

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

Interim Condensed Consolidated Financial Statements

30 June 2016

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**Report on review of interim condensed consolidated financial statements**  
**To the shareholders of Sinochem Hong Kong (Group) Company Limited**  
(Incorporated in Hong Kong with limited liability)

**Introduction**

We have reviewed the interim condensed consolidated financial statements set out on pages 2 to 24, which comprise the condensed consolidated statement of financial position of Sinochem Hong Kong (Group) Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and explanatory notes. The directors of the Company are responsible for the preparation and presentation of interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

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

**Conclusion**

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

Certified Public Accountants  
Hong Kong  
31 August 2016

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

|   | Notes | Six months ended 30 June            |                                     |
|---|-------|-------------------------------------|-------------------------------------|
|   |       | 2016<br>(Unaudited)<br>HK\$ million | 2015<br>(Unaudited)<br>HK\$ million |
| REVENUE                                     | 3     | 141,755                             | 181,492                             |
| Cost of sales                               |       | (137,089)                           | (176,174)                           |
| Gross profit                                |       | 4,666                               | 5,318                               |
| Other income, gains and losses, net         | 4     | 520                                 | 547                                 |
| Selling and distribution expenses           |       | (863)                               | (866)                               |
| Administrative expenses                     |       | (1,445)                             | (1,369)                             |
| Fair value changes of investment properties |       | 449                                 | 925                                 |
| Finance costs:                              |       |                                     |                                     |
| Interest expenses                           |       | (1,124)                             | (1,157)                             |
| Transaction costs                           |       | (34)                                | (30)                                |
| Share of results of:                        |       |                                     |                                     |
| Joint ventures                              |       | (33)                                | (124)                               |
| Associates                                  |       | 24                                  | 18                                  |
| PROFIT BEFORE TAX                           | 5     | 2,160                               | 3,262                               |
| Income tax expense                          | 6     | (827)                               | (983)                               |
| PROFIT FOR THE PERIOD                       |       | <u>1,333</u>                        | <u>2,279</u>                        |
| Profit attributable to:                     |       |                                     |                                     |
| Owners of the parent                        |       | 429                                 | 869                                 |
| Non-controlling interests                   |       | <u>904</u>                          | <u>1,410</u>                        |
|   |       | <u>1,333</u>                        | <u>2,279</u>                        |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2016

|  | Six months ended 30 June |              |
|--|--------------------------|--------------|
|  | 2016                     | 2015         |
|  | (Unaudited)              | (Unaudited)  |
|  | HK\$ million             | HK\$ million |
| PROFIT FOR THE PERIOD  | 1,333                    | 2,279        |
| OTHER COMPREHENSIVE INCOME   |                          |              |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods:           |                          |              |
| Available-for-sale investments:  |                          |              |
| Changes in fair value  | ( 238)                   | 1,019        |
| Reclassification adjustments for losses included in profit or loss:                              |                          |              |
| - disposal of investments  | -                        | ( 804)       |
| Cash flow hedges, net of tax   | ( 53)                    | 1            |
| Exchange differences on translation of foreign operations  | ( 1,847)                 | ( 1)         |
| Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods | ( 2,138)                 | 215          |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods:       |                          |              |
| Gains on property revaluation, net of tax  | -                        | 17           |
| OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX                                     | ( 2,138)                 | 232          |
| TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD   | ( 805)                   | 2,511        |
| Total comprehensive income/(loss) attributable to:   |                          |              |
| Owners of the parent   | ( 649)                   | 1,016        |
| Non-controlling interests  | ( 156)                   | 1,495        |
|  | ( 805)                   | 2,511        |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

|  | Notes | 30 June<br>2016<br>(Unaudited)<br>HK\$ million | 31 December<br>2015<br>(Audited)<br>HK\$ million |
|--|-------|--|--|
| <b>NON-CURRENT ASSETS</b>                    |       |  |  |
| Property, plant and equipment                |       | 18,894   | 19,402   |
| Land under development                       | 7     | 11,677   | 12,814   |
| Properties under development                 |       | 24,034   | 22,424   |
| Investment properties                        |       | 25,527   | 25,575   |
| Prepaid land lease payments                  |       | 3,411  | 3,542  |
| Goodwill                                     | 8     | 4,043  | 4,055  |
| Intangible assets                            |       | 2,653  | 2,707  |
| Oil and gas properties                       | 9     | 39,735   | 41,104   |
| Investments in joint ventures                |       | 1,972  | 1,855  |
| Investments in associates                    |       | 17,048   | 16,819   |
| Available-for-sale investments               |       | 1,294  | 1,541  |
| Amounts due from related parties             |       | 10,468   | 12,035   |
| Deferred tax assets                          |       | 2,411  | 1,702  |
| Other non-current assets                     |       | 566  | 645  |
| Total non-current assets                     |       | <u>163,733</u>                                 | <u>166,220</u>                                   |
| <b>CURRENT ASSETS</b>                        |       |  |  |
| Inventories                                  |       | 8,401  | 9,269  |
| Land under development                       | 7     | 6,792  | 5,568  |
| Properties under development                 |       | 23,956   | 23,181   |
| Properties held for sale                     |       | 8,757  | 7,540  |
| Prepaid land lease payments                  |       | 100  | 76   |
| Trade and bills receivables                  |       | 19,239   | 14,663   |
| Prepayments, deposits and other receivables  |       | 18,050   | 8,928  |
| Amounts due from related parties             |       | 27,924   | 25,124   |
| Tax recoverable                              |       | 1,012  | 483  |
| Derivative financial instruments             |       | 344  | 761  |
| Pledged bank deposits                        |       | 2,685  | 3,291  |
| Cash and cash equivalents                    |       | 19,810   | 18,549   |
| Other financial assets                       |       | 153  | 48   |
| Other deposits                               |       | -  | 1  |
| Total current assets                         |       | <u>137,223</u>                                 | <u>117,482</u>                                   |
| <b>CURRENT LIABILITIES</b>                   |       |  |  |
| Trade and bills payables                     |       | 45,192   | 35,629   |
| Other payables and accruals                  |       | 34,971   | 27,317   |
| Derivative financial instruments             |       | 754  | 845  |
| Interest-bearing borrowings                  | 10    | 14,571   | 12,151   |
| Amounts due to related parties               |       | 18,098   | 19,367   |
| Tax payable                                  |       | 1,498  | 1,940  |
| Provision for land appreciation tax          |       | 2,461  | 2,263  |
| Total current liabilities                    |       | <u>117,545</u>                                 | <u>99,512</u>                                    |
| <b>NET CURRENT ASSETS</b>                    |       | <u>19,678</u>                                  | <u>17,970</u>                                    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | <u>183,411</u>                                 | <u>184,190</u>                                   |

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2016

|   | Notes | 30 June<br>2016<br>(Unaudited)<br>HK\$ million | 31 December<br>2015<br>(Audited)<br>HK\$ million |
|---|-------|--|--|
| <b>NON-CURRENT LIABILITIES</b>              |       |  |  |
| Interest-bearing borrowings                 | 10    | 70,185   | 70,495   |
| Deferred tax liabilities                    |       | 8,718  | 8,709  |
| Amounts due to a related party              |       | -  | 239  |
| Deferred income                             |       | 125  | 126  |
| Other non-current liabilities               |       | 2,081  | 2,454  |
| <b>Total non-current liabilities</b>        |       | <b>81,109</b>                                  | <b>82,023</b>                                    |
| <b>NET ASSETS</b>                           |       | <b>102,302</b>                                 | <b>102,167</b>                                   |
| <b>CAPITAL AND RESERVES</b>                 |       |  |  |
| Issued capital                              | 11    | 24,468   | 23,753   |
| Perpetual capital securities                | 12    | 4,619  | 4,619  |
| Reserves                                    |       | 24,947   | 26,218   |
| Equity attributable to owners of the parent |       | 54,034   | 54,590   |
| Non-controlling interests                   |       | 48,268   | 47,577   |
| <b>TOTAL EQUITY</b>                         |       | <b>102,302</b>                                 | <b>102,167</b>                                   |

.....  
Director

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Director

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

|  | Attributable to owners of the parent |   |   |   |   | Attributable to non-controlling interests |  | Total equity HK\$ million |   |                              |                               |  |   |
|--|--------------------------------------|---|---|---|---|---|--|---------------------------|---|------------------------------|-------------------------------|--|---|
|  | Issued capital HK\$ million (Note a) | Capital revaluation reserve HK\$ million (Note a) | Asset revaluation reserve HK\$ million (Note a) | Statutory reserve HK\$ million (Note c) | Investment revaluation reserve HK\$ million | Translation reserve HK\$ million          | Other contribution reserve HK\$ million (Note d) |                           | Perpetual capital securities HK\$ million | Hedging reserve HK\$ million | Retained profits HK\$ million | Share of net assets of subsidiaries HK\$ million | Share option reserve of subsidiaries HK\$ million |
| Unaudited  |                                      |   |   |   |   |   |  |                           |   |                              |                               |  |   |
| At 1 January 2016  | 23,753                               | (1,205)   | 393   | (3,837)                                 | 2,603                                       | 557                                       | 1,205  | 2,430                     | 4,619                                     | 27                           | 24,045                        | 19   | 102,167   |
| Profit for the period  | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | 429                           | -  | 1,333   |
| Other comprehensive income for the period  | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | -                             | -  | -   |
| Change in fair value of available-for-sale investments   | -                                    | -   | -   | -                                       | (225)                                       | -   | -  | -                         | -   | -                            | -                             | -  | (236)   |
| Cash flow hedges, net of tax   | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | (53)                                      | -                            | -                             | -  | (53)  |
| Exchange differences on translation of foreign operations  | -                                    | -   | -   | -                                       | -   | (800)                                     | (800)  | -                         | -   | -                            | -                             | -  | (1,847)   |
| Total comprehensive income for the period, net of tax  | -                                    | -   | -   | -                                       | (225)                                       | (800)                                     | (800)  | -                         | (53)                                      | 429                          | (649)                         | (156)  | (805)   |
| Issue of shares (Note e)   | 715                                  | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | -                             | -  | 715   |
| Dividends declared to non-controlling shareholders   | (20)                                 | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | -                             | -  | (674)   |
| Transfer from retained profits   | -                                    | -   | -   | -                                       | 28  | -   | -  | -                         | -   | (28)                         | -                             | -  | -   |
| Acquisition of non-controlling interests   | (396)                                | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | -                             | -  | (396)   |
| Repurchase of China Jimmao Holdings Group Limited ("Jimmao")'s perpetual convertible securities (Note f) | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | (80)                         | (80)                          | -  | (1,696)   |
| Distribution paid on Jimmao issued perpetual convertible securities                                      | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | -                             | -  | -   |
| Equity-settled share-based payment of subsidiaries   | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | (159)                         | -  | (159)   |
| Distribution paid on perpetual capital securities  | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | 1                             | 1  | 2   |
| Issuance of Jimmao's perpetual capital securities, net of issue expenses (Note g)                        | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | (117)                        | (117)                         | -  | (117)   |
| Capital contribution from non-controlling shareholders   | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | 6,237                         | -  | 6,237   |
| Transfer of share option reserve upon the forfeiture or expiry of share options                          | -                                    | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | -                             | (2)  | (2)   |
| Share of an associate's net assets changes   | (11)                                 | -   | -   | -                                       | -   | -   | -  | -                         | -   | -                            | (9)                           | -  | (20)  |
| Maintenance and production fund  | -                                    | -   | -   | -                                       | -   | -   | -  | 1                         | -   | (1)                          | -                             | -  | -   |
| At 30 June 2016  | 24,468                               | (1,632)*  | 393*  | (3,837)*                                | 2,631*                                      | 332*                                      | 405*   | 2,431*                    | 4,619                                     | (26)*                        | 24,250*                       | 18   | 102,302   |

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2016

|   | Attributable to owners of the parent |   |   |                                      |   | Attributable to non-controlling interests   |                                  | Total equity HK\$ million |  |   |                              |                               |  |   |
|---|--------------------------------------|---|---|--------------------------------------|---|---|----------------------------------|---------------------------|--|---|------------------------------|-------------------------------|--|---|
|   | Issued capital HK\$ million (Note a) | Capital revaluation reserve HK\$ million (Note a) | Asset revaluation reserve HK\$ million (Note a) | Merger reserve HK\$ million (Note b) | Statutory reserve HK\$ million (Note c) | Investment revaluation reserve HK\$ million | Translation reserve HK\$ million |                           | Other contribution reserve HK\$ million (Note d) | Perpetual capital securities HK\$ million | Hedging reserve HK\$ million | Retained profits HK\$ million | Share of net assets of subsidiaries HK\$ million | Share option reserve of subsidiaries HK\$ million |
| Unaudited   |                                      |   |   |                                      |   |   |                                  |                           |  |   |                              |                               |  |   |
| At 1 January 2015   | 23,753                               | 639   | 127   | (3,837)                              | 2,228                                   | 590   | 3,924                            | 2,450                     | 4,619  | -   | 25,836                       | 43,286                        | 21   | 103,636   |
| Profit for the period   | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | 869                          | 1,410                         | -  | 2,279   |
| Other comprehensive income for the period                                       | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | -                             | -  | -   |
| Change in fair value of available-for-sale investments                          | -                                    | -   | -   | -                                    | -                                       | 954   | -                                | -                         | -  | -   | -                            | 65                            | -  | 1,019   |
| Reclassification adjustment for losses included in profit or loss:              |                                      |   |   |                                      |   |   |                                  |                           |  |   |                              |                               |  |   |
| - Disposal of investments   | -                                    | -   | -   | -                                    | (804)                                   | -   | -                                | -                         | -  | -   | -                            | -                             | -  | (804)   |
| Cash flow hedges, net of tax  | -                                    | -   | -   | -                                    | -                                       | -   | 1                                | -                         | -  | 1   | -                            | -                             | -  | 1   |
| Gains on property revaluation, net of tax                                       | -                                    | -   | 9   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | 8                             | -  | 17  |
| Exchange differences on translation of foreign operations                       | -                                    | -   | -   | -                                    | -                                       | -   | (13)                             | -                         | -  | -   | -                            | 12                            | -  | (1)   |
| Total comprehensive income for the period, net of tax                           | -                                    | -   | 9   | -                                    | -                                       | 150   | (13)                             | (13)                      | -  | 1   | 869                          | 1,495                         | -  | 2,511   |
| Issue of shares to non-controlling shareholders (Note h)                        | -                                    | (1,300)   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | 5,648                         | -  | 4,348   |
| Exercise of share options   | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | 8                             | -  | 8   |
| Equity-settled share-based payment of subsidiaries                              | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | 2                             | 3  | 5   |
| Transfer of share option reserve upon the forfeiture or expiry of share options | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | 3                            | -                             | (3)  | -   |
| Dividends declared by subsidiaries to non-controlling interests                 | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | -                             | -  | -   |
| Capital contribution from non-controlling interests                             | -                                    | 42  | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | 42                           | (641)                         | (599)  | (599)   |
| Distribution paid on perpetual capital securities                               | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | 25                            | -  | 25  |
| Distribution paid on Jinmao issued perpetual convertible securities             | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | (116)                                     | (116)                        | -                             | -  | (116)   |
| Maintenance and production fund   | -                                    | -   | -   | -                                    | -                                       | -   | -                                | (3)                       | -  | -   | 3                            | (159)                         | -  | (159)   |
| Deemed disposal of partial interest in a subsidiary without loss of control     | -                                    | -   | -   | -                                    | -                                       | -   | -                                | -                         | -  | -   | -                            | 1,098                         | -  | 1,098   |
| At 30 June 2015   | 23,753                               | (619)   | 136   | (3,837)                              | 2,228                                   | 740   | 3,911                            | 2,447                     | 4,619  | 1   | 26,595                       | 50,762                        | 21   | 110,757   |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2016

### Notes:

- (a) The capital reserve of the Group mainly comprises (i) contributions from owners in respect of settlement of doubtful receivables which have been written off and the transfer of an equity interest in a joint venture to the Group in previous years; and (ii) contributions made by the shareholders to the Company's subsidiaries.
- (b) The merger reserve of the Group comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the holding companies of the acquirees as consideration for the group restructuring transactions.
- (c) Statutory reserve comprises the statutory reserve fund, reserve fund and enterprise expansion fund. In accordance with the relevant PRC rules and regulations, each of the Group's PRC subsidiaries is required to transfer an amount of its profit after income tax to the statutory reserve fund, until the accumulated total of the fund reaches 50% of its registered capital. The appropriations to the reserve fund and enterprise expansion fund are determined by the articles of association of the Company's subsidiaries and are subject to the approval by the boards of directors of the subsidiaries.
- (d) Other contribution reserve mainly comprises capital contributions, maintenance and production fund, capital contribution for energy saving and emission reduction projects, and deemed contributions from equity owners net of deemed distributions to equity owners. The maintenance and production fund is appropriated/utilised in accordance with relevant PRC regulations on certain enterprises.
- (e) On 30 June 2016, the Company allotted 715,400,000 ordinary share to its sole shareholder, Sinochem Corporation.
- (f) On 14 June 2016, China Jinmao Holdings Group Limited ("Jinmao") partially repurchased Perpetual Convertible Securities with an aggregate principal amount of US\$200,000,000 (equivalent to approximately HK\$1,553,400,000), at the total consideration of US\$218,340,000 (equivalent to approximately HK\$1,695,864,000).
- (g) On 4 February 2016, Frانشion Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued subordinate guaranteed perpetual capital securities with an amount of US\$500,000,000 (equivalent to approximately HK\$3,894,750,000). The direct transaction costs attributable to the issuance amounted to US\$1,470,000 (equivalent to approximately HK\$11,406,000). On 16 June 2016, Jinmao Investment Management (Shanghai) Co., Ltd., a wholly-owned subsidiary of Jinmao, issued domestic renewable corporate bonds with an amount of RMB2,000,000,000 (equivalent to approximately HK\$2,360,718,000). The direct transaction costs attributable to the issuance amounted to RMB5,970,000 (equivalent to approximately HK\$7,047,000).
- (h) 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 perpetual capital securities due to redemption other than an unforeseen liquidation of Jinmao or the issuing subsidiaries. Accordingly, the perpetual capital securities are classified as equity instruments and the total net proceed of HK\$6,237,015,000 was recorded in non-controlling interests.

\* These reserve accounts comprise the consolidated reserves of HK\$24,947 million in the consolidated statement of financial position.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

|  | Six months ended 30 June |                      |
|--|--------------------------|----------------------|
|  | 2016                     | 2015                 |
|  | (Unaudited)              | (Unaudited)          |
|  | HK\$ million             | HK\$ million         |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                            |                          |                      |
| Cash generated from operations   | 3,133                    | 7,547                |
| Income tax paid  | (1,836)                  | (1,753)              |
|  | <u>1,297</u>             | <u>5,794</u>         |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>                         |                          |                      |
| Proceeds from withdrawal of other deposits                                 | 1                        | 190                  |
| Purchase of oil and gas properties   | (387)                    | (967)                |
| Increase in amounts due from related parties                               | (5,719)                  | (2,755)              |
| Decrease/(increase) in restricted bank deposits                            | 608                      | (1,131)              |
| Deemed disposal of subsidiaries  | -                        | 1                    |
| Decrease/(increase) in entrusted loan to non-controlling shareholders      | 160                      | (19)                 |
| Proceeds from disposal of available-for-sale investments                   | -                        | 4,207                |
| Additions to investments in joint ventures                                 | (234)                    | (1,135)              |
| Decrease/(increase) in amounts due from joint ventures                     | 3,923                    | (718)                |
| Consideration paid for acquiring interests in an associate                 | -                        | (1,480)              |
| Increase of other financial assets   | (105)                    | (651)                |
| Other investing activities   | 47                       | (127)                |
|  | <u>(1,706)</u>           | <u>(4,585)</u>       |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>                            |                          |                      |
| New bank loans and other loans   | 25,966                   | 36,287               |
| Repayment of bank loans and other loans                                    | (23,218)                 | (39,628)             |
| Issue of perpetual securities, net of issue expenses                       | 6,237                    | -                    |
| Repurchase of perpetual convertible securities                             | (1,696)                  | -                    |
| Interest paid  | (2,354)                  | (1,679)              |
| Proceeds from partial disposal of a subsidiary without loss of control     | -                        | 1,098                |
| Issue of shares to non-controlling shareholders                            | -                        | 4,348                |
| Acquisition of non-controlling interests                                   | (3,311)                  | -                    |
| Increase in amount due to the immediate parent                             | 1,588                    | -                    |
| Increase in amount due to the ultimate parent                              | 1,235                    | -                    |
| (Decrease)/increase in amounts due to fellow subsidiaries                  | (1,890)                  | 1,812                |
| Other financing activities   | (490)                    | (447)                |
|  | <u>2,067</u>             | <u>1,791</u>         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                           | <b>1,658</b>             | <b>3,000</b>         |
| Cash and cash equivalents at beginning the period                          | 18,549                   | 16,821               |
| Effect of foreign exchange rate changes, net                               | (397)                    | (45)                 |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                          | <b><u>19,810</u></b>     | <b><u>19,776</u></b> |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>                   |                          |                      |
| Cash and cash equivalents as stated in the statement of financial position | <u>19,810</u>            | <u>19,776</u>        |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 1. CORPORATE INFORMATION

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

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

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### *Basis of preparation*

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

#### *Significant accounting policies*

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except in relation to the following revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2016.

|   |   |
|---|---|
| HKFRS 14  | <i>Regulatory Deferral Accounts</i>   |
| Amendments to HKFRS 10,<br>HKFRS 12 and HKAS 28<br>(2011) | <i>Investment Entities: Applying the Consolidation Exception</i>                |
| Amendments to HKFRS 11                                    | <i>Accounting for Acquisitions of Interests in Joint Operations</i>             |
| Amendments to HKAS 1                                      | <i>Disclosure Initiative</i>  |
| Amendments to HKAS 16<br>and HKAS 38                      | <i>Clarification of Acceptable Methods of Depreciation and<br/>Amortisation</i> |
| Amendments to HKAS 16<br>and HKAS 41                      | <i>Agriculture: Bearer Plants</i>   |
| Amendments to<br>HKAS 27 (2011)                           | <i>Equity Method in Separate Financial Statements</i>                           |
| <i>Annual Improvements<br/>2012-2014 Cycle</i>            | Amendments to a number of HKFRSs  |

The adoption of the revised HKFRSs has had no significant financial effect on the interim condensed consolidated financial statements.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 3. BUSINESS ANALYSIS

The Group analyses its business activities into the following operating segments: (i) oil and gas; (ii) fertilisers; (iii) real estate; and (iv) others (mainly chemical product trading, chartered shipping services and securities investment). The following is an analysis of the Group's revenue and results by operating segment:

|                                      | Oil and gas<br>HK\$ million | Fertilisers<br>HK\$ million | Real estate<br>HK\$ million | Others<br>HK\$ million | Elimination<br>HK\$ million | Consolidated<br>HK\$ million |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|-----------------------------|------------------------------|
| <u>Six months ended 30 June 2016</u> |                             |                             |                             |                        |                             |                              |
| REVENUE                              |                             |                             |                             |                        |                             |                              |
| External sales                       | 117,807                     | 10,592                      | 10,374                      | 2,982                  | -                           | 141,755                      |
| Inter-segment sales                  | <u>521</u>                  | <u>-</u>                    | <u>14</u>                   | <u>2,786</u>           | <u>(3,321)</u>              | <u>-</u>                     |
| Total                                | <u>118,328</u>              | <u>10,592</u>               | <u>10,388</u>               | <u>5,768</u>           | <u>(3,321)</u>              | <u>141,755</u>               |
| Segment profit/(loss)                | (456)                       | (419)                       | 3,537                       | 1,130                  | (827)                       | 2,965                        |
| Interest income                      |                             |                             |                             |                        |                             | 362                          |
| Finance costs                        |                             |                             |                             |                        |                             | (1,158)                      |
| Share of results of:                 |                             |                             |                             |                        |                             |                              |
| Joint ventures                       |                             |                             |                             |                        |                             | (33)                         |
| Associates                           |                             |                             |                             |                        |                             | <u>24</u>                    |
| Profit before tax                    |                             |                             |                             |                        |                             | <u>2,160</u>                 |
| <u>Six months ended 30 June 2015</u> |                             |                             |                             |                        |                             |                              |
| REVENUE                              |                             |                             |                             |                        |                             |                              |
| External sales                       | 148,369                     | 21,132                      | 7,369                       | 4,622                  | -                           | 181,492                      |
| Inter-segment sales                  | <u>98</u>                   | <u>-</u>                    | <u>13</u>                   | <u>3,188</u>           | <u>(3,299)</u>              | <u>-</u>                     |
| Total                                | <u>148,467</u>              | <u>21,132</u>               | <u>7,382</u>                | <u>7,810</u>           | <u>(3,299)</u>              | <u>181,492</u>               |
| Segment profit/(loss)                | (612)                       | 604                         | 3,107                       | 2,240                  | (1,190)                     | 4,149                        |
| Interest income                      |                             |                             |                             |                        |                             | 402                          |
| Finance costs                        |                             |                             |                             |                        |                             | (1,187)                      |
| Gain on disposal of subsidiaries     |                             |                             |                             |                        |                             | 4                            |
| Share of results of:                 |                             |                             |                             |                        |                             |                              |
| Joint ventures                       |                             |                             |                             |                        |                             | (124)                        |
| Associates                           |                             |                             |                             |                        |                             | <u>18</u>                    |
| Profit before tax                    |                             |                             |                             |                        |                             | <u>3,262</u>                 |

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 4. OTHER INCOME, GAINS AND LOSSES, NET

|  | Six months ended 30 June |                   |
|--|--------------------------|-------------------|
|  | 2016                     | 2015              |
|  | HK\$ million             | HK\$ million      |
| <u>Other income</u>  |                          |                   |
| Bank interest income   | 265                      | 266               |
| Interest on other advances   | 54                       | 36                |
| Interest on other financial assets                                     | 34                       | 76                |
| Interest on other deposits   | 1                        | 16                |
| Interest on financial lease contract                                   | 8                        | 8                 |
| Dividend income from available-for-sale investments                    | 5                        | 4                 |
| Government grants (Note i)   | 61                       | 14                |
| Compensation received  | 24                       | 16                |
| Sales of scrapped materials  | 5                        | 9                 |
| Penalty income   | 37                       | 172               |
| Sundry income, net   | <u>124</u>               | <u>121</u>        |
|  | <u>618</u>               | <u>738</u>        |
| <u>Gains and losses</u>  |                          |                   |
| Loss on disposal of items of property, plant and equipment             | ( 2)                     | ( 1)              |
| Gain on disposal of held-for-trading investments                       | -                        | 1                 |
| Gain on disposal of subsidiaries                                       | -                        | 4                 |
| Impairment loss recognised in respect of property, plant and equipment | ( 12)                    | ( 43)             |
| Impairment of trade receivables  | -                        | ( 12)             |
| Impairment loss on interests in an associate (Note ii)                 | ( 71)                    | -                 |
| Impairment losses of interests in joint ventures                       | -                        | ( 204)            |
| Write-off of non-demand payables                                       | -                        | 9                 |
| Reversal of impairment losses on trade receivables                     | 1                        | 12                |
| Net exchange gains/(losses)  | 6                        | 60                |
| Other gains and losses, net  | <u>( 20)</u>             | <u>( 17)</u>      |
|  | <u>( 98)</u>             | <u>( 191)</u>     |
| Other income, gains and losses, net                                    | <u><u>520</u></u>        | <u><u>547</u></u> |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 4. OTHER INCOME, GAINS AND LOSSES, NET (continued)

Notes:

- (i) Government grants mainly comprised grants from the PRC government to support the development of the businesses of group entities in accordance with applicable regulations in the PRC.
- (ii) Sinofert Holdings Limited ("Sinofert"), a subsidiary of the Company, recognised an impairment loss amounting to RMB60 million (approximately HK\$71 million) in respect of the interest in Qinghai Salt Lake Industry Co., Ltd.'s ("Qinghai Salt Lake", an associate of Sinofert) as at 30 June 2016. The recoverable amount of the interest in Qinghai Salt Lake was estimated by the directors of Sinofert with reference to the investment's value-in-use, which is derived by estimating Sinofert's share of the present value of the estimated future cash flows expected to be generated by Qinghai Salt Lake, including the cash flows from the operations and the proceeds from the ultimate disposal of the interest. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rate and expected changes to revenue and direct costs used in the cash flow forecasts. Changes in revenue and direct costs are based on historical experience and expectations of future changes in the market. The directors of Sinofert estimated discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specifically relating to Qinghai Salt Lake. Since the value-in-use of Qinghai Salt Lake is lower than its carrying amount by RMB60 million, Sinofert recognised impairment loss by that amount.

### 5. PROFIT BEFORE TAX

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

|   | Six months ended 30 June |              |
|---|--------------------------|--------------|
|   | 2016                     | 2015         |
|   | HK\$ million             | HK\$ million |
| Amortisation of other long-term assets        | 4                        | 4            |
| Amortisation of prepaid land lease payments   | 38                       | 43           |
| Amortisation of intangible assets             | 46                       | 60           |
| Depreciation of oil and gas properties        | 1,378                    | 1,721        |
| Depreciation of property, plant and equipment | 410                      | 388          |
| Write-down of inventories                     | 32                       | 9            |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 6. INCOME TAX

|                               | Six months ended 30 June |                      |
|-------------------------------|--------------------------|----------------------|
|                               | 2016<br>HK\$ million     | 2015<br>HK\$ million |
| Hong Kong profits tax:        |                          |                      |
| Current tax                   | <u>4</u>                 | <u>5</u>             |
| PRC tax:                      |                          |                      |
| PRC enterprise income tax     | 824                      | 449                  |
| Land appreciation tax ("LAT") | 437                      | 185                  |
| Underprovision in prior year  | <u>24</u>                | <u>-</u>             |
|                               | 1,285                    | 634                  |
| Other jurisdictions:          |                          |                      |
| Current tax                   | <u>154</u>               | <u>182</u>           |
| Deferred taxation             | <u>(616)</u>             | <u>162</u>           |
|                               | <u>827</u>               | <u>983</u>           |

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

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

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

Corporate income tax for other jurisdictions has been provided at rates ranging from 17% to 50%.

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

### 7. LAND UNDER DEVELOPMENT

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 8. GOODWILL

|  | 30 June 2016<br>HK\$ million | 31 December 2015<br>HK\$ million |
|--|------------------------------|----------------------------------|
| At 1 January:                                    |                              |                                  |
| Cost   | 4,055                        | 4,095                            |
| Accumulated impairment                           | -                            | -                                |
| Net carrying amount                              | <u>4,055</u>                 | <u>4,095</u>                     |
| Cost at 1 January, net of accumulated impairment | 4,055                        | 4,095                            |
| Exchange realignment                             | ( 12)                        | ( 40)                            |
| Net carrying amount at the end of the period     | <u>4,043</u>                 | <u>4,055</u>                     |
| At the end of the period:                        |                              |                                  |
| Cost   | 4,043                        | 4,055                            |
| Accumulated impairment                           | -                            | -                                |
| Net carrying amount                              | <u>4,043</u>                 | <u>4,055</u>                     |

Goodwill has been allocated to two groups of cash-generating units relating to the fertilisers division and the real estate division. The carrying amounts of goodwill as at 30 June 2016 and 31 December 2015 allocated to these divisions are as follows:

|                      | 30 June 2016<br>HK\$ million | 31 December 2015<br>HK\$ million |
|----------------------|------------------------------|----------------------------------|
| Fertilisers division | 2,043                        | 2,055                            |
| Real estate division | <u>2,000</u>                 | <u>2,000</u>                     |
|                      | <u>4,043</u>                 | <u>4,055</u>                     |

#### Impairment testing of goodwill

According to the Group's accounting policy, the goodwill impairment test will be performed annually. In the opinion of the Directors, there was no impairment of goodwill recognised for the six months ended 30 June 2016 (2015: nil). The Company will perform impairment test on goodwill at year-end of 2016 and determine if impairment is necessary.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 9. OIL AND GAS PROPERTIES

During the six months ended 30 June 2016, the Group had additions of oil and gas properties amounted to approximately HK\$398 million (2015: HK\$1,002 million).

### 10. INTEREST-BEARING BORROWINGS

|  | 30 June 2016<br>HK\$ million | 31 December 2015<br>HK\$ million |
|--|------------------------------|----------------------------------|
| Current:   |                              |                                  |
| Bank loans, secured  | 2,562                        | 3,099                            |
| Bank loans, guaranteed   | -                            | 314                              |
| Bank loans, unsecured  | 8,619                        | 6,258                            |
| Short term financial bonds   | 2,340                        | 2,387                            |
| Other loans, unsecured   | 1,050                        | 93                               |
|  | <u>14,571</u>                | <u>12,151</u>                    |
| Non-current:   |                              |                                  |
| Bank loans, secured  | 19,550                       | 13,227                           |
| Bank loans, guaranteed   | -                            | 2,635                            |
| Bank loans, unsecured  | 3,754                        | 7,458                            |
| Guaranteed senior notes, unsecured                                     | 30,875                       | 32,026                           |
| Notes issued under the notes issuance under medium term note programme | 9,105                        | 9,107                            |
| Bonds, guaranteed  | 2,916                        | 2,973                            |
| Domestic corporate bonds, unsecured                                    | 3,735                        | 2,615                            |
| Other loans, unsecured   | 250                          | 454                              |
|  | <u>70,185</u>                | <u>70,495</u>                    |
| Carrying amounts repayable:  |                              |                                  |
| Within one year  | 14,571                       | 12,151                           |
| More than one year, but not more than five years                       | 60,458                       | 55,757                           |
| More than five years   | 9,727                        | 14,738                           |
|  | <u>84,756</u>                | <u>82,646</u>                    |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 11. SHARE CAPITAL

|   | 30 June 2016<br>HK\$ million | 31 December 2015<br>HK\$ million |
|---|------------------------------|----------------------------------|
| Issued and fully paid:                                |                              |                                  |
| 24,468,400,000 (2015: 23,753,000,000) ordinary shares | <u>24,468</u>                | <u>23,753</u>                    |

On 30 June 2016, the Company issued and allotted a total of 715,400,000 ordinary shares in the Company to the immediate parent, which was settled by amount due to immediate parent; the share capital of the Company had 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.

### 12. PERPETUAL CAPITAL SECURITIES

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

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

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

### 13. CAPITAL COMMITMENTS

|   | 30 June 2016<br>HK\$ million | 31 December 2015<br>HK\$ million |
|---|------------------------------|----------------------------------|
| Contracted, but not provided for:       |                              |                                  |
| Property, plant and equipment           | 171                          | 68                               |
| Properties under development            | 16,849                       | 18,642                           |
| Land under development                  | 524                          | 192                              |
| Capital contributions to joint ventures | <u>10</u>                    | <u>1,059</u>                     |
|   | <u>17,554</u>                | <u>19,961</u>                    |
| Authorised, but not contracted for:     |                              |                                  |
| Property, plant and equipment           | 500                          | 656                              |
| Oil and gas properties                  | 1,751                        | 2,387                            |
| Investments in an associate and others  | <u>351</u>                   | <u>358</u>                       |
|   | <u>2,602</u>                 | <u>3,401</u>                     |
|   | <u>20,156</u>                | <u>23,362</u>                    |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 14. RELATED PARTY TRANSACTIONS

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

|  | Six months ended 30 June |                      |
|--|--------------------------|----------------------|
|  | 2016<br>HK\$ million     | 2015<br>HK\$ million |
| The ultimate parent:                         |                          |                      |
| Sales of fertilisers                         | 26                       | 37                   |
| Purchase of fertilisers                      | 128                      | 390                  |
| Other operating expenses                     | 1                        | 2                    |
| Interest expense                             | 1                        | 2                    |
| Rental income                                | 5                        | 4                    |
| The immediate parent:                        |                          |                      |
| Rental income                                | 48                       | 39                   |
| Property management fee income               | 5                        | 4                    |
| Interest income and other income             | 22                       | 55                   |
| Interest expense                             | 9                        | -                    |
| Fellow subsidiaries:                         |                          |                      |
| Sale of chemical products                    | 913                      | 1,053                |
| Purchase of chemical products                | 4                        | 23                   |
| Interest expense                             | 24                       | 67                   |
| Rental income                                | 125                      | 115                  |
| Property management fee income               | 11                       | 10                   |
| Interest income and other income             | 88                       | 34                   |
| Management fee expense                       | 19                       | 17                   |
| Ship rental expense                          | 214                      | 203                  |
| Purchase of crude oil and petroleum products | -                        | 178                  |
| Consigned processing fee                     | 403                      | -                    |
| Associates:                                  |                          |                      |
| Sales of fertilizers                         | 12                       | -                    |
| Sale of crude oil and petroleum products     | 2,015                    | 2,971                |
| Sale of chemical products                    | 15                       | 8                    |
| Purchase of fertilisers                      | 908                      | 1,066                |
| Property management fee income               | 3                        | -                    |
| Transportation income                        | 90                       | 17                   |
| Interest income and other income             | 156                      | 27                   |
| Interest expense                             | 6                        | -                    |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 14. RELATED PARTY TRANSACTIONS (continued)

#### (a) (continued)

|  | Six months ended 30 June |              |
|--|--------------------------|--------------|
|  | 2016                     | 2015         |
|  | HK\$ million             | HK\$ million |
| Joint ventures:                              |                          |              |
| Sale of fertilisers                          | 100                      | 225          |
| Interest income and other income             | 40                       | -            |
| Purchase of fertilisers                      | 598                      | 827          |
| Purchase of crude oil and petroleum products | -                        | 140          |
| Other operating expense                      | <u>30</u>                | <u>-</u>     |

(b) At the end of the reporting period, certain bank borrowings granted to the Group were guaranteed by a letter of guarantee, a letter of comfort or a letter of awareness from its ultimate parent.

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

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

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

### 15. CONTINGENT LIABILITIES

At the end of the reporting period, Jinmao has provided guarantees in respect of mortgage facilities for certain purchasers of Jinmao's properties amounted to approximately HK\$20,006 million (31 December 2015: HK\$14,539 million).

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 16. FAIR VALUE AND FAIR VALUE HIERARCHY

#### Financial instruments fair value

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

|                             | <u>30 June 2016</u>                |                            | <u>31 December 2015</u>            |                            |
|-----------------------------|------------------------------------|----------------------------|------------------------------------|----------------------------|
|                             | Carrying<br>amount<br>HK\$ million | Fair value<br>HK\$ million | Carrying<br>amount<br>HK\$ million | Fair value<br>HK\$ million |
| Financial liabilities:      |                                    |                            |                                    |                            |
| Interest-bearing borrowings | <u>84,756</u>                      | <u>88,429</u>              | <u>82,646</u>                      | <u>84,885</u>              |

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, available-for-sale investments, amounts due from/to related parties, financial assets included in other non-current assets, financial assets included in prepayments, deposits and other receivables, held-for-trading investments, derivative financial instruments, other deposits, 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 is responsible for determining the policies and procedures for the fair value measurement of financial instruments.

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

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

The fair values of available-for-sale investments and held-for-trading investments are determined by reference to their quoted bid prices at the end of the reporting period. When the fair values of unlisted equity securities 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 securities are stated at cost less any impairment losses.

The fair value of call option included in derivative financial instruments has been estimated using the residual method. The residual method measures the fair value of a property by deducting the estimated development costs including outstanding construction costs, marketing expenses and developer profit from the gross development value assuming that it was completed as at the valuation date. The fair value of other non-current assets has been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows including expected future dividends. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, are reasonable and that they were the most appropriate values at the end of the reporting period.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 16. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

#### Fair value hierarchy

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

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

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

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

#### Assets measured at fair value:

*As at 30 June 2016*

|   | <u>Fair value measurement using</u>                             |   |   | Total<br>HK\$ million |   |     |
|---|---|---|---|-----------------------|---|-----|
|   | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$ million | Significant<br>observable inputs<br>(Level 2)<br>HK\$ million | Significant<br>unobservable inputs<br>(Level 3)<br>HK\$ million |                       |   |     |
|   | Listed available-for-sale investments                           | 840   | -   |                       | - | 840 |
|   | Derivative financial instruments                                | 108   | 236   |                       | - | 344 |
| Financial assets included in other non-current assets | -   | -   | 192   | 192                   |   |     |
|   | <u>948</u>  | <u>236</u>  | <u>192</u>  | <u>1,376</u>          |   |     |

*As at 31 December 2015*

|   | <u>Fair value measurement using</u>                             |   |   | Total<br>HK\$ million |    |       |
|---|---|---|---|-----------------------|----|-------|
|   | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$ million | Significant<br>observable inputs<br>(Level 2)<br>HK\$ million | Significant<br>unobservable inputs<br>(Level 3)<br>HK\$ million |                       |    |       |
|   | Listed available-for-sale investments                           | 1,077   | -   |                       | -  | 1,077 |
|   | Derivative financial instruments                                | 376   | 288   |                       | 97 | 761   |
| Financial assets included in other non-current assets | -   | -   | 88  | 88                    |    |       |
|   | <u>1,453</u>  | <u>288</u>  | <u>185</u>  | <u>1,926</u>          |    |       |

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 16. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

*As at 30 June 2016*

|  | <u>Fair value measurement using</u>                             |   |   | Total<br>HK\$ million |          |            |
|--|---|---|---|-----------------------|----------|------------|
|  | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$ million | Significant<br>observable inputs<br>(Level 2)<br>HK\$ million | Significant<br>unobservable inputs<br>(Level 3)<br>HK\$ million |                       |          |            |
|  | Derivative financial instruments                                | <u>303</u>  | <u>451</u>  |                       | <u>-</u> | <u>754</u> |

*As at 31 December 2015*

|  | <u>Fair value measurement using</u>                             |   |   | Total<br>HK\$ million |          |            |
|--|---|---|---|-----------------------|----------|------------|
|  | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$ million | Significant<br>observable inputs<br>(Level 2)<br>HK\$ million | Significant<br>unobservable inputs<br>(Level 3)<br>HK\$ million |                       |          |            |
|  | Derivative financial instruments                                | <u>410</u>  | <u>435</u>  |                       | <u>-</u> | <u>845</u> |

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: nil).



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 16. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

#### Fair value hierarchy (continued)

#### Assets for which fair values are disclosed:

The Group did not have any financial assets that were not measured at fair value in the statement of financial position but for which the fair values were disclosed as at 30 June 2016 (2015: nil).

#### Liabilities for which fair values are disclosed:

As at 30 June 2016

|                             | Fair value measurement using                                    |   |   | Total<br>HK\$ million |
|-----------------------------|---|---|---|-----------------------|
|                             | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$ million | Significant<br>observable inputs<br>(Level 2)<br>HK\$ million | Significant<br>unobservable inputs<br>(Level 3)<br>HK\$ million |                       |
| Interest-bearing borrowings | <u>46,569</u>   | <u>41,860</u>   | <u>-</u>  | <u>88,429</u>         |

As at 31 December 2015

|                             | Fair value measurement using                                    |   |   | Total<br>HK\$ million |
|-----------------------------|---|---|---|-----------------------|
|                             | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$ million | Significant<br>observable inputs<br>(Level 2)<br>HK\$ million | Significant<br>unobservable inputs<br>(Level 3)<br>HK\$ million |                       |
| Interest-bearing borrowings | <u>48,960</u>   | <u>35,925</u>   | <u>-</u>  | <u>84,885</u>         |

### 17. EVENTS AFTER THE REPORTING PERIOD

- (1) On 12 July 2016, China Jin Mao (Group) Co., Ltd., a subsidiary of Jinmao, completed the issuance of short-term notes of RMB1,000 million (approximately HK\$1,159 million), with a maturity period of 365 days and at an interest rate of 2.9% per annum, in the national inter-bank market in the PRC.
- (2) Sinochem Fertilizer Company Limited ("Sinofert Fertilizer", an indirect wholly-owned subsidiary of Sinofert) completed several financing activities listed below after the reporting period:
  - (i) The first tranche of the medium-term notes for the year of 2016 in an amount of RMB1 billion, with a term of three years and at a coupon rate of 3.5% per annum, was issued on 22 July 2016;
  - (ii) The first tranche of super & short-term commercial paper for the year of 2016 in an amount of RMB1 billion, with a term of 120 days and at a coupon rate of 2.67% per annum, was issued on 15 August 2016;
  - (iii) The second tranche of super & short-term commercial paper for the year of 2016 in an amount of RMB1 billion, with a term of 267 days and at a coupon rate of 2.90% per annum, was issued on 19 August 2016; and
  - (iv) The third tranche of super & short-term commercial paper for the year of 2016 in an amount of RMB1 billion, with a term of 266 days and at a coupon rate of 2.90% per annum, was issued on 24 August 2016.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 17. EVENT AFTER THE REPORTING PERIOD(continued)

- (3) On 11 August 2016, Sinochem Fertilizer and Yunnan Yuntianhua Co., Ltd. ("Yuntianhua") entered into the equity transfer contract and the supplemental agreement, pursuant to which Sinochem Fertilizer agreed to transfer its 25% equity interest in Yunnan Three Circles-Sinochem-Mosaic Fertilizer Co., Ltd. ("Sinochem Mosaic") to Yuntianhua for a preliminary consideration of RMB90,148,450 (subject to the deduction of dividends distributed to the shareholders of Sinochem Mosaic in the year 2015 and employees' benefits and bonus fund appropriated in the year 2015, as well as any adjustment that may be made based on an audit by an independent auditor on Sinochem Mosaic for the transitional period).

### 18. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 31 August 2016.