	35,829,296	10,117,919	(2,196,619)	64,093,911
Segment (loss)/profit	(2,176,276)	7,924,923	(1,586,863)	3,061,746	7,223,530
Interest income					1,314,560
Finance costs					(3,593,402)
Gain on disposal of subsidiaries					3,148,480
Loss on disposal of a joint venture					(15)
Share of results of:					
Joint ventures					52,053
Associates					(65,365)
Profit before tax from continuing operations					8,079,841

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

4. REVENUE AND BUSINESS ANALYSIS (continued)

Year ended 31 December 2018	Fertilisers HK$'000	Real estate HK$'000	Others HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:				
Gains/(losses) on disposal of items of property, plant and equipment	8,521	(1,434)	-	7,087
Write-off of non-demand payables	654	-	-	654
Impairment losses on prepayments for acquisition of property, plant and equipment	(473)	-	-	(473)
Impairment of trade and bills receivables	(1,807)	(4,377)	-	(6,184)
Impairment of prepayments, other receivables and other assets	(6,649)	(1,563)	-	(8,212)
Provision for penalty claims	-	106	-	106
Fair value gains/(losses), net:				
Other financial assets	1,543	-	(71)	1,472
Derivative financial instruments - transactions not qualifying as hedges	-		(4,652)	(4,652)
Ineffectiveness of net investment hedges	-	(30,143)	-	(30,143)
Transfers from properties held for sale to investment properties	-	52,007	-	52,007
Equity interest previously held as investments in joint ventures	-	120,359	-	120,359
Fair value changes of investment properties	-	219,452	15,839	235,291
Depreciation of property, plant and equipment	305,639	449,652	4,206	759,497
Amortisation of other non-current assets	13,456	-	-	13,456
Amortisation of intangible assets	38,909	12,719	-	51,628
Amortisation of prepaid land lease payments	15,660	64,180	243	80,083
Write-down of inventories	14,469	-	-	14,469

4. REVENUE AND BUSINESS ANALYSIS (continued)

	Fertilisers HK$'000	Real estate HK$'000	Others HK$'000	Consolidated HK$'000
Year ended 31 December 2017				
Amounts included in the measure of segment profit or loss:				
Losses on disposal of property, plant and equipment	(457)	(6,972)	-	(7,429)
Write-off of non-demand payables	8,937	-	-	8,937
Provision in relation to a held-for-sale associate	(820,430)	-	-	(820,430)
Impairment losses on:				
Property, plant and equipment	(1,058,064)	-	(4,807)	(1,062,871)
Available-for-sale investment	(93,010)	-	-	(93,010)
Impairment of trade and bills receivables	-	(1,642)	-	(1,642)
Impairment of prepayments, deposits and other assets	(48)	(2,595)	-	(2,643)
Reversal of an impairment losses on an investment in an associate	36,791	-	-	36,791
Fair value gains, net:				
Derivative financial instruments - transactions not qualifying as hedges	-	-	47,034	47,034
Ineffectiveness of net investment hedges	-	2,621	-	2,621
Transfers from properties held for sale to investment properties	-	8,616	-	8,616
Equity interest previously held as investments in joint ventures	-	28,041	-	28,041
Fair value changes of investment properties	-	83,135	125,361	208,496
Depreciation of property, plant and equipment	377,101	415,533	6,860	799,494
Amortisation of other non-current assets	7,421	-	-	7,421
Amortisation of intangible assets	37,230	11,159	-	48,389
Amortisation of prepaid land lease payments	15,027	62,177	243	77,447
Write-down of inventories	37,847	-	-	37,847
Accrued VAT expenses	-	(352,132)	-	(352,132)

5. OTHER INCOME, GAINS AND LOSSES, NET

An analysis of other income, gains and losses from continuing operations is as follows:

	2018 HK$'000	2017 HK$'000
Other income		
Interest on bank and other deposits	564,748	442,210
Interest on other advances	1,532,973	687,229
Interest on other financial assets	230,959	185,121
Dividend income from equity investments designated at fair value through other comprehensive income	5,141	-
Dividend income from available-for-sale investments	-	2,225
Government grants (note i)	85,021	49,488
Compensation received	16,429	21,113
Sales of scrapped materials	22,184	13,319
Sundry income	456,846	231,446
	2,914,301	1,632,151
Gains and losses		
Provision in relation to a held-for-sale associate	-	(820,430)
Gains/(losses) on disposal of:		
Property, plant and equipment	7,087	(7,429)
Subsidiaries (note 42(c))	85,431	3,148,480
A joint venture	-	(15)
Gain on bargain purchase (note 41)	88,686	1,844
Reversal of an impairment loss on an investment in an associate	-	36,791
Write-off of non-demand payables	654	8,937
Impairment losses on:		
Property, plant and equipment (note 11)	-	(1,062,871)
Available-for-sale investments (note 20)	-	(93,010)
Intangible assets (note 17)	(43)	-
Prepayments for acquisition of property, plant and equipment	(473)	-
Impairment of trade and bills receivables (note 26)	(6,184)	(1,642)
Impairment of prepayments, other receivables and other assets (note 28)	(8,212)	(2,643)
Provision for penalty claims	106	-
Foreign exchange differences, net	62,640	(224,581)
Expenditures of separation and hand-over of water/power/gas supply and property management facilities (note 11)	(34,522)	-
Fair value gains/(losses), net:		
Other financial assets	1,472	-
Derivative financial instruments - transactions not qualifying as hedges	(4,652)	47,034
Ineffectiveness of net investment hedges	(30,143)	2,621
Transfers from properties held for sale to investment properties	52,007	8,616
Equity interest previously held as investments in joint ventures (note 41)	120,359	28,041
Accrued VAT expenses	-	(352,132)
Other expenses	(40,046)	(38,284)
	294,167	679,327
Other income, gains and losses, net	3,208,468	2,311,478

Note:

(i) Government grants mainly comprise proceeds received or receivable from the government to support the development of the businesses of group entities in accordance with applicable regulations in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank and other loans, overdrafts, notes and bonds	7,651,880	5,922,155
Interest on advances from related parties	92,920	140,968
Effective interest expenses on commercial paper	9,676	9,516
Total borrowing costs	7,754,476	6,072,639
Less: Interest capitalised in properties under development and other qualifying assets	(3,497,913)	(2,527,366)
Interest expenses	4,256,563	3,545,273
Transaction costs on arranging commercial paper	55,172	48,129
	4,311,735	3,593,402

7. PROFIT BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Depreciation of property, plant and equipment	11	759,497	799,494
Amortisation of other non-current assets		13,456	7,421
Amortisation of intangible assets	17	51,628	48,389
Amortisation of prepaid land lease payments		80,083	77,447
Minimum lease payments under operating leases of land and buildings		110,742	138,392
Auditors' remuneration		15,631	15,913
Direct operating expenses arising from investment properties that generated rental income		230,029	270,006
Write-down of inventories		14,469	37,847
Staff costs:			
Directors' other emoluments		3,042	3,042
Wages and salaries		2,677,999	2,350,262
Equity-settled share option expense		25,912	28,197
Contributions to retirement benefit schemes		230,362	209,054
		2,937,315	2,590,555

8. INCOME TAX

	2018 HK$'000	2017 HK$'000
Hong Kong profits tax:		
Current tax	-	17,613
Overprovision in prior years	-	(22)
	-	17,591
PRC tax:		
Enterprise income tax ("EIT")	3,787,833	2,978,124
Land appreciation tax ("LAT") (note 35)	1,735,934	1,275,093
Underprovision in prior years	723	3,260
	5,524,490	4,256,477
Other jurisdictions:		
Current tax	3,883	2,257
Underprovision in prior years	(351)	68
	3,532	2,325
Deferred taxation (note 36)	(433,884)	(1,118)
Total tax charge for the year from continuing operations	5,094,138	4,275,275
Total tax charge for the year from discontinued operations (note 9)	-	5,763
	5,094,138	4,281,038

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Under the Law of the PRC on EIT and the Implementation Regulation of the EIT Law, the tax rate for certain PRC subsidiaries is 25% (2017: 25%).

PRC corporate income tax has been provided at the rate of 25% (2017: 25%) on the taxable profits of the Group's PRC subsidiaries.

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 properties 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.

8. INCOME TAX (continued)

The profit before tax per the consolidated statement of comprehensive income can be reconciled to the income tax expense as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax from continuing operations	13,809,846	8,079,841
Profit before tax from discontinued operations	-	703,263
	13,809,846	8,783,104
Tax at the statutory income tax rate	3,452,462	2,195,776
LAT (note 35)	1,735,934	1,275,093
Tax effect of LAT	(433,983)	(318,773)
Effect of lower or higher tax rates enacted by local authorities of other jurisdictions	91,478	(412,510)
Withholding tax on interest income from group companies	51,157	267,266
Underprovision in prior years	372	3,306
Income not subject to tax	(210,940)	(334,399)
Expenses not deductible for tax	620,365	616,484
Tax effect of share of profits and losses of associates	(27,383)	40,292
Tax effect of share of profits and losses of joint ventures	(117,520)	(13,018)
Lower tax rate for gain on disposal of a PRC subsidiary	-	(226,000)
Tax losses utilised from previous periods	(279,292)	(31,297)
Tax effect of tax losses and deductible temporary differences not recognised	211,488	1,221,020
Others	-	(2,202)
Income tax expense	5,094,138	4,281,038
Tax charge from continuing operations	5,094,138	4,275,275
Tax charge from discontinued operations	-	5,763

9. DISCONTINUED OPERATIONS

(a) 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") (collectively referred to as "Disposal Group One") to SPEP Energy Hong Kong Limited, an associate of the Group's ultimate parent. The disposal is part of the internal reorganisation of Sinochem Group. The sales and transfers of the shares and membership rights were effectuated as of 1 January 2017, of which the consideration was based on the shareholding percentages and percentages of membership rights and the book values of the net assets of the above subsidiaries as of 31 December 2016. As at 31 December 2017, the oil and gas exploration business was classified as a discontinued operation and is no longer included in the note for operating segment information.

The results of the oil and gas exploration business for the year ended 31 December 2017 are presented below:

	Note	2017 HK$'000
REVENUE		-
Cost of sales		-
Gross profit		-
Other income, gains and losses, net		-
Selling and distribution expenses		-
Administrative expenses		-
Finance costs		-
Loss before tax from the discontinued operation		-
Income tax expense		-
		-
Loss on disposal of the discontinued operation	42(a)	(5,692)
Loss for the year from the discontinued operation		(5,692)

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

	2017 HK$'000
Operating activities	-
Investing activities	-
Financing activities	-
Effect of foreign exchange rate changes, net	-
Net cash inflow	-

The carrying amounts of the assets and liabilities of the oil and gas exploration business at the date of disposal are disclosed in note 42(a).

9. DISCONTINUED OPERATIONS (continued)

(b) 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. (collectively referred to as "Disposal Group Two") 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 disposal is part of the internal reorganisation of Sinochem Group. The disposal was completed on 31 October 2017. As at 31 December 2017, the oil trading business and chartered shipping services business were classified as a discontinued operation and are no longer included in the note for operating segment information.

The results of the oil trading business and chartered shipping services business for the period ended 31 October 2017 are presented below:

	2017 HK$'000
REVENUE	327,752,098
Cost of sales	(326,968,118)
Gross profit	783,980
Other income, gains and losses, net	57,201
Selling and distribution expenses	(43,554)
Administrative expenses	(75,853)
Finance costs	(78,362)
Share of profits and losses of associates	59,851
Profit before tax from the discontinued operation	703,263
Income tax expense	(5,763)
Profit for the year from the discontinued operation	697,500

The net cash flows incurred by the oil trading business and chartered shipping services business are as follows:

	2017 HK$'000
Operating activities	(8,746,025)
Investing activities	6,550,733
Financing activities	2,166,559
Effect of foreign exchange rate changes, net	(43,926)
Net cash outflow	(72,659)

The carrying amounts of the assets and liabilities of the oil trading business and chartered shipping services business at the date of disposal are disclosed in note 42(b).

10. DIVIDENDS

	2018	2017
	HK$'000	HK$'000
Dividends distributed during the year	862,353	2,025,736

According to the annual general meetings, on 4 January 2018 and 31 December 2018, dividends amounting to US$60,198,000 and US$50,000,000 (equivalent to HK$470,708,000 and HK$391,645,000) were declared to the immediate parent, among which US$60,198,000 (equivalent to HK$470,708,000) was paid on 4 January 2018.

11. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK$'000	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office and machinery equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2017 and at 1 January 2018:								
Cost	10,792,168	3,916,606	35,030	2,380,893	3,725,151	161,694	3,044,568	24,056,110
Accumulated depreciation and impairment	(1,781,937)	(1,701,469)	(34,101)	(1,512,207)	(2,929,133)	(110,705)	(22,556)	(8,092,108)
Net carrying amount	9,010,231	2,215,137	929	868,686	796,018	50,989	3,022,012	15,964,002
At 1 January 2018, net of accumulated depreciation and impairment	9,010,231	2,215,137	929	868,686	796,018	50,989	3,022,012	15,964,002
Additions	20,785	51,250	-	83,278	16,763	14,386	698,007	884,469
Acquisition of subsidiaries (note 41)	-	-	-	1,950	-	-	-	1,950
Transfers	(277,665)	36,212	-	404,171	124,472	(1,281)	(285,909)	-
Transfer from investment properties (note 14)	-	450,979	-	-	-	-	-	450,979
Transfer to investment properties (note 14)	-	(119,591)	-	-	-	-	-	(119,591)
Disposal	(42,141)	(6,476)	-	(2,506)	(1,273)	(1,874)	(43,349)	(97,619)
Disposal of subsidiaries (note 42(c))	-	-	-	(3,413)	-	(512)	-	(3,925)
Gains on property revaluation in relation to the transfers to investment properties	-	51,044	-	-	-	-	-	51,044
Depreciation provided during the year	(279,944)	(141,478)	(975)	(154,203)	(169,987)	(12,910)	-	(759,497)
Others	-	-	-	-	-	-	(106,410)	(106,410)
Exchange realignment	(394,027)	(94,479)	46	(50,945)	(36,265)	(2,339)	(148,099)	(726,108)
At 31 December 2018, net of accumulated depreciation and impairment	8,037,239	2,442,598	-	1,147,018	729,728	46,459	3,136,252	15,539,294
At 31 December 2018:								
Cost	10,007,879	4,177,025	33,954	2,720,526	3,666,490	147,924	3,157,771	23,911,569
Accumulated depreciation and impairment	(1,970,640)	(1,734,427)	(33,954)	(1,573,508)	(2,936,762)	(101,465)	(21,519)	(8,372,275)
Net carrying amount	8,037,239	2,442,598	-	1,147,018	729,728	46,459	3,136,252	15,539,294

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Hotel properties HK$'000	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture and fixtures HK$'000	Office and machinery equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2016 and at 1 January 2017:								
Cost	9,105,267	3,403,914	33,671	2,245,742	3,575,562	170,267	3,537,472	22,071,895
Accumulated depreciation and impairment	(1,417,060)	(1,175,594)	(31,768)	(1,293,512)	(1,955,575)	(113,528)	-	(5,987,037)
Net carrying amount	7,688,207	2,228,320	1,903	952,230	1,619,987	56,739	3,537,472	16,084,858
At 1 January 2017, net of accumulated depreciation and impairment	7,688,207	2,228,320	1,903	952,230	1,619,987	56,739	3,537,472	16,084,858
Additions	130,201	50,451	-	55,109	17,448	15,670	367,198	636,077
Acquisition of subsidiaries	-	38,079	-	1,227	-	401	-	39,707
Transfer from prepaid land lease payment	-	83,958	-	-	-	-	-	83,958
Transfers	800,365	224,829	-	9,595	34,254	178	(1,069,221)	-
Transfer from investment properties (note 14)	-	72,509	-	-	-	-	-	72,509
Transfer to investment properties (note 14)	-	(386,186)	-	-	-	-	-	(386,186)
Transfer from properties held for sale	148,917	-	-	-	-	-	-	148,917
Disposal	(67,439)	(3,105)	-	(55,704)	(423)	(3,339)	(12,149)	(142,159)
Disposal of subsidiaries (note 42)	-	(1,532)	-	(213)	(9,735)	(1,845)	-	(13,325)
Gains on property revaluation in relation to the transfers to investment properties	-	227,569	-	-	-	-	-	227,569
Depreciation provided during the year	(257,540)	(144,184)	(976)	(152,758)	(229,016)	(15,020)	-	(799,494)
Impairment loss recognised in profit or loss	-	(317,264)	-	(1,429)	(716,979)	(5,459)	(21,740)	(1,062,871)
Exchange realignment	567,520	141,693	2	60,629	80,482	3,664	220,452	1,074,442
At 31 December 2017, net of accumulated depreciation and impairment	9,010,231	2,215,137	929	868,686	796,018	50,989	3,022,012	15,964,002
At 31 December 2017:								
Cost	10,792,168	3,916,606	35,030	2,380,893	3,725,151	161,694	3,044,568	24,056,110
Accumulated depreciation and impairment	(1,781,937)	(1,701,469)	(34,101)	(1,512,207)	(2,929,133)	(110,705)	(22,556)	(8,092,108)
Net carrying amount	9,010,231	2,215,137	929	868,686	796,018	50,989	3,022,012	15,964,002

In the opinion of the directors, certain leasehold interests in land continue to be accounted for as property, plant and equipment as the allocation between the land and building elements cannot be made reliably.

The Group's land and buildings are located outside Hong Kong and are held under medium term leases and long term leases.

At the end of the reporting period, certain of the Group's property, plant and equipment with an aggregate net carrying amount of approximately HK$357,948,000 (2017: HK$390,446,000) were pledged to secure bank loans granted to the Group (note 34).

In accordance with the "Notice of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance of the PRC on the Instructions for the separation and hand-over of water/power/gas supply and property management facilities in the Residential Area of Employees of the State-owned Enterprises" forwarded by the General Office of the State Council of the PRC (Guo Ban Fa [2016] No.45) and other relevant authorities' documents, Sinofert is required to hand over the water/power/gas supply and property management facilities to entities designated by the local government. In 2018, Sinofert completed the hand-over of the related property, plant and equipment to entities designated by the local government, which resulted in a loss of RMB29,192,000 (equivalent to HK$34,522,000) included in "other income, gains and losses, net" in profit or loss.

12. LAND UNDER DEVELOPMENT

Land under development represents the project cost, land requisition cost, compensation cost and other preliminary infrastructure costs in relation to Jinmao's land development projects in Mainland China. Though Jinmao does not have the ownership title or land use rights to such land, Jinmao 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.

	2018 HK$'000	2017 HK$'000
Carrying amount:		
At 1 January	18,991,358	19,257,180
Additions	2,077,172	2,202,275
Recognised in profit or loss during the year	(5,866,089)	(3,760,128)
Exchange realignment	(740,808)	1,292,031
At 31 December	14,461,633	18,991,358
Current portion	(3,537,625)	(8,226,615)
Non-current portion	10,924,008	10,764,743

13. PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
Carrying amount:		
At 1 January	79,585,479	47,972,115
Additions	53,239,307	51,178,518
Acquisition of subsidiaries (note 41)	15,365,774	10,450,325
Disposal of subsidiaries (note 42(c))	(13,506,712)	(12,052,016)
Transfer to properties held for sale	(17,177,923)	(22,350,890)
Exchange realignment	(4,983,655)	4,387,427
At 31 December	112,522,270	79,585,479
Current portion	(55,320,904)	(29,488,514)
Non-current portion	57,201,366	50,096,965

At 31 December 2018, certain of the Group's properties included in properties under development with a net carrying amount of approximately HK$51,276,029,000 (2017: HK$30,899,794,000) were pledged to secure bank loans granted to the Group (note 34).

14. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
Fair value:		
At 1 January	34,148,727	25,017,316
Additions	1,341,728	4,273,913
Fair value changes recognised in profit or loss	235,291	208,496
Transfer from property, plant and equipment (note 11)	119,591	386,186
Transfer to property, plant and equipment (note 11)	(450,979)	(72,509)
Transfer from properties held for sale	52,007	2,314,207
Transfer to properties held for sale	-	(37,967)
Acquisition of subsidiaries	-	360,618
Disposal of subsidiaries (note 42(c))	-	(280,015)
Exchange realignment	(1,590,316)	1,978,482
At 31 December	33,856,049	34,148,727

The Group's investment properties mainly belong to Jinmao.

Jinmao's investment properties consist of 15 commercial properties in Mainland China. The directors of Jinmao have determined that the investment properties consist of one class of asset, i.e., commercial, based on the nature, characteristics and risks of each property. Jinmao's investment properties were revalued individually on 31 December 2018 based on valuations performed by Cushman & Wakefield Limited (formerly known as DTZ Debenham Tie Leung Limited), Shanghai Cairui Real Estate Land Appraisal Co., Ltd., Beijing Renda Real Estate Appraisal Co., Ltd. and Beijing Zhuoxindahua Appraisal Co., Ltd., independent professionally qualified valuers. Each year, Jinmao's management decides to appoint which external valuers to be responsible for the external valuations of Jinmao's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Jinmao's management has discussions with the valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

These investment properties are leased under operating leases, further summary details of which are included in note 45(a) to the consolidated financial statements.

At 31 December 2018, certain of the Group's investment properties with a carrying value of HK$14,480,989,000 (2017: HK$15,017,250,000) were pledged to secure bank loans granted to the Group (note 34).

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using		
	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000	HK$'000
Recurring fair value measurement for:			
Commercial properties	410,922	33,445,127	33,856,049

	Fair value measurement as at 31 December 2017 using		
	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000	HK$'000
Recurring fair value measurement for:			
Commercial properties	327,263	33,821,464	34,148,727

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties
	HK$'000
Carrying amount at 31 December 2016 and 1 January 2017	24,880,459
Additions	4,273,913
Net gain from a fair value adjustment	182,580
Transfer from properties held for sale	2,314,207
Transfer to properties held for sale	(37,967)
Transfer from property, plant and equipment	226,073
Transfer to property, plant and equipment	(72,509)
Acquisition of subsidiaries	360,618
Disposal of subsidiaries	(280,015)
Exchange realignment	1,974,105
Carrying amount at 31 December 2017	33,821,464
Carrying amount at 31 December 2017 and 1 January 2018	33,821,464
Additions	1,341,728
Net gain from a fair value adjustment	220,709
Transfer from properties held for sale	52,007
Transfer from property, plant and equipment	44,643
Transfer to property, plant and equipment	(450,979)
Exchange realignment	(1,584,445)
Carrying amount at 31 December 2018	33,445,127

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average 2018	2017
Property 1 - Beijing Chemsunny	Term and reversion method	Term yield	6.00%	6.00%
World Trade Centre		Reversionary yield	6.50%	6.50%
		Market rent (per square metre ("sqm") per annum ("p.a."))	HK$6,258 – HK$11,509	HK$5,969 – HK$10,899
Property 2 - Sinochem Tower	Term and reversion method	Term yield	3.00% – 5.50%	3.00% – 6.00%
		Reversionary yield	3.50% – 6.00%	3.50% – 6.50%
		Market rent (per sqm p.a.)	HK$3,534 – HK$11,637	HK$3,542 – HK$11,207
Property 3 - Jin Mao Tower	Term and reversion method	Term yield	3.50% – 4.50%	3.50% – 4.50%
		Reversionary yield	4.00% – 5.00%	4.00% – 5.00%
		Market rent (per sqm p.a.)	HK$4,995 – HK$14,191	HK$4,718 – HK$13,490
Property 4 - Zhuhai Every Garden	Term and reversion method	Term yield	5.50% – 6.25%	5.50% – 6.25%
		Reversionary yield	6.00% – 6.50%	6.00% – 6.50%
		Market rent (per sqm p.a.)	HK$610 – HK$880	HK$595 – HK$858
Property 5 - Nanjing Xuanwu Lake	Term and reversion method	Term yield	3.50% – 4.50%	3.50% – 5.00%
Jin Mao Plaza		Reversionary yield	4.00% – 5.00%	4.00% – 5.50%
		Market rent (per sqm p.a.)	HK$2,469 – HK$8,799	HK$2,283 – HK$8,772
Property 6 - Changsha Meixi Lake	Discounted cash flow method	Estimated rental value		
International R&D Centre		(per sqm p.a.)	HK$777	HK$1,120
		Rental growth p.a.	0.00% – 3.00%(3.00%)	0.00% – 3.00%(3.00%)
		Long term vacancy rate	4.11%	4.11%
		Discount rate	6.00%	6.00%
Property 7 - Lijiang J•LIFE	Term and reversion method	Term yield	5.50%	6.00%
		Reversionary yield	6.00%	6.50%
		Market rent (per sqm p.a.)	HK$1,518	HK$1,563
Property 8 - Shanghai International Shipping Service Centre	Market comparable method	Price per sqm	HK$67,476	HK$65,577
Property 9 - Qingdao Jinmao	Term and reversion method	Term yield	4.00%	4.00%
Harbour Shopping Mall		Reversionary yield	4.50%	4.50%
		Market rent (per sqm p.a.)	HK$1,930	HK$1,840
Property 10 - Ningbo Jiayuan	Term and reversion method	Term yield	4.00%	4.00%
Plaza		Reversionary yield	4.50%	4.50%
		Market rent (per sqm p.a.)	HK$795 – HK$5,676	HK$826 – HK$8,532

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	Valuation techniques	**Significant unobservable inputs**	**Range or weighted average**	
			2018	2017
Property 11 - Ningbo Huijin Tower	Term and reversion method	Term yield	4.00%	4.00%
		Reversionary yield	4.50%	4.50%
		Market rent (per sqm p.a.)	HK$1,041 – HK$5,676	HK$8,532
Property 12 - Changsha Jinmao Mall of Splendor	Discounted cash flow method	Estimated rental value (per sqm p.a.)	HK$1,420	HK$1,461
		Rental growth p.a.	3.61%	5.90%
		Long term vacancy rate	5.00%	5.00%
		Discount rate	6.00%	6.65%
Property 13 - Beijing Chaoyang Jinmao Centre Project	Residual method	Developer's profit rate	5.00%	5.00%
	Term and reversion method	Reversionary yield	5.00% – 5.50%	5.00% – 6.00%
		Market rent (per sqm p.a.)	HK$2,696 – HK$4,257	HK$2,670 – HK$4,843
Property 14 - Nanjing Southern Hexi Yuzui Land Parcel No.G97	Residual method	Developer's profit rate	5.00%	5.00%
	Term and reversion method	Reversionary yield	3.00% – 6.00%	3.00% – 6.00%
		Market rent (per unit per p.a.)	HK$1,987 – HK$3,009	HK$1,854 – HK$2,767
Property 15 - Hangzhou Shangtang Project	Residual method	Developer's profit rate	5.00%	N/A
	Term and reversion method	Reversionary yield	2.00%	N/A
		Market rent (per sqm p.a.)	HK$1,646	N/A
Property 16 - Hong Kong Convention Plaza Office Building 47/F	Income capitalisation approach term and reversion method	Estimated rental value (per sq. ft / per month)	HK$95 – HK$111	HK$95 – HK$111
		Capitalisation rate	2.60%	2.60%

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

The term and reversion method is used to measure the fair value of the properties by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates.

A significant increase/(decrease) in the term yield and the reversionary yield in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. A significant increase/(decrease) in the market rent would result in a significant increase/(decrease) in the fair value of the investment properties.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the long-term vacancy rate and the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

Under the market comparable method, a property's fair value is estimated based on comparable transactions. Although property interests are not homogeneous, the International Valuation Standards Council considers the market approach most commonly applied. In order to compare the subject of the valuation with the price of other real property interests that have been recently exchanged or that may be currently available in the market, it is usual to adopt a suitable unit of comparison. Units of comparison that are commonly used include analysing sales prices by calculating the price per square metre of a building or per hectare for land. Other units used for price comparison where there is sufficient homogeneity between the physical characteristics include a price per room or a price per unit of output, e.g., crop yields. A unit of comparison is only useful when it is consistently selected and applied to the subject property and the comparable properties in each analysis.

The market comparable method is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. The unit of comparison applied by Jinmao is the price per square metre. The market comparable approach is often used in combination with either the discounted cash flow or the term and reversion method as many inputs to these methods are based on market comparison.

A significant increase/(decrease) in the price per square metre would result in a significant increase/(decrease) in the fair value of the investment properties.

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

The residual method is essentially a means of valuing land with reference to its development potential by deducting construction costs, interest and developer's profit from its estimated gross development value assuming it would have been completed as at the valuation date in accordance with the latest development scheme provided by the relevant parties. The estimated total and outstanding construction costs and development schedule to be advised by the relevant parties will also be considered.

A significant increase/(decrease) in the developer's profit rate would result in a significant decrease/(increase) in the fair value of the investment properties.

15. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Leasehold land in Hong Kong under long term leases	10,229	10,473
Leasehold land in the PRC:		
Long term leases	684,004	737,040
Medium term leases	1,599,078	1,730,485
	2,283,082	2,467,525
At 31 December	2,293,311	2,477,998
Current portion	(77,327)	(80,423)
Non-current portion	2,215,984	2,397,575

At 31 December 2018, certain of the Group's prepaid land lease payments with a net carrying amount of approximately HK$170,026,000 (2017: HK$191,753,000) were pledged to secure certain of the Group's bank loans (note 34).

16. GOODWILL

	2018 HK$'000	2017 HK$'000
At 1 January:		
Cost	4,056,810	4,015,165
Accumulated impairment	-	-
Net carrying amount	4,056,810	4,015,165
Cost at 1 January, net of accumulated impairment	4,056,810	4,015,165
Exchange realignment	(29,202)	41,645
Net carrying amount at 31 December	4,027,608	4,056,810
At 31 December:		
Cost	4,027,608	4,056,810
Accumulated impairment	-	-
Net carrying amount	4,027,608	4,056,810

For the purposes of impairment testing, 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 31 December 2018 and 2017 allocated to these divisions are as follows:

	2018 HK$'000	2017 HK$'000
Fertilisers division	2,028,038	2,057,240
Real estate division	1,999,570	1,999,570
	4,027,608	4,056,810

Impairment testing of goodwill

The recoverable amounts of these groups of cash-generating units have been determined by value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct cost used in the cash flow forecasts. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific relating to the groups of cash-generating units. Cash flow forecasts of each cash-generating unit are derived from financial budgets approved by management. The growth rates are based on the long term inflation rate of the PRC economy. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Fertilisers division
At the end of the reporting period, the recoverable amount of Sinofert was determined based on a value in use calculation using cash flow projections based on financial budgets covering a certain period approved by the directors of Sinofert. The cash flow projection was divided for Sinofert and Sinochem Yunlong.

For Sinochem Yunlong, the pre-tax discount rate was 12.8%. The growth rates for the first three years from 2019 are based on the relevant cash-generating units' past performance and management's expectation for the market development and for the following years are based on a steady growth rate of 4.9%. The value in use calculated by using the discount rate is higher than the carrying amount, and therefore, there is no impairment of Sinochem Yunlong.

Sinofert was divided into the marketing division and the production division. The after-tax discount rates were 9.6% for the marketing division and 11% for the production division. Cash flows of the marketing division were extrapolated based on management's forecasts for the first three years and a steady growth rate of 3% for the following years. Cash flows of the production division were extrapolated based on management's forecasts for the first three years and a steady growth rate of 3% for the following years.

The value in use calculated by using the discount rate is higher than the carrying amount of this group of cash-generating units, and therefore, there is no impairment of Sinofert.

Real estate division
At the end of the reporting period, the recoverable amount of the real estate division was determined based on a value in use calculation using cash flow projections based on financial budgets covering a certain period approved by the directors of Jinmao. The after-tax discount rate applied to the cash flow projection was 8.3%. Cash flows were extrapolated using a growth rate of 11% for the first two years and a steady growth rate of 3% for the following years. The value in use calculated by using the discount rate is higher than the carrying amount of this group of cash-generating units, and therefore, there is no impairment of the real estate division.

17. INTANGIBLE ASSETS

	Pipeline usage rights HK$'000	Computer software HK$'000	Mining rights HK$'000	Others HK$'000	Total HK$'000
At 31 December 2017 and at 1 January 2018:					
Cost	202,505	125,485	918,926	-	1,246,916
Accumulated amortisation	(202,505)	(88,101)	(226,176)	-	(516,782)
Net carrying amount	-	37,384	692,750	-	730,134
At 1 January 2018, net of accumulated amortisation	-	37,384	692,750	-	730,134
Additions	-	29,000	-	-	29,000
Amortisation provided during the year	-	(12,719)	(38,909)	-	(51,628)
Impairment	-	(43)	-	-	(43)
Disposal		(12)	-	-	(12)
Disposal of subsidiaries (note 42 (c))	-	(184)			(184)
Exchange realignment	-	(2,279)	(30,490)	-	(32,769)
At 31 December 2018, net of accumulated amortisation	-	51,147	623,351	-	674,498
At 31 December 2018:					
Cost	202,505	147,506	876,678	-	1,226,689
Accumulated amortisation	(202,505)	(96,359)	(253,327)	-	(552,191)
Net carrying amount	-	51,147	623,351	-	674,498

	Pipeline usage rights HK$'000	Computer software HK$'000	Mining rights HK$'000	Others HK$'000	Total HK$'000
At 31 December 2016 and at 1 January 2017:					
Cost	2,077,649	104,168	858,704	1,429	3,041,950
Accumulated amortisation	(202,505)	(71,653)	(175,257)	(1,197)	(450,612)
Net carrying amount	1,875,144	32,515	683,447	232	2,591,338
At 1 January 2017, net of accumulated amortisation	1,875,144	32,515	683,447	232	2,591,338
Additions	-	16,873	-	-	16,873
Amortisation provided during the year	-	(11,159)	(37,230)	-	(48,389)
Acquisition of subsidiaries	-	444	-	-	444
Disposal	-	(3,663)	-	(240)	(3,903)
Disposal of subsidiaries (note 42 (a))	(1,875,144)	-	-	-	(1,875,144)
Exchange realignment	-	2,374	46,533	8	48,915
At 31 December 2017, net of accumulated amortisation	-	37,384	692,750	-	730,134
At 31 December 2017:					
Cost	202,505	125,485	918,926	-	1,246,916
Accumulated amortisation	(202,505)	(88,101)	(226,176)	-	(516,782)
Net carrying amount	-	37,384	692,750	-	730,134

18. INVESTMENTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Unlisted investments:		
Share of net assets	8,857,161	4,043,164
	8,857,161	4,043,164

The amounts due from/to joint ventures are disclosed in note 21 to the consolidated financial statements.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 HK$'000	2017 HK$'000
Share of the joint ventures' profit for the year	470,081	52,053
Share of the joint ventures' total comprehensive income	470,081	52,053
Aggregate carrying amount of the Group's investments in the joint ventures	8,857,161	4,043,164

19. INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Unlisted investments		
Share of net assets	8,704,818	5,584,783
	8,704,818	5,584,783

Notes:

(i) Jinmao has discontinued the recognition of its share of loss of certain associates because the share of loss of the associates exceeded Jinmao's interests in them and Jinmao has no obligation to take up further losses. The amounts of Jinmao's unrecognised share of loss of the associates for the current year and cumulatively were HK$51,687,000 (2017: HK$18,431,000) and HK$110,438,000 (2017: HK$57,810,000), respectively.

(ii) The amounts due from/to associates are disclosed in note 21 to the consolidated financial statements.

19. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Share of the associates' profit/(loss) for the year	148,649	(65,365)
Share of the associates' post-tax profit from discontinued operations	-	59,851
Share of the associates' total comprehensive income	148,649	(65,365)
Aggregate carrying amount of the Group's investments in the associates	8,704,818	5,584,783

20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK$'000	2017 HK$'000
Listed equity investments, at fair value	1,310,424	-
Unlisted equity investments, at fair value	456,674	-
	1,767,098	-
Available-for-sale investments		
Listed equity investments, at fair value	-	1,684,186
Unlisted equity investments		
At cost	-	490,988
Impairment	-	(107,617)
	-	2,067,557

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

For the year ended 31 December 2018, the gross loss in respect of the Group's equity investments designated at fair value through other comprehensive income recognised in other comprehensive income amounted to HK$367,225,000.

During the year ended 31 December 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$413,889,000.

As at 31 December 2017, the unlisted available-for-sale investments mainly represent the investments of Sinofert and Jinmao in private entities. The investments in unlisted equity securities are subsequently measured at cost less impairment at the end of each reporting period, because the range of reasonable fair value estimates is so significant that the directors of Sinofert and Jinmao are of the opinion that their fair values cannot be measured reliably. Certain of the Sinofert's unlisted available-for-sale equity securities were individually determined to be impaired on the basis of a significant decline in fair value below cost. Impairment losses on these investments of HK$93,010,000 were recognised in profit or loss during the year 2017.

21. AMOUNTS DUE FROM/TO RELATED PARTIES

	2018 HK$'000	2017 HK$'000
Amounts due from related parties		
Amounts due from associates (note i)	18,518,703	9,772,304
Amounts due from joint ventures (note ii)	26,467,817	19,659,170
Amounts due from fellow subsidiaries (note iii)	4,667,782	4,489,224
Amounts due from the ultimate parent (note vi)	9,835	41
Amounts due from the immediate parent (note iv)	35,553,505	37,484,415
Amounts due from associates of the Group's ultimate parent (note vi)	288,596	2,854,950
	85,506,238	74,260,104
Current	(54,647,894)	(40,617,081)
Non-current	30,858,344	33,643,023
Amounts due to related parties		
Amounts due to joint ventures (note vi)	3,320,601	1,740,335
Amounts due to the ultimate parent (note vi)	39,558	5,781,145
Amounts due to associates (note vi)	3,072,986	2,542,444
Amounts due to the immediate parent (note v)	7,133,810	4,754,075
Amounts due to fellow subsidiaries (note vi)	5,876,408	2,439,858
Amounts due to associates of the Group's ultimate parent (note vi)	101,622	361,498
	19,544,985	17,619,355
Current	(19,544,985)	(15,824,905)
Non-current	-	1,794,450

Notes:

(i) The amounts due from associates are interest-free, unsecured and repayable on demand, except for the amounts of HK$8,029,079,000 (2017: HK$1,388,360,000), which are unsecured and bear interest at rates ranging from 5.23% to 10.00% per annum, respectively.

(ii) The amounts due from joint ventures are unsecured, interest-free and repayable on demand, except for the amounts of HK$14,024,322,000 (2017: HK$6,138,158,000) and HK$ 2,245,337,000 (2017: HK$2,182,470,000), which are unsecured and bear interest at rates ranging from 2.42% to 10.26% per annum, respectively.

(iii) The amounts due from fellow subsidiaries are unsecured, interest-free and repayable on demand, except for the amounts of HK$3,539,420,000 (2017: HK$2,732,557,000), which bear interest at rates ranging from 2.18% to 4.5% per annum, respectively.

21. AMOUNTS DUE FROM/TO RELATED PARTIES (continued)

Notes: (continued)

(iv) The amounts due from the immediate parent are unsecured and interest-free, except for the amounts of HK$958,685,000 (2017:HK$3,397,495,000), HK$5,173,572,000 (2017: HK$5,553,821,000) and HK$570,650,000 (2017: Nil), which bear interest at 1.5%, 3-month LIBOR plus 50 basis points and 3.915% per annum, respectively.

(v) The amounts due to the immediate parent are unsecured, interest-free and repayable on demand, except for the loan amounting to HK$559,233,000 (2017: HK$586,187,000), which bears interest at 1.5% per annum.

(vi) The amounts are interest-free, unsecured and repayable on demand.

22. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS

The amounts due from non-controlling shareholders are unsecured, bear interest at rates from 2.18% to 5.23% per annum and are not repayable within one year.

23. OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Advance payments for acquisition of items of property, plant and equipment	70,264	59,177
Other receivables (note i)	342,390	376,835
Other non-current assets (note ii)	26,649	15,923
Other financial assets (note iii)	1,720,054	7,233,423
At 31 December	2,159,357	7,685,358
Current portion	(305,663)	(7,182,594)
Non-current portion	1,853,694	502,764

Notes:

(i) The other receivables of HK$342,390,000 represent the non-current balance of a deposit of HK$342,390,000 (2017: HK$358,890,000) and an entrusted loan to a third party of nil (2017: HK$17,945,000, bearing interest at 5% per annum).

(ii) Other non-current assets have estimated useful lives ranging from 2 years to 10 years. The costs are amortised on a straight-line basis over their respective estimated useful lives.

23. OTHER ASSETS (continued)

Notes: (continued)

(iii) Set out below is the information about other financial assets:

	2018 HK$'000	2017 HK$'000
Non-current balances		
Unlisted equity investments at fair value through profit or loss (2017: at cost)	205,434	-
Other unlisted investments at fair value through profit or loss (2017: at cost)	1,208,957	50,829
	1,414,391	50,829
Current balances		
Listed equity investments at fair value through profit or loss (2017: at cost)	77,490	-
Unlisted equity investments at fair value through profit or loss (2017: at cost)	-	7,175,416
Other unlisted investments at fair value through profit or loss (2017: at cost)	228,173	7,178
	305,663	7,182,594
	1,720,054	7,233,423
Available-for-sale investments		
Unlisted equity investments		
At cost	-	216,799

The balance of the non-current portion of unlisted equity investments at 31 December 2018 was classified as financial assets at fair value through profit or loss (2017: available-for-sale investments).

The balance of the non-current portion of other unlisted investments of other financial assets as at 31 December 2018 represented financial products with original maturity of over one year when acquired from banks.

The balance of the current portion of listed equity investments at 31 December 2018 was classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The balance of the current portion of other unlisted investments as at 31 December 2018 included financial products with original maturity within one year when acquired from banks of HK$2,510,000 (2017: HK$7,178,000) and trust schemes issued by China Foreign Economy and Trade Trust Co. Ltd., a fellow subsidiary of the Company of HK$225,663,000 (2017: Nil)

24. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	555,318	657,731
Work in progress	60,431	28,613
Fertiliser merchandise and finished goods	5,807,828	5,894,425
Consumables	52,917	57,530
	6,476,494	6,638,299

25. PROPERTIES HELD FOR SALE

All the properties held for sale are stated at cost. The Group's properties held for sale are situated in Mainland China.

At 31 December 2018, certain of the Group's properties included in properties held for sale with a net carrying amount of approximately HK$160,677,000 (2017: HK$3,617,018,000) were pledged to secure bank loans granted to the Group (note 34).

26. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	955,687	1,442,472
Impairment	(14,069)	(8,570)
	941,618	1,433,902
Bills receivable	559,977	228,060
Total trade and bills receivables	1,501,595	1,661,962

The Group allows an average credit period normally within 90 days to its trade customers. Before accepting any new customer, the Group, based on past experience, assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The Group has pledged trade and bills receivables of approximately HK$26,180,000 (2017: HK$28,057,000) to secure bank loans granted to the Group (note 34).

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	887,146	701,268
3 to 6 months	183,938	99,779
6 to 12 months	93,283	533,881
Over 12 months	337,228	327,034
	1,501,595	1,661,962

26. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	8,570	13,401
Impairment losses recognised (note 5)	6,184	1,642
Amounts written off as uncollectible	(78)	(7,754)
Exchange realignment	(607)	1,281
At 31 December	14,069	8,570

Impairment under HKFRS 9 for the year ended 31 December 2018
An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Gross carrying amount HK$'000	Expected credit losses HK$'000	Expected credit loss rate (%)
Within 1 year	615,442	33	0.01
1 to 2 years	33,444	29	0.09
2 to 3 years	292,069	4,302	1.47
Over 3 years	14,732	9,705	65.88
	955,687	14,069	

Impairment under HKAS 39 for the year ended 31 December 2017
The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	1,646,591
Past due but not impaired:	
Less than 90 days	7,058
91 to 360 days	3,244
Over 360 days	5,069
	1,661,962

26. TRADE AND BILLS RECEIVABLES (continued)

Trade receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral over these balances.

27. CONTRACT ASSETS

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Contract assets arising from:			
Design and decoration services	176,331	64,582	-
	176,331	64,582	-

Management expects that the incremental costs, primarily sale commission and stamp duty paid/payable as a result of obtaining the property sales contracts are recoverable. The Group has capitalised the amounts as contract assets and amortised when the related revenue is recognised.

Contract assets are initially recognised for other revenue earned from the design and decoration services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets arising from design and decoration services are retention receivables. Upon completion of design and decoration services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the ongoing provision of design and decoration services at the end of the year.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 was within one year.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating, and forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

27. CONTRACT ASSETS (continued)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at 31 December 2018

Expected credit loss rate	0%
	HK$'000
Gross carrying amount	176,331
Expected credit losses	-

28. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Prepayments	6,343,864	9,995,579
Deposits	1,465,227	3,832,723
Other receivables	14,265,461	3,667,343
Due from non-controlling interests (note i)	2,281,711	3,543,799
Entrusted loans to third parties (note ii)	684,780	4,715,482
Contract costs (note iii)	147,418	-
	25,188,461	25,754,926
Impairment allowance	(61,696)	(58,913)
Total	25,126,765	25,696,013

Notes:

(i) The amounts due from non-controlling interests are unsecured, interest-free and repayable within one year, except for the amounts of HK$2,281,711,000 in aggregate, which bear interest at rates ranging from 0.35% to 2.375% per annum (2017: HK$3,543,799,000 in aggregate, which bore interest at rates ranging from 0.35% to 2.75% per annum).

(ii) The current balance of entrusted loans to third parties is an unsecured amount of HK$684,780,000, which bears interest at a rate of 2.175% per annum (2017: HK$4,715,482,000 in aggregate, which bore interest at rates from 2.175% to 4.75% per annum) and is receivable within one year.

(iii) Management expects that the contracts costs, primarily sale commission and stamp duty paid/payable as a result of obtaining the property sales contracts are recoverable. The Group has capitalised the amounts as contract costs and amortised when the related revenue is recognised.

28. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

The movements in the loss allowance for impairment are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	56,781	52,462
Impairment losses recognised (note 5)	8,212	2,643
Amounts written off as uncollectible	(2,521)	-
Exchange realignment	(776)	3,808
At 31 December	61,696	58,913

Impairment under HKFRS 9 for the year ended 31 December 2018

For the financial assets above, an impairment analysis is performed at each reporting date by considering the probability of default by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Deposits mainly represent rental deposits and deposits with suppliers. Deposits, due from non-controlling interests and entrusted loans to third parties have specific due dates or settlement schedules. Management considers the probability of default as minimal. The expected credit loss rate applied for other receivables ranged from 0.02% to 31.69%.

Impairment under HKAS 39 for the year ended 31 December 2017

The Group's financial assets included in prepayments, other receivables and other current assets as at 31 December 2017 were individually determined to be impaired. The individually impaired receivables related to the counterparties that were in financial difficulties and management assessed that the receivables were not expected to be recovered. Consequently, specific allowances for doubtful debts were recognised. The Group did not hold any collateral over these balances.

For the other balances of financial assets included in prepayments, other receivables and other current assets for the Group, management was of the opinion that the counterparties were with good credit quality and the balances were considered fully recoverable.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate swap	967	37,429	-	-
Forward currency contracts	-	-	-	92,641
Forward exchange contracts	-	74,981	-	78,860
Cross currency interest rate swaps	-	13,666	-	-
Other derivative financial instruments	7,336	-	11,988	3,328
	8,303	126,076	11,988	174,829
Current portion	(8,303)	(74,981)	(11,988)	(174,829)
Non-current portion	-	51,095	-	-

Transactions of derivative financial instruments of the Group were conducted with creditworthy banks.

Cash flow hedge under HKFRS 9 – Interest rate risk and foreign currency risk
At 31 December 2018, Jinmao had interest rate swap agreements in place with a notional amount of HK$3,370,000,000 whereby they pay interest at a fixed rate of 3.19%-4.45% and receive interest at a variable rate equal to the Hong Kong Interbank Offered Rate ("HIBOR") plus 1.4%-1.65% on the notional amount. The swaps are being used to hedge the interest rate exposure to the HIBOR plus 1.4% variable rate unsecured loan with a face value of HK$1,450,000,000, HIBOR plus 1.45% variable rate unsecured loan with a face value of HK$960,000,000 and HIBOR plus 1.65% variable rate unsecured loan with a face value of HK$960,000,000.

At 31 December 2018, Jinmao had a cross currency interest rate swap agreement in place with a notional amount of US$250,000,000 and HK$1,960,350,000 whereby it pays interest at a fixed rate of 3.45% and pays HK$1,960,350,000 on the termination date, and receives interest at a variable rate equal to the London Interbank Offered Rate ("LIBOR") plus 1.1% and receives US$250,000,000 on the termination date. The swap is being used to hedge the interest rate and foreign currency risk exposure to the LIBOR plus 1.1% variable rate unsecured loan with a face value of US$250,000,000.

At 31 December 2018, the Group had a forward exchange contract agreement in place with a notional amount of 250,000,000 in Swiss Franc ("CHF") and US$268,240,000 whereby it pays interest at a fixed rate of 3.49% and pays US$268,240,000 on the termination date, and receives interest at a fixed rate of 0.76% and receives CHF250,000,000 on the termination date. The swap is being used to hedge the foreign currency risk exposure to an unsecured loan with a face value of CHF250,000,000.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward and swap contracts match the terms of the expected highly probable forecast transactions and the secured bank loan (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the cross currency interest rate swap contracts and interest rate swap contracts are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the forecasted payments and the hedging instruments
- The different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of the hedged items and hedging instruments

Hedge of net investments in foreign operations

The Group has entered into various forward currency contracts to manage its foreign currency risk arising from the net investments in foreign operations. These forward currency contracts are designated as hedging instruments and measured at fair value through profit or loss. Net fair value gains on the hedging instrument of HK$3,646,000 relating to the effective portion of the hedge were recognised in other comprehensive income (2017: net loss of HK$91,329,000) while fair value losses of HK$30,143,000 relating to the ineffective portion were recognised in profit or loss during the year (2017: net gain of HK$2,621,000).

30. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash and bank balances	27,435,841	26,589,034
Time deposits	5,971,421	4,952,852
	33,407,262	31,541,886
Less: Restricted bank balances	5,087,435	3,870,247
Cash and cash equivalents (note i)	28,319,827	27,671,639

Note:

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and cash held by the Group bearing interest at prevailing market rates.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

31. ASSETS HELD FOR SALE

	2018 HK$'000	2017 HK$'000
Assets held for sale	-	9,627,989

On 6 December 2018, Sinochem International Oil (Hong Kong) Company Limited ("Sinochem International Oil"), a subsidiary of the Group, entered into a share transfer agreement with China National Petroleum Corporation ("CNPC"), pursuant to which Sinochem International Oil agreed to sell and CNPC agreed to purchase all the shares of Dalian West Pacific Petrochemical Co., Ltd. ("Dalian West Pacific") held by Sinochem International Oil, representing 25.208% of its total issued share capital of Dalian West Pacific, at a consideration of RMB433,292,952 (equivalent to HK$494,517,000).

The transaction has been approved by the ultimate shareholder of Sinochem International Oil in November 2018. Accordingly, the Group reclassified the investment in Dalian West Pacific from investments in associates to assets held for sale. The transaction is expected to be completed in 2019.

As at 31 December 2018, the balance of assets held for sale was nil since the share of loss of Dalian West Pacific exceeded the Group's interests in it and the Group has no obligation to take up further losses.

31. ASSETS HELD FOR SALE (continued)

On 24 October 2017, Sinochem Fertiliser Co., Ltd. ("Sinochem Fertiliser", a subsidiary of 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 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). On 31 October 2017, Sinochem Fertiliser received the first instalment of the consideration amounting to RMB2,418,960,000 (equivalent to HK$2,893,802,000) which was included in "other payables and accruals" in the consolidated statement of financial position.

The transaction has been approved by the independent shareholders of Sinofert and the State-owned Assets Supervision and Administration Commission of the State Council of the PRC in December 2017. Accordingly, the Group reclassified the investment in Qinghai Salt Lake from investments in associates to assets held for sale. The transaction was expected to be completed in 2018.

At 31 December 2017, the non-current assets held for sale were stated at the lower of the carrying amount and the fair value less costs to sell, comprising the following assets:

	HK$'000
Investments in associates:	
Cost of investment	11,972,671
Share of profits, net of dividends	1,004,056
Less: Impairment loss	(3,348,738)
Assets held for sale	9,627,989

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 of RMB8,063,198,000 (equivalent to HK$9,646,004,000) less the transaction costs of approximately RMB15,059,000 (equivalent to HK$18,015,000). A reversal of an impairment loss of RMB30,754,000 (HK$36,791,000) was recognised in "other income, gains and losses, net".

Based on the accounting policy of the Group, on disposal of a long-term equity investment accounted for using the equity method, any gain or loss on dilution previously recognised directly in equity shall be recycled to profit or loss on the disposal date. Sinofert previously recognised the loss on dilution of the investment in Qinghai Salt Lake of RMB711,561,000 (equivalent to HK$820,430,000) directly in equity. The Group recognised the present obligation under the share transfer agreement and measured a provision in relation to the disposal of interest in Qinghai Salt Lake amounting to RMB711,561,000 (equivalent to HK$820,430,000) accordingly.

On 18 May 2018, all the conditions precedent of the disposal of all the shares in Qinghai Salt Lake held by Sinochem Fertiliser have been fulfilled, and all necessary procedures on the registration of share transfer were completed. Following the completion of the disposal, Sinochem Fertiliser has ceased to hold any shares of Qinghai Salt Lake.

32. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
Within one year	15,615,481	10,418,205
Over one year	895,521	3,177,153
	16,511,002	13,595,358

33. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Other payables	9,516,497	12,488,116
Receipt in advances	141,696	50,743,482
Accruals	484,681	501,089
Due to non-controlling interests (note i)	15,064,894	10,288,862
Contract liabilities (note ii)	56,954,192	-
Dividend payable to non-controlling interests	27,069	353,717
	82,189,029	74,375,266

Notes:

(i) The amounts due to non-controlling interests as at 31 December 2018 are unsecured, interest-free and are repayable on demand, except for the amounts of HK$10,239,174,000 (2017: HK$8,971,501,000) in aggregate, which bear interest at rates ranging from 4.35% to 9.00% per annum.

(ii) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Sale of industrial products	3,350,460	4,170,048
Sale of completed properties	53,394,456	43,772,178
Hotel operations	97,286	112,544
Land development	-	2,442,240
Property management	111,990	109,673
Total contract liabilities	56,954,192	50,606,683

Contract liabilities include short-term advances received to deliver industrial products including fertilisers and chemical products, completed properties and land development assets, and to render hotel operations and property management services. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the sales of properties at the end of the year.

34. INTEREST-BEARING BORROWINGS

Current	2018 HK$'000	2017 HK$'000
Bank loans, secured (note i)	3,130,586	6,409,086
Bank loans, guaranteed (note ii)	-	1,196,301
Bank loans, unsecured	14,286,815	10,056,069
Guaranteed senior notes, unsecured (note iii)	-	1,023,693
Notes issued under the medium-term note programme (note v)	3,758,081	-
Bonds (note vi)	3,455,725	-
Notes, unsecured	798,910	1,196,300
Other loans (note iv)	6,930,791	14,844,887
	32,360,908	34,726,336

Non-current	2018 HK$'000	2017 HK$'000
Bank loans, secured (note i)	9,444,135	8,899,842
Bank loans, unsecured	17,671,777	14,267,482
Guaranteed senior notes, unsecured (note iii)	25,611,178	28,793,546
Notes issued under the medium-term note programme (note v)	5,743,636	8,429,677
Domestic corporate bonds, unsecured (note vii)	517,066	2,622,569
Bonds (note vi)	9,112,567	10,118,721
Other loans (note iv)	27,783,533	7,059,259
	95,883,892	80,191,096

Carrying amounts repayable:	2018 HK$'000	2017 HK$'000
Within one year	32,360,908	34,726,336
In the second year	35,668,358	22,252,943
In the third to fifth years, inclusive	50,338,829	47,981,442
Beyond five years	9,876,705	9,956,711
	128,244,800	114,917,432

34. INTEREST-BEARING BORROWINGS (continued)

Notes:

(i) The Group's bank and other borrowings are secured by:

(a) mortgages over certain of the Group's property, plant and equipment, which had an aggregate net carrying value at the end of the reporting period of approximately HK$357,948,000 (2017: HK$390,446,000);

(b) mortgages over certain of the Group's properties under development, which had an aggregate carrying amount at the end of the reporting period of approximately HK$51,276,029,000 (2017: HK$30,899,794,000);

(c) mortgages over certain of the Group's properties held for sale, which had an aggregate carrying amount at the end of the reporting period of HK$160,677,000 (2017: HK$3,617,018,000);

(d) mortgages over certain of the Group's investment properties, which had an aggregate carrying value at the end of the reporting period of approximately HK$14,480,989,000 (2017: HK$15,017,250,000);

(e) mortgages over certain of the Group's prepaid land lease payments, which had an aggregate carrying amount at the end of the reporting period of HK$170,026,000 (2017: HK$191,753,000);

(f) mortgages over certain of the Group's trade and bills receivables, which had an aggregate carrying amount at the end of the reporting period of HK$26,180,000 (2017: HK$28,057,000); and

(g) the pledge of certain of the equity interests in the Group's subsidiaries, which had an aggregate carrying amount at the end of the reporting period of HK$643,314,000 (2017: HK$659,960,000).

(ii) The Group's bank borrowings as at 31 December 2017 were guaranteed by the immediate parent.

(iii) On 4 November 2010, Sinochem Overseas Capital Company Limited, a wholly-owned subsidiary of the Group, issued US$1,500,000,000 4.5% guaranteed senior notes due 2020 (the "2020 Notes") and US$500,000,000 6.3% guaranteed senior notes due 2040 (the "2040 Notes"). The 2020 Notes and the 2040 Notes are unsecured.

On 15 April 2011, Jinmao Development Limited, a wholly-owned subsidiary of Jinmao, issued US$500,000,000 6.75% guaranteed senior notes due 2021 (the "2021 Notes"). The 2021 Notes are unsecured. The 2021 Notes bear interest at a rate of 6.75% per annum and will mature on 15 April 2021.

On 21 August 2013, Jinmao Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued US$200,000,000 6.40% guaranteed senior notes due 2022 (the "2022 Notes"). The 2022 Notes are unsecured. The 2022 Notes bear interest at a rate of 6.40% per annum and will mature on 27 April 2022.

On 9 October 2013, Jinmao Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued US$300,000,000 5.375% guaranteed senior notes due 2018 (the "2018 Notes"). The 2018 Notes were unsecured. The 2018 Notes bore interest at a rate of 5.375% per annum and have been fully settled during the year 2018.

On 12 March 2014, Jinmao Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued US$500,000,000 5.75% guaranteed senior notes due 2019 (the "2019 Notes"). The 2019 Notes were unsecured. The 2019 Notes bore interest at a rate of 5.75% per annum and would mature on 19 March 2019. In 2018, Jinmao offered to repurchase all of the 2019 Notes, and has completed the redemption of all such notes and the settlement.

34. INTEREST-BEARING BORROWINGS (continued)

Notes: (continued)

(iii) (continued)

On 3 March 2017, Jinmao Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued US$500,000,000 5.75% guaranteed senior notes due 2022 (the “2022 Notes”). The 2022 Notes are unsecured. The 2022 Notes bear interest at a rate of 3.60% per annum and will mature on 3 March 2022.

On 8 March 2018, Jinmao Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued RMB1,250,000,000 5.20% guaranteed senior notes due 2021 (the “2021 Notes”). The 2021 Notes are unsecured. The 2021 Notes bear interest at a rate of 5.20% per annum and will mature on 8 March 2021.

(iv) The balance includes an amount due to a fellow subsidiary of the Group, loans from third parties and short-term notes.

(v) Sinochem Offshore Capital Company Limited, a wholly-owned subsidiary of the Company, established a US$3,000,000,000 Medium-Term Note Programme on 17 April 2014. According to the programme, the notes to be issued under the programme are unsecured and guaranteed on an unsubordinated basis by the Company. On 28 April 2017, Sinochem Offshore Capital Company Limited updated the programme to US$5,000,000,000. On 29 April 2014, 10 September 2014, 17 June 2015, 24 May 2017 and 14 February 2018, Sinochem Offshore Capital Company Limited issued US$500,000,000 3.25% senior guaranteed notes (due 2019), RMB300,000,000 4.00% senior guaranteed notes (due 2021), CHF250,000,000 0.76% senior guaranteed notes (due 2022), US$300,000,000 3.12% senior guaranteed notes (due 2022) and RMB1,000,000,000 4.40% senior guaranteed notes (due 2021) under this programme, respectively.

(vi) On 25 November 2009, a PRC subsidiary of Sinofert issued corporate bonds with an aggregate principal amount of RMB2,500,000,000 with a maturity of 10 years at a fixed interest rate of 5% per annum. The transaction costs of RMB23,265,000 directly attributable to the issuance of the bonds have been deducted from the principal amount of the bonds. The repayment of the bonds is guaranteed by Sinochem Group. Sinofert has bought back RMB430,000,000 of the bonds during the year.

On 22 July 2016, a PRC subsidiary of Sinofert issued the first tranche of the medium-term notes for the year of 2016 with an aggregate principal amount of RMB1,000,000,000, with a maturity of three years at a rate of 3.5% per annum. Sinofert has bought back RMB40,000,000 of the medium-term notes during the year.

On 13 April 2017, Jinmao Holdings Group Limited issued medium-term notes with an aggregate principal amount of RMB2,500,000,000, with a maturity of three years at a rate of 4.65% per annum.

On 10 July 2017, Jinmao Holdings Group Limited issued medium-term notes with an aggregate principal amount of RMB2,500,000,000, with a maturity of three years at a rate of 4.78% per annum.

On 12 April 2018, Jinmao Holdings Group Limited issued medium-term notes with an aggregate principal amount of RMB3,000,000,000, with a maturity of three years at a rate of 4.99% per annum.

34. INTEREST-BEARING BORROWINGS (continued)

Notes: (continued)

(vii) On 10 December 2015, Jinmao Investment Management (Shanghai) Co., Ltd. (formerly known as Franshion Properties Investment Management (Shanghai) Co., Ltd.), a wholly-owned subsidiary of Jinmao, issued five-year domestic corporate bonds with an aggregate principal amount of RMB2,200,000,000 to qualified investors. The coupon rate of the corporate bonds was fixed at 3.55% for the first three years based on the book-building process with the lead underwriters. The final coupon rate of the corporate bonds was adjusted to 3.90% at the end of the third year from 9 December 2018. Jinmao has bought back RMB1,745,972,000 of the domestic corporate bonds during the year.

The ranges of the effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2018	2017
Effective interest rate:		
Fixed rate borrowings	0.76% to 9.82%	0.76% to 8.40%
Variable rate borrowings	1.66% to 6.37%	1.72% to 6.37%

35. PROVISION FOR LAND APPRECIATION TAX ("LAT")

	HK$'000
At 1 January 2017	3,626,586
Acquisition of subsidiaries	8,089
Charged to profit or loss during the year (note 8)	1,275,093
Payments	(375,698)
Transfer from prepaid tax	(458,356)
Exchange realignment	271,206
At 31 December 2017 and at 1 January 2018	4,346,920
Charged to profit or loss during the year (note 8)	1,735,934
Payments	(2,370,091)
Transfer from prepaid tax	(492,564)
Exchange realignment	(160,502)
At 31 December 2018	3,059,697

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 income arising from the sale or transfer of state-owned land use rights, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption for the sale of ordinary residential properties (普通标准住宅) if their appreciation values do not exceed 20% of the sum of the total deductible items.

Effective from 1995, the local tax bureau requires the prepayment of LAT on the pre-sales and sales proceeds of properties. According to the relevant tax notices issued by local tax authorities, the Group is required to pay LAT in advance at 1% to 3.5% on the sales and pre-sales proceeds of the Group's properties.

Jinmao has estimated, made and included in taxation a provision for LAT according to the requirements set out in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects. The tax authorities might disagree with the basis on which the provision for LAT is calculated.

36. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax liabilities

2018

	Depreciation allowance in excess of related depreciation	Fair value adjustments on business combinations	Accrued interest income	Revaluation of investment properties	Withholding taxes	Revaluation of equity investments designated at fair value through other comprehensive income	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017	634,958	1,097,038	138,572	4,199,457	170,111	-	175,937	6,416,073
Effect of adoption of HKFRS 9	-	-	-	-	-	23,641	-	23,641
Effect of adoption of HKFRS 15	-	-	-	-	-	-	33,409	33,409
At 1 January 2018 (restated)	634,958	1,097,038	138,572	4,199,457	170,111	23,641	209,346	6,473,123
Deferred tax charged/(credited) to profit or loss during the year (note 8)	88,715	(92,375)	12,169	68,992	-	-	22,612	100,113
Deferred tax recognised in other comprehensive income during the year	-	-	-	12,258	-	-	-	12,258
Acquired on acquisition of subsidiaries (note 41)	-	105,176	-	-	-	-	-	105,176
Exchange realignment	(32,290)	(50,885)	(6,796)	(191,667)	(7,821)	(1,087)	(5,107)	(295,653)
Gross deferred tax liabilities at 31 December 2018	691,383	1,058,954	143,945	4,089,040	162,290	22,554	226,851	6,395,017

36. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax liabilities (continued)

2017

	Depreciation allowance in excess of related depreciation	Fair value adjustments on business combinations	Accrued interest income	Revaluation of investment properties	Foreign exchange differences	Withholding taxes	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	247,131	2,721,774	125,010	3,849,875	1,243,912	65,215	186,272	8,439,189
Deferred tax charged/(credited) to profit or loss during the year (note 8)	62,249	(31,390)	4,621	22,997	-	96,691	(15,972)	139,196
Deferred tax recognised in other comprehensive income during the year	-	-	-	47,802	-	-	-	47,802
Acquisition of subsidiaries	-	114,812	-	-	-	-	-	114,812
Disposal of subsidiaries (note 42(a)/(c))	286,413	(1,761,534)	-	(6,834)	(1,243,912)	-	(1,620)	(2,727,487)
Exchange realignment	39,165	53,376	8,941	285,617	-	8,205	7,257	402,561
Gross deferred tax liabilities at 31 December 2017	634,958	1,097,038	138,572	4,199,457	-	170,111	175,937	6,416,073

36. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets

2018

	Accelerated tax depreciation HK$'000	Other provision HK$'000	Provision for LAT HK$'000	Unrealised profits arising from intra-group transactions HK$'000	Losses available for offsetting taxable profits HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	(1)	13,307	1,057,892	576,312	137,154	81,871	1,866,535
Deferred tax credited/ (charged) to profit or loss during the year (note 8)	17	-	(262,323)	454,364	345,585	(3,646)	533,997
Disposal of subsidiaries (note 43(c))	-	-	-	-	(6,606)	-	(6,606)
Exchange realignment	-	(612)	(39,476)	(42,364)	(18,144)	(830)	(101,426)
Gross deferred tax assets at 31 December 2018	16	12,695	756,093	988,312	457,989	77,395	2,292,500

2017

	Accelerated tax depreciation HK$'000	Other provision HK$'000	Provision for LAT HK$'000	Unrealised profits arising from intra-group transactions HK$'000	Losses available for offsetting taxable profits HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	(793)	16,637	913,276	7,485	1,118,709	437,286	2,492,600
Deferred tax credited/ (charged) to profit or loss during the year (note 8)	817	(4,334)	77,650	274,416	(119,761)	(94,237)	134,551
Transfer	-	-	-	273,749	-	(273,749)	-
Disposal of subsidiaries (note 43(c))	-	-	-	(244)	(874,758)	-	(875,002)
Exchange realignment	(25)	1,004	66,966	20,906	12,964	12,571	114,386
Gross deferred tax assets at 31 December 2017	(1)	13,307	1,057,892	576,312	137,154	81,871	1,866,535

36. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through the future taxable profits is probable. By reference to financial budgets, the management of the Group has assessed whether there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognised in respect of tax losses and other temporary differences.

The Group has recognised deferred tax assets in respect of tax losses amounting to approximately HK$1,831,956,000 (2017: HK$548,616,000) that can be carried forward against taxable income in the coming five years in Mainland China.

No deferred tax assets were recognised on the remaining tax losses of approximately HK$13,134,255,000 (2017: HK$12,565,533,000) that will expire in one to five years as the Group determines that the realisation of the related tax benefit through future taxable profits is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Jinmao and Sinofert are therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China to foreign investors in respect of earnings generated from 1 January 2008. For Jinmao and Sinofert, the applicable rates are 5% and 10%, respectively. At 31 December 2018, Jinmao recognised deferred tax liabilities of approximately HK$162,290,000 (2017: HK$170,111,000) for withholding taxes that would be payable on the unremitted earnings in the PRC. As Jinmao and Sinofert control the dividend policy of their PRC subsidiaries, they have the ability to control the timing of the reversal of temporary differences associated with the investments in subsidiaries. Furthermore, Jinmao and Sinofert have determined that certain profits earned by the PRC subsidiaries will not be distributed to foreign investors in the foreseeable future. As such, deferred taxation has not been provided for in respect of temporary differences attributable to retained earnings of those PRC subsidiaries of approximately RMB32,369,182,000 and RMB301,730,000 (equivalent to HK$36,942,947,000 and HK$344,364,000), respectively, at 31 December 2018 (2017: RMB21,822,710,000 and RMB241,460,000 (equivalent to HK$26,106,508,000 and HK$288,859,000), respectively).

37. OTHER NON-CURRENT LIABILITIES

	2018 HK$'000	2017 HK$'000
Provision for dismantlement costs (note i)	-	-
Others	118,675	117,863
	118,675	117,863

Note:

(i) Provision for dismantlement costs:

The balance represents the provision for future dismantlement costs of oil and gas properties.

	2018 HK$'000	2017 HK$'000
Carrying amount		
At 1 January	-	2,029,390
Disposal of a subsidiary	-	(2,029,390)
At 31 December	-	-

38. ISSUED CAPITAL

	2018 HK$'000	2017 HK$'000
Issued and fully paid:		
24,468,400 (2017: 24,468,400) ordinary shares	24,468,400	24,468,400

38. ISSUED CAPITAL (continued)

On 27 May 2013, the Company increased its authorised share capital from HK$19,359,700,000 to HK$20,850,800,000 by the creation of 1,491,100,000 ordinary shares of HK$1 each. On the same date, the Company issued and allotted a total of 1,491,100,000 ordinary shares of HK$1 each at par to the immediate parent. These shares rank pari passu in all respects with other existing shares in issue. The consideration for the new shares issued during the year was satisfied by a transfer from other reserve amounting to HK$1,488,614,000 which was then credited into the share capital account of the Company and the exchange rate impact amounting to HK$2,486,000. The additional capital was used to finance the Group's overseas oil and gas investments.

On 28 December 2013, the Company increased its authorised share capital from HK$20,850,800,000 to HK$21,872,000,000 by the creation of 1,021,200,000 ordinary shares of HK$1 each. At the same time, the Company issued and allotted a total of 1,021,200,000 ordinary shares of HK$1 each to the immediate parent. These shares rank pari passu in all respects with other shares in issue.

On 29 December 2014, the Company increased its authorised share capital from HK$21,872,000,000 to HK$23,753,000,000 by the creation of 1,881,000,000 ordinary shares of HK$1 each. At the same time, the Company issued and allotted a total of 1,881,000,000 ordinary shares of HK$1 each to the immediate parent. These shares rank pari passu in all respects with other shares in issue.

On 30 June 2016, the Company issued and allotted a total of 715,400,000 ordinary shares amounting to HK$715,400,000 in the Company to the immediate parent, which was settled by the reduction of an amount due to the immediate parent; and the share capital of the Company changed from HK$23,753,000,000 to HK$24,468,400,000. These shares rank pari passu in all respects with other shares in issue.

A summary of movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK$'000
At 1 January 2017	24,468,400	24,468,400
Issue of shares	-	-
	24,468,400	24,468,400
At 31 December 2017 and 1 January 2018	24,468,400	24,468,400
Issue of shares	-	-
At 31 December 2018	24,468,400	24,468,400

39. PERPETUAL CAPITAL SECURITIES

On 2 May 2013, Sinochem Global Capital Co., Ltd. ("Sinochem Global Capital"), a wholly-owned subsidiary of the Group, issued subordinated guaranteed perpetual capital securities with a nominal amount of US$600,000,000 (equivalent to HK$4,653,720,000), which are guaranteed on a subordinated basis by the Group. The direct transaction costs attributable to the perpetual capital securities amounted to HK$34,460,000.

The perpetual capital securities have no fixed maturity, and confer a right to the holders to receive distributions for the period from and including 2 May 2013 at the applicable rate. Sinochem Global Capital 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 of 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 on 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. Accordingly, the perpetual capital securities are classified as equity instruments.

On 1 November 2018, Sinochem Global Capital has repurchased the perpetual capital securities with an aggregate principal amount of US$600,000,000 (equivalent to HK$4,653,720,000) at the total consideration of US$600,000,000 (equivalent to HK$4,658,670,000).

40. SHARE OPTION SCHEME

Jinmao operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of Jinmao's operations. Eligible participants of the Scheme include the Company's executive and non-executive directors and Jinmao 's senior management, key technical and professional personnel, managers and employees, but do not include Jinmao's independent non-executive directors. The Scheme became effective on 22 November 2007 and expired on 22 November 2017, after 10 years from the effective date. However, the options granted under the Scheme continue to be valid and exercisable in accordance with the terms of issue.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Jinmao in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of Jinmao in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of Jinmao, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a director, chief executive or substantial shareholder of Jinmao, or to any of their associates, in excess of 0.1% of the shares of Jinmao in issue at any time or with an aggregate value (based on the price of Jinmao's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

40. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise and exercisability of the share options are related to the performance of individuals and of Jinmao. The board of directors will determine performance targets concerned and set out in the grant notice. The share options granted will become exercisable after two years from the grant date or a later date as set out in the relevant grant notice, and in any event shall end not later than seven years from the grant date but subject to the provisions for early termination of employment.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Hong Kong Stock Exchange closing price of Jinmao's shares on the grant date of the share options; (ii) the average Hong Kong Stock Exchange closing price of Jinmao's shares for the five trading days immediately preceding the grant date; and (iii) the par value of Jinmao's share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price HK$ per share	Number of options	Weighted average exercise price HK$ per share	Number of options
At 1 January	2.21	155,597,880	2.21	184,374,920
Forfeited during the year	2.20	(12,216,000)	2.56	(25,110,300)
Exercised during the year	2.27	(5,026,980)	2.44	(3,666,740)
At 31 December	2.32	138,354,900	2.21	155,597,880

The weighted average share price at the date of exercise of share options exercised during the year was HK$2.27 per share (2017: HK$2.44 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options	Exercise price* HK$ per share	Exercise period
2,749,800	2.44	28 November 2014 to 27 November 2019
3,664,100	2.44	28 November 2015 to 27 November 2019
41,409,000	2.196	17 October 2018 to 16 October 2023
45,128,000	2.196	17 October 2019 to 16 October 2023
45,404,000	2.196	17 October 2020 to 16 October 2023
138,354,900		

40. SHARE OPTION SCHEME (continued)

2017

Number of options	Exercise price* HK$ per share	Exercise period
3,574,240	2.44	28 November 2014 to 27 November 2019
4,443,640	2.44	28 November 2015 to 27 November 2019
49,092,000	2.196	17 October 2018 to 16 October 2023
49,092,000	2.196	17 October 2019 to 16 October 2023
49,396,000	2.196	17 October 2020 to 16 October 2023
155,597,880		

***** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Jinmao's share capital.

The fair value of the share options granted during the year ended 31 December 2016 was HK$80,332,000 (HK$0.47 each), of which Jinmao recognised a share option expense of HK$25,912,000 (2017: HK$28,467,000) during the year ended 31 December 2018.

No other feature of the options granted was incorporated into the measurement of fair value.

The 5,026,980 share options exercised during the year resulted in the issue of 5,026,980 ordinary shares of Jinmao and new share capital of HK$14,151,000 (before issue expenses).

At the end of the reporting period, Jinmao had 138,354,900 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of Jinmao, result in the issue of 138,354,900 additional ordinary shares of Jinmao and additional share capital of HK$305,392,000 (before issue expenses).

Subsequent to the end of the reporting period, a new share option scheme (the "New Scheme") was adopted by Jinmao on 29 January 2019. On 8 February 2019, an aggregate of 265,950,000 share options were granted under the New Scheme to eligible participants of Jinmao. These share options have an exercise price of HK$3.99 per share. One-third of the share options granted will be vested in two years from 8 February 2019, one-third of the share options granted will be vested in three years from 8 February 2019 and one-third of the options granted will be vested in four years from 8 February 2019. Upon the lapse of the vesting period, the share options are exercisable until 7 February 2026. The price of Jinmao's shares at the date of grant was HK$3.99 per share.

41. BUSINESS COMBINATIONS

Business combinations during the year mainly included Jinmao's acquisitions of a number of property development companies and acquisition of additional interests in joint ventures (collectively referred to as the "Acquirees"). The directors of Jinmao consider that none of these subsidiaries acquired during the year was significant to Jinmao and thus the individual financial information of these subsidiaries on the acquisition date was not disclosed.

Jinmao remeasured the fair value of the equity interest held at the date of acquisition, and fair value gains of HK$120,359,000 were recognised in other income, gains and losses, net in profit or loss during the year ended 31 December 2018 (note 5).

Jinmao has elected to measure the non-controlling interest in the Acquirees at the non-controlling interest's proportionate share of the Acquirees' identifiable net assets.

The fair values of the identifiable assets and liabilities of the Acquirees as at the date of acquisition were as follows:

	Notes	HK$'000
Property, plant and equipment	11	1,950
Properties under development	13	15,365,774
Prepayments, other receivables and other assets		1,000,294
Tax recoverable		81,944
Restricted bank balances		540,640
Cash and cash equivalents		591,943
Trade and bills payables		(107,056)
Other payables and accruals		(13,100,289)
Interest-bearing borrowings		(385,433)
Deferred tax liabilities	36	(105,176)
Total identifiable net assets at fair value		3,884,591
Non-controlling interests		(1,678,561)
Gain on bargain purchase recognised in other income, gains and losses, net in profit or loss	5	(88,686)
		2,117,344
Satisfied by:		
Cash		622,803
Fair value of equity interest previously held as investments in joint ventures		1,494,541
Total purchase consideration		2,117,344

The fair values of prepayments, other receivables and other assets as at the date of acquisition amounted to HK$1,000,294,000, which are equal to their gross contractual amounts. There was no estimated uncollectable amount of the contractual cash flows at the date of acquisition.

Jinmao incurred transaction costs of RMB633,000 (equivalent to HK$749,000) for these acquisitions. These transaction costs have been expensed and are included in administrative expenses in profit or loss.

Jinmao recognised a gain on bargain purchase of approximately RMB74,992,000 (equivalent to HK$88,686,000) in profit or loss for the year ended 31 December 2018, which was, in the opinion of the directors of Jinmao, primarily attributable to Jinmao's ability in negotiating the agreed terms of the transaction with the independent third parties, as Jinmao has good reputation and rich experience in the development and management of residential properties, commercial buildings and hotel properties, and has sufficient available funds for the ongoing development of the acquired projects.

41. BUSINESS COMBINATIONS (continued)

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	HK$'000
Cash consideration	(622,803)
Cash and cash equivalents acquired	591,943
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(30,860)
Transaction costs of the acquisition included in cash flows used in operating activities	(749)
	(31,609)

Since the acquisition, the Acquirees contributed HK$765,527,000 to the Group's revenue and HK$49,376,000 to the consolidated profit for the year ended 31 December 2018 in aggregate.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$76,287,358,000 and HK$8,708,967,000, respectively.

42. DISPOSAL OF SUBSIDIARIES

(a) As mentioned in note 9, 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 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 effective as of 1 January 2017, the consideration of which was based on the shareholding percentages and percentages of membership rights and the book values of the net assets of the above subsidiaries as of 31 December 2016.

Details of financial impacts of the disposals mentioned above are summarised below:

	Notes	2017 HK$'000
Net assets/(liabilities) disposed of:		
Property, plant and equipment	11	9,955
Oil and gas properties		38,370,781
Intangible assets	17	1,875,144
Deferred tax assets	36	863,925
Other non-current assets		6,833,991
Cash and cash equivalents		1,284,136
Inventories		705,811
Trade and bills receivables		655,583
Prepayments, deposits and other receivables		1,298,452
Other current assets		253
Trade and bills payables		(506,982)
Other payables and accruals		(7,720,823)
Tax payable		(125,067)
Derivative financial instruments		(20,025)
Deferred tax liabilities	36	(2,718,555)
Other non-current liabilities		(18,161,818)
		22,644,761
Exchange fluctuation reserve		25,319
0.1019% of net assets of SPNC transferred to available-for-sale investments		(15,486)
		22,654,594
Loss on disposal of subsidiaries	9(a)	(5,692)
		22,648,902
Satisfied by:		
Increase in the amount due from a related party		22,648,902

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

	2017 HK$'000
Cash consideration	-
Cash and cash equivalents disposed of	(1,284,136)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(1,284,136)

42. DISPOSAL OF SUBSIDIARIES (continued)

(b) As mentioned in note 9, 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 disposal was completed on 31 October 2017.

Details of financial impacts of the disposals mentioned above are summarised below:

	Notes	2017
		HK$'000
Net assets/(liabilities) disposed of:		
Property, plant and equipment	11	518
Investments in associates		594,458
Deferred tax assets	36	244
Other non-current assets		2,276,487
Cash and cash equivalents		112,073
Inventories		1,098,160
Trade and bills receivables		35,284,126
Prepayments, deposits and other receivables		798,744
Tax recoverable		436
Derivative financial assets		393,265
Other current assets		1,837,706
Trade and bills payables		(33,146,273)
Other payables and accruals		(3,959,683)
Tax payable		(8,909)
Interest-bearing borrowings		(3,106,226)
Derivative financial liabilities		(1,472,678)
		702,448
Exchange fluctuation reserve		9,716
		712,164
Gain on disposal of subsidiaries		-
		712,164
Satisfied by:		
Capital reserve		712,164

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

	2017
	HK$'000
Cash consideration	-
Cash and cash equivalents disposed of	(112,073)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(112,073)

42. DISPOSAL OF SUBSIDIARIES (continued)

(c) During the year ended 31 December 2018, Jinmao lost control over certain subsidiaries, namely Shanghai Xingwaitan Development Construction Co., Ltd., Shanghai Qimao Property Co., Ltd., Shanghai Fangmao Property Co., Ltd., Chengdu Longzhongce Property Co., Ltd., Xingmao (Hangzhou) Property Co., Ltd. and Nantong Chengmao Real Estate Development Co., Ltd.

During the year ended 31 December 2017, Jinmao lost control over certain subsidiaries, namely Chongqing Longyue Business Management Center (Limited Partnership), Qingdao Fangsheng Investment Management Limited and Shanghai Xingwaitan Development and Construction Limited. On 29 December 2017, the Company disposed of all of its equity interests in Sinochem International Chemicals (Hong Kong) Limited and Sinochem Japan Co., Ltd. to Sinochem International (Overseas) Pte. Ltd., a fellow subsidiary of the Company, for cash considerations of HK$336,998,000 and HK$12,002,000, respectively. The disposal was completed on 29 December 2017.

Details of financial impacts of the disposals mentioned above are summarised below:

	Notes	2018 HK$'000	2017 HK$'000
Net assets/liabilities disposed of:			
Property, plant and equipment	11	3,925	2,852
Intangible assets	17	184	-
Investment properties	14	-	280,015
Investments in associates		-	5,193
Deferred tax assets	36	6,606	10,833
Cash and cash equivalents		2,599,581	146,412
Inventories		-	111,451
Trade and bills receivables		-	305,362
Properties under development	13	13,506,712	12,052,016
Prepayments, other receivables and other assets		508,545	4,615
Tax recoverable		52,904	-
Trade and bills payables		(237,370)	(876,366)
Other payables and accruals		(11,880,462)	(18,513)
Tax payable		-	(11,137)
Deferred tax liabilities	36	-	(8,932)
Other non-current liabilities		-	(42,229)
Interest-bearing borrowings		(3,338,423)	(3,906,364)
Non-controlling interests		-	(3,438,794)
		1,222,202	4,616,414
Exchange fluctuation reserve		(45,666)	276,582
		1,176,536	4,892,996
Gain on disposal of subsidiaries	5	85,431	3,148,480
		1,261,967	8,041,476
Satisfied by:			
Cash		13,696	866,060
Fair value of interests retained by the Group		1,248,271	7,175,416
		1,261,967	8,041,476

42. DISPOSAL OF SUBSIDIARIES (continued)

(c) (continued)

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

	2018 HK$'000	2017 HK$'000
Cash consideration	13,696	866,060
Cash and cash equivalents disposed of	(2,599,581)	(146,412)
Net (outflow)/inflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries	(2,585,885)	719,648

43. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans HK$'000	Payable to non-controlling interests HK$'000	Other payables and accruals excluding payable to non-controlling interests HK$'000	Trade and bills payables HK$'000	Derivative financial instruments HK$'000	Amounts due to related parties HK$'000
At 1 January 2018	114,917,432	10,642,579	63,732,687	13,595,358	174,829	17,619,355
Net cash flows from operating activities	-	3,487,191	3,539,132	3,045,958	1,329	737,805
Increase arising from acquisition of subsidiaries	385,433	-	13,100,289	107,056	-	-
Decrease arising from disposal of subsidiaries	(3,338,423)	-	(11,880,462)	(237,370)	-	-
Others	-	-	(3,118,371)	-	-	-
Net cash flows used in investing activities	(2,952,990)	-	(1,898,544)	(130,314)	-	-
New bank loans and other loans	91,080,403		-	-	-	-
Repayment of bank loans and other loans	(71,765,587)		-	-	-	-
Advance from non-controlling shareholders	-	1,898,103	-	-	-	-
Dividends paid to non-controlling interests of subsidiaries	-	(325,927)	-	-	-	-
Repayment of investments to third parties	-	-	(1,498,226)	-	-	-
Advance of investments from third parties	-	-	1,962,481	-	-	-
Interest paid	-	-	774,385	-	-	6,570
Dividends paid	-	-	-	-	-	391,645
Increase in amounts due to related parties	-	-	-	-	-	1,201,082
Net cash flows from financing activities	19,314,816	1,572,176	1,238,640	-	-	1,599,297
Other changes	29,669	-	(124,832)	-	49,345	-
Net foreign exchange differences	(3,064,127)	(609,983)	609,983	-	(99,427)	(411,472)
At 31 December 2018	128,244,800	15,091,963	67,097,066	16,511,002	126,076	19,544,985

43. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Changes in liabilities arising from financing activities (continued)

	Bank and other loans HK$'000	Short-term commercial paper HK$'000	Payable to non-controlling interests HK$'000	Other payables and accruals excluding payable to non-controlling interests HK$'000	Trade and bills payables HK$'000	Derivative financial instruments HK$'000	Amounts due to related parties HK$'000
At 1 January 2017	86,224,229	2,235,800	1,803,888	44,059,577	46,891,422	1,152,993	15,054,498
Net cash flows (used in)/from operating activities	(84,460)	-	-	8,635,928	(1,660,321)	494,111	5,309,600
Increase arising from acquisition of subsidiaries	4,070,001	-	-	7,315,411	677,495	-	3,348
Decrease arising from disposal of subsidiaries	(7,012,590)	-	-	(1,448,679)	(32,313,238)	(1,492,702)	(4,607,095)
Others	-	-	-	2,468,574	-	-	-
Net cash flows (used in)/from investing activities	(2,942,589)	-	-	8,335,306	(31,635,743)	(1,492,702)	(4,603,747)
New bank loans and other loans	94,247,376	-	-	-	-	-	-
Repayment of bank loans and other loans	(66,107,029)	-	-	-	-	-	-
Repayment of short-term commercial paper	-	(2,306,000)	-	-	-	-	-
Advance from non-controlling shareholders	-	-	8,646,778	-	-	-	-
Dividends paid to non-controlling interests of subsidiaries	-	-	258,197	-	-	-	-
Advance of investments from third parties	-	-	-	5,871,094	-	-	-
Interest paid	-	-	-	(3,247,830)	-	-	-
Increase in amounts due to related parties	-	-	-	-	-	-	1,778,715
Net cash flows from/(used in) financing activities	28,140,347	(2,306,000)	8,904,975	2,623,264	-	-	1,778,715
Other changes	(31,234)	-	-	12,328	-	20,427	-
Net foreign exchange differences	3,611,139	70,200	(66,284)	66,284	-	-	80,289
At 31 December 2017	114,917,432	-	10,642,579	63,732,687	13,595,358	174,829	17,619,355

44. 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 amounting to approximately HK$27,205,088,000 (2017: HK$22,973,009,000).

45. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements. The leases are negotiated for terms ranging from one to ten years.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	1,431,372	1,291,530
In the second to fifth years, inclusive	2,251,981	2,566,847
After five years	357,572	503,605
	4,040,925	4,361,982

(b) As lessee

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	63,053	88,610
In the second to fifth years, inclusive	70,319	59,468
After five years	-	1,560
	133,372	149,638

46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	226,136	35,382
Properties under development	35,493,286	21,105,407
Capital contributions to joint ventures	3,050,246	556,268
Land under development	1,787,457	1,643,672
	40,557,125	23,340,729
Authorised, but not contracted for:		
Property, plant and equipment	1,382,542	2,117,601
	41,939,667	25,458,330

47. RELATED PARTY TRANSACTIONS

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

	2018 HK$'000	2017 HK$'000
The ultimate parent:		
Property management fee income	-	139
Sale of fertilisers	2,062	-
Purchase of fertilisers	237,336	137,894
Import service fee	-	1,753
Rental income	9,355	9,126
Interest expense	16,358	15,229
The immediate parent:		
Interest income	270,483	102,856
Rental income	104,254	104,179
Property management fee income	13,300	18,163
Building decoration services income	-	1,040
Interest expense	8,814	8,183
Fellow subsidiaries:		
Sales of fertilisers	103,849	-
Sale of chemical products	733,663	3,290,349
Sales of crude oil and petroleum products	-	7,235,015
Purchase of chemical products	-	229,899
Interest expense	68,467	99,771
Rental income	220,866	159,770
Building decoration service income	22,787	1,841
Property management fee income	41,596	39,199
Interest income	132,945	169,715
Proceeds received from sales of financial assets	118,260	-
Other operating expenses	-	1,463,873
Management fee expenses	-	9
Storage fee expenses	-	2,324
Purchase of crude oil and petroleum products	-	3,585,243
Purchase of financial assets from related parties	350,546	-

continued/…

47. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	2018 HK$'000	2017 HK$'000
Associates:		
Sales of fertilisers	49,601	7,320
Sales of crude oil and petroleum products	-	9,798,302
Purchase of fertilisers	180,661	1,753,036
Sales of chemical products	-	2,986
Interest income	214,117	111,815
Interest expense	12	20,250
Building decoration service income	98,500	32,889
Consulting fee income	28,532	14,277
Property management fee income	41,748	17,425
Other income	-	22,197
Joint ventures:		
Sale of fertilisers	312,273	302,590
Rental income	1,904	1,929
Building decoration service income	82,408	31,467
Property management fee income	45,007	31,970
Interest income	883,065	804,663
Consulting fee income	32,802	19,190
Purchase of fertilisers	1,367,303	1,241,697
Consulting fee expense	168,622	169,989
An associate of the Group's ultimate parent:		
Sale of fertilisers	532,436	-
Rental income	43,448	67,307
Property management fee income	5,885	3,101
Interest income	99,622	560,710
Purchase of fertilisers	1,435,420	-
Interest expense	1,948	21,903
Transfer of investments in subsidiaries to a related party	-	22,648,902

(b) At the end of the reporting period, certain bank borrowings granted to the Group are guaranteed by its ultimate parent or immediate parent.

47. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	76,728	54,781
Performance related incentive payments	8,211	6,572
Post-employment benefits	3,109	3,385
Share-based payments	1,711	1,981
Total compensation paid to key management personnel	89,759	66,719

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

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

During the year, the Group had transactions with other state-owned entities ("SOEs") including, but not limited to, borrowings, deposits, the sale of properties developed, crude oil, refined petroleum products and chemical products, the provision of property lease and management services and the provision of sub-contracting services. The directors of the Company consider that these transactions with other SOEs were 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.

48. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
	Designated as such upon initial recognition HK$'000	Held for trading HK$'000	Financial assets at amortised cost HK$'000	Equity investments HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	-	-	-	1,767,098	1,767,098
Amounts due from related parties	-	-	85,193,043	-	85,193,043
Financial assets included in other assets	1,437,130	282,924	342,390	-	2,062,444
Trade and bills receivables	-	-	1,501,595	-	1,501,595
Financial assets included in prepayments, other receivables and other assets	-	-	18,652,156	-	18,652,156
Amounts due from non-controlling shareholders	-	-	4,137,590	-	4,137,590
Derivative financial instruments	-	8,303	-	-	8,303
Restricted bank balances	-	-	5,087,435	-	5,087,435
Cash and cash equivalents	-	-	28,319,827	-	28,319,827
	1,437,130	291,227	143,234,036	1,767,098	146,729,491

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Held for trading	Financial liabilities at amortised cost	Total
	HK$'000	HK$'000	HK$'000
Trade and bills payables	-	16,511,002	16,511,002
Financial liabilities included in other payables and accruals	-	24,608,460	24,608,460
Derivative financial instruments	126,076	-	126,076
Interest-bearing borrowings	-	128,244,800	128,244,800
Amounts due to related parties	-	19,544,985	19,544,985
	126,076	188,909,247	189,035,323

48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2017

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	-	-	2,284,356	2,284,356
Amounts due from related parties	-	74,260,104	-	74,260,104
Financial assets included in other assets	-	-	7,610,258	7,610,258
Trade and bills receivables	-	1,597,380	-	1,597,380
Financial assets included in prepayments, deposits and other receivables	-	15,700,434	-	15,700,434
Amounts due from non-controlling shareholders		3,590,662	-	3,590,662
Derivative financial instruments	11,988	-	-	11,988
Restricted bank balances	-	3,870,247	-	3,870,247
Cash and cash equivalents	-	27,671,639	-	27,671,639
	11,988	126,690,466	9,894,614	136,597,068

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and bills payables	-	13,595,358	13,595,358
Financial liabilities included in other payables and accruals	-	23,631,784	23,631,784
Derivative financial instruments	174,829	-	174,829
Interest-bearing borrowings	-	114,917,432	114,917,432
Amounts due to related parties	-	17,619,355	17,619,355
	174,829	169,763,929	169,938,758

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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:

	2018		2017	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities:				
Interest-bearing borrowings	128,244,800	129,674,758	114,917,432	116,801,801
Total	128,244,800	129,674,758	114,917,432	116,801,801

Management has assessed that the fair values of cash and cash equivalents, restricted bank balances, trade and bills receivables, equity investments designated at fair value through other comprehensive income, amounts due from/to related parties, financial assets included in other assets, amounts due from non-controlling shareholders, financial assets included in prepayments, other receivables and other assets, derivative financial instruments, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's corporate finance team 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 borrowings, except for 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 value of notes is based on quoted market prices. The Group's own non-performance risk for interest-bearing borrowings as at 31 December 2018 was assessed to be insignificant.

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

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 and forward rates.

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments (2017: Unlisted available-for-sale equity investments)	Valuation multiples	Average P/E multiple of peers	2018: 0.15	10% increase/decrease in multiple would result in increase/decrease in fair value by HK$1,260,000
		Discount for lack of marketability	2018: 15%	10% increase/decrease in multiple would result in decrease/increase in fair value by HK$222,000
		Recent transaction price	2018: HK$7.33 per share	10% increase/decrease in multiple would result in increase/decrease in fair value by HK$43,504,000
Other unlisted investments included in other financial assets		Yield rate on corporate bonds	2018: 3.75%	10% increase/decrease in multiple would result in decrease/increase in fair value by HK$251,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Equity investments designated at fair value through other comprehensive income	1,310,424	-	456,674	1,767,098
Other financial assets	77,490	1,416,901	225,663	1,720,054
Derivative financial instruments	-	8,303	-	8,303
	1,387,914	1,425,204	682,337	3,495,455

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	-	11,988	-	11,988
Listed available-for-sale investments	1,684,186	-	-	1,684,186
	1,684,186	11,988	-	1,696,174

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	-	126,076	-	126,076
	-	126,076	-	126,076

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	-	174,829	-	174,829
	-	174,829	-	174,829

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2018	2017
	HK$'000	HK$'000
Equity investments designated at fair value through other comprehensive income		
At 1 January	-	-
Effect of adoption of HKFRS 9	456,674	-
At 1 January (restated)	456,674	-
At 31 December	456,674	-
Other financial assets		
At 1 January	-	-
Purchases	11,691,680	-
Disposals	(11,459,394)	-
Changes in fair value recognised in profit or loss during the year	1,543	-
Exchange realignment	(8,166)	-
At 31 December	225,663	-

During the year, 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).

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (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 value was disclosed as at 31 December 2018 (2017: Nil).

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing borrowings	47,091,266	82,583,492	-	129,674,758
	47,091,266	82,583,492	-	129,674,758

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing borrowings	50,043,229	66,758,572	-	116,801,801
	50,043,229	66,758,572	-	116,801,801

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise bank loans and other borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations.

The Group also enters into derivative financial instruments, including forward currency contracts and forward exchange contracts. The purpose is to manage foreign currency risks arising from the Group's operations, net investments in foreign operations and its sources of finance.

The Group’s exposure to business risk, market risk (foreign currency risk, interest rate risk and equity price risk), credit risk, and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

Certain bank balances, trade and bills receivables, other receivables, trade and bills payables, other payables, amounts due from and to related companies, bank balances and borrowings are denominated in currencies other than the functional currencies of the respective group entities. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the rates of US$, HK$ and RMB. The following table illustrates the sensitivity to profit or loss where the relevant functional currencies strengthen by 2% against the respective foreign currencies. 2% is the sensitivity rate that represents management’s assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to the relevant functional currencies at the year end for a 2% change in foreign currency rates. For a 2% weakening of the relevant functional currencies against the respective foreign currencies, there would be an equal and opposite impact on the profit for the year.

	Increase/(decrease) in profit for the year	
	2018	2017
	HK$’000	HK$’000
US$	24,204	210,276
RMB	(48,338)	(91,761)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate borrowings (see notes 34 and 21 for details of interest-bearing borrowings and amounts due from related parties, respectively). The Group is also exposed to cash flow interest rate risk in relation to variable rate bank balances and borrowings, details of which are disclosed in notes 30 and 34, respectively.

The Group currently does not have an interest rate hedging policy, however, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk is mainly due to the fluctuation of prevailing interest rates announced by the People's Bank of China and the fluctuation of the LIBOR.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rates for variable rate bank borrowings of the Group at the end of the reporting period and the reasonably possible change taking place at the beginning of each year, with all other variables held constant throughout the year. Management used a change of 50 basis points (2017: 50 basis points) to assess interest rate risk on the borrowings. If interest rates had been 50 basis points (2017: 50 basis points) higher/lower, with all other variables held constant, the Group's post-tax profit for the year would have decreased/increased by approximately HK$218,899,000 (2017: decreased/increased by approximately HK$127,176,000).

Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as equity investments designated at fair value through other comprehensive income and equity investments at fair value through profit or loss included in other financial assets (note 20 and note 23). The Group's listed investments are listed on the Hong Kong Stock Exchange. Listed investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

Unlisted investments are held for long-term purposes. Their performance is assessed at least annually based on the information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period:

If the prices of the respective listed equity securities, which are classified as equity investments designated at fair value through other comprehensive income and equity investments at fair value through profit or loss included in other financial assets, has been 5% (2017: 5%) higher/lower, the investment revaluation/fair value reserve of the Group would have increased/decreased by approximately HK$65,521,000 (2017: HK$84,209,000), the Group's post-tax profit for the year would have increased/decreased by approximately HK$3,875,000 (2017: Nil) as a result of the change in fair value of listed equity securities.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, restricted bank balances, amounts due from related parties, amounts due from non-controlling shareholders, trade and bills receivables, contract assets and financial assets included in prepayments, other receivables and other assets.

The Group's exposure to credit risk arising from cash and cash equivalents, restricted bank balances and bills receivable is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

The related parties have a strong financial background. Accordingly, in the opinion of the directors, the credit risk on amounts due from related parties is limited.

The Group applies the simplified approach to most of its trade receivables to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. The Group has made individual assessment for trade receivables from clients with top ratings and those receivables with pledged assets separately and impairment provisions are made.

To measure the expected credit losses of trade receivables excluding individually assessed and impaired receivables, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss model also incorporates forward-looking information.

The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. It considers available, reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of individual clients
- significant changes in the expected performance and behaviour of the clients

The Group measures expected credit losses on the basis of a loss rate approach by segmenting its portfolio into appropriate groupings based on shared credit risk characteristics. At the end of each year, the Group updates its historical loss information with forward-looking information. As the historical credit loss rates were comparatively stable and no significant changes to the forward-looking information were expected after considering reasonable and supportable forecasts of comparatively stable customer relationship and customers' credit ratings, the expected credit loss rates remained consistent during 2018.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Contract assets*	-	-	-	176,331	176,331
Trade and bills receivables*	559,977	-	-	941,618	1,501,595
Financial assets included in prepayments, other receivables and other assets					
- Normal**	18,652,156	-	-	-	18,652,156
- Doubtful**	-	-	45,023	-	45,023
Financial assets at amortised cost included in other assets	342,390	-	-	-	342,390
Amounts due from related parties	85,193,043	-	-	-	85,193,043
Amounts due from non-controlling shareholders	4,137,590	-	-	-	4,137,590
Restricted bank balances					
- Not yet past due	5,087,435	-	-	-	5,087,435
Cash and cash equivalents					
- Not yet past due	28,319,827	-	-	-	28,319,827
	142,292,418	-	45,023	1,117,949	143,455,390

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 26 and 27 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure as at 31 December 2017
The Group's maximum exposure to credit risk, which represents the risk of financial losses to the Group due to the default of counterparties, arises from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management has delegated a team responsible for determining credit limits, granting credit approvals and implementating other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the credit risk of the Group is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The related parties have a strong financial background. Accordingly, in the opinion of the directors, the credit risk on amounts due from related parties is limited. Other than the concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have a significant concentration of credit risk as trade receivables are due from a large number of customers.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the operations of the Group and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Year ended 31 December 2018	Less than 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade and bills payables	16,511,002	-	-	16,511,002
Financial liabilities included in other payables and accruals	24,608,460	-	-	24,608,460
Derivative financial instruments	74,981	51,095	-	126,076
Interest-bearing borrowings	37,788,241	94,625,924	15,790,475	148,204,640
Amounts due to related parties	19,544,985	-	-	19,544,985
	98,527,669	94,677,019	15,790,475	208,995,163

Year ended 31 December 2017	Less than 1 year or on demand HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade and bills payables	13,595,358	-	-	13,595,358
Financial liabilities included in other payables and accruals	23,631,784	-	-	23,631,784
Derivative financial instruments	174,829	-	-	174,829
Interest-bearing borrowings	38,416,908	78,484,944	16,484,850	133,386,702
Amounts due to related parties	15,824,905	1,794,450	-	17,619,355
	91,643,784	80,279,394	16,484,850	188,408,028

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt, which includes borrowings, equity instruments and equity attributable to owners of the parent, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, the issue of new shares, the issue of new debts or the redemption of existing debts.

51. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

2018	Jinmao	Sinofert	Suzhou Anmao	JCHIML	Jinmao Hangzhou
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Percentage of equity interest held by non-controlling interests	50.15%	47.35%	86.79%	66.71%	75.07%
Profit/(loss) for the year allocated to non-controlling interests	5,651,521	291,534	(31,947)	197,566	24,248
Dividends declared to non-controlling interests	2,854,935	7,752	-	483,074	-
Accumulated balances of non-controlling interests at the reporting date	70,162,662	3,701,705	4,410,783	4,413,488	2,732,912

2017	Jinmao	Sinofert	Suzhou Anmao	JCHIML	SISSC
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Percentage of equity interest held by non-controlling interests	46.05%	47.35%	85.70%	63.97%	73.02%
Profit/(loss) for the year allocated to non-controlling interests	3,463,675	(1,289,784)	(12,784)	162,098	92,206
Dividends declared to non-controlling interests	5,050,417	-	-	444,417	2,497,269
Accumulated balances of non-controlling interests at the reporting date	58,190,361	3,474,657	4,597,369	5,005,708	3,014,846

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2018	Jinmao	Sinofert	Suzhou Anmao	JCHIML	Jinmao Hangzhou
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	45,805,252	27,195,457	-	3,033,293	-
Total expenses	(37,081,538)	(26,617,207)	(36,811)	(2,737,149)	32,299
Profit/(loss) for the year	8,723,714	578,250	(36,811)	296,144	32,299
Total comprehensive income/(loss) for the year	2,909,784	272,945	(36,811)	42,863	32,299
Current assets	168,257,621	13,350,517	9,577,582	1,156,348	9,109,208
Non-current assets	141,763,105	6,744,842	12,728	19,422,889	3,211,042
Current liabilities	139,342,299	11,383,407	3,298,512	9,914,946	8,679,914
Non-current liabilities	81,354,279	447,822	1,206,323	4,010,704	-
Net cash flows from/(used in) operating activities	2,379,226	(954,747)	(1,187,848)	825,199	1,347,919
Net cash flows (used in)/from investing activities	(23,165,543)	3,974,476	(652,060)	(250,013)	(1,894,098)
Net cash flows from/(used in) financing activities	22,985,269	(2,667,601)	2,032,305	(765,388)	(1,219,839)
Net increase/(decrease) in cash and cash equivalents	2,198,952	352,128	192,397	(190,202)	(1,766,018)

51. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

2017	Jinmao	Sinofert	Suzhou Anmao	JCHIML	SISSC
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	35,829,296	20,343,315	-	2,992,552	-
Total expenses	(29,891,113)	(22,973,174)	(14,918)	(2,738,957)	126,270
Profit/(loss) for the year	5,938,183	(2,629,859)	(14,918)	253,595	126,270
Total comprehensive income/(loss) for the year	12,532,424	(2,136,495)	(14,918)	648,077	126,270
Current assets	140,299,515	20,004,317	3,735,856	1,374,836	7,439,952
Non-current assets	125,332,176	6,874,757	5,143,641	20,551,351	377,881
Current liabilities	128,092,687	12,657,185	3,467,394	9,641,366	3,689,200
Non-current liabilities	58,052,391	6,446,123	44,231	4,534,733	-
Net cash flows (used in)/from operating activities	(28,471,107)	(1,626,012)	(8,217,681)	1,026,993	3,026,909
Net cash flows (used in)/from investing activities	(17,893,205)	2,371,748	(387)	(338,484)	(2,286,863)
Net cash flows from/(used in) financing activities	48,008,577	(1,508,623)	8,365,334	(560,780)	(6,877,311)
Net increase/(decrease) in cash and cash equivalents	1,644,265	(762,887)	147,266	127,729	(6,137,265)

52. EVENTS AFTER THE REPORTING PERIOD

(a) On 22 February 2019, Jinmao Investment Management (Shanghai) Co., Ltd., a wholly-owned subsidiary of Jinmao, completed the issue of the domestic corporate bonds with an aggregate principle amount of RMB1,800,000,000 (equivalent to HK$2,099,880,000). The domestic corporate bonds have a term of 5 years with a fixed rate of 3.72% per annum, and the issuer shall be entitled to adjust the rate and the investors shall be entitled to sell back the domestic corporate bonds at the end of the third year.

(b) On 26 April 2019, Sinochem Offshore Capital Company Limited, a wholly-owned subsidiary of the Group, fully settled the US$500,000,000 3.25% senior guaranteed notes issued on 29 April 2014.

(c) On 26 April 2019, Sinochem Fertiliser, a wholly-owned subsidiary of Sinofert, completed the issue of the first tranche of the super & short-term commercial paper for the year of 2019 with an aggregate principle amount of RMB1,000,000,000 (equivalent to HK$1,165,500,000). The commercial paper has a term of 180 days with a fixed rate of 3% per annum.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 April 2019.