

**SINOCHEM HONG KONG (GROUP) COMPANY
LIMITED**

中化香港(集團)有限公司

Interim Financial Report
For the six months ended 30 June 2011

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
SINOCEM HONG KONG (GROUP) COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction

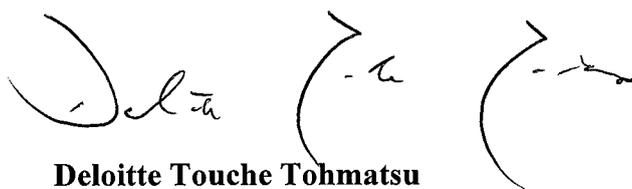
We have reviewed the interim financial information set out on pages 2 to 19, which comprises the condensed consolidated statement of financial position of Sinochem Hong Kong (Group) Company Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information 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 this interim financial information based on our review, and to report our conclusion 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 financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

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



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8 November 2011

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	<u>NOTES</u>	Six months ended 30 June <u>2011</u> HK\$ million (unaudited)	<u>2010</u> HK\$ million (unaudited)
Revenue	3	204,968	142,409
Cost of sales		<u>(201,182)</u>	<u>(138,528)</u>
Gross profit		3,786	3,881
Other gains and losses	4	1,547	3,330
Distribution costs and selling expenses		(573)	(561)
Administrative expenses		(863)	(799)
Fair value changes of investment properties		786	567
Share of results of jointly controlled entities		211	69
Share of results of associates		365	257
Finance costs		<u>(1,320)</u>	<u>(535)</u>
Profit before taxation	5	3,939	6,209
Taxation	6	<u>(986)</u>	<u>(705)</u>
Profit for the period		<u>2,953</u>	<u>5,504</u>
Other comprehensive income (expense)			
Exchange difference arising on translation of foreign operations:			
Exchange differences arising during the period		752	128
Reclassification to profit or loss upon deregistration of subsidiaries		(4)	-
Available-for-sale investments:			
Fair value changes during the period		(526)	(209)
Reclassification of investment revaluation reserve to profit or loss on disposal		8	(2,748)
Reclassification of investment revaluation reserve to profit or loss upon impairment loss recognised		57	-
Reclassification adjustment to profit or loss upon disposal of a subsidiary		5	-
Income tax relating to available-for-sales investments		<u>(1)</u>	<u>2</u>
Other comprehensive income (expense) for the period (net of tax)		<u>291</u>	<u>(2,827)</u>
Total comprehensive income for the period		<u>3,244</u>	<u>2,677</u>
Profit for the period attributable to:			
Owners of the Company		1,995	4,578
Non-controlling interests		958	926
		<u>2,953</u>	<u>5,504</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		1,899	1,753
Non-controlling interests		1,345	924
		<u>3,244</u>	<u>2,677</u>

SINOCEM HONG KONG (GROUP) COMPANY LIMITED

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2011

	<u>NOTES</u>	30 June <u>2011</u> HK\$ million (unaudited)	31 December <u>2010</u> HK\$ million (audited)
Non-current assets			
Property, plant and equipment		12,687	12,760
Investment properties		13,935	12,844
Prepaid lease payments		2,502	2,385
Properties under development		13,221	12,494
Land under development	8	12,712	-
Interests in associates		10,634	9,642
Interests in jointly controlled entities		3,915	4,132
Goodwill		3,422	3,719
Deposits for acquisitions of non-current assets	9	1,650	3,974
Oil and gas properties	9	43,669	10,927
Available-for-sale investments		4,356	4,902
Deferred tax assets		993	1,201
Other long-term assets		72	79
Amounts due from group companies		-	116
		<u>123,768</u>	<u>79,175</u>
Current assets			
Inventories		10,713	7,664
Properties under development		1,357	1,051
Properties held for sale		414	1,021
Held for trading investments		202	263
Trade and bills receivables		43,821	27,332
Other receivables, deposits and prepayments	10	4,951	2,742
Prepaid lease payments		90	86
Amounts due from group companies		18,120	16,026
Tax recoverable		104	41
Pledged bank deposits		5,676	2,121
Bank balances and cash		19,359	17,220
		<u>104,807</u>	<u>75,567</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

	<u>NOTES</u>	30 June 2011 HK\$ million (unaudited)	31 December 2010 HK\$ million (audited)
Current liabilities			
Borrowings - due within one year	11	34,667	11,418
Obligations under finance leases		452	-
Provision for land appreciation tax		355	823
Amounts due to group companies		18,157	13,507
Convertible loan notes		786	761
Derivative financial instruments		150	181
Trade and bills payables		41,085	30,379
Other payables, receipts in advance and accrued charges		10,610	7,513
Tax payable		767	547
		<u>107,029</u>	<u>65,129</u>
Net current (liabilities) assets		<u>(2,222)</u>	<u>10,438</u>
Total assets less current assets		<u>121,546</u>	<u>89,613</u>
Non-current liabilities			
Borrowings - due after one year	11	49,221	30,691
Obligations under finance leases		4,277	-
Deferred tax liabilities		3,838	3,561
Other liabilities		345	309
Deferred income		185	189
		<u>57,866</u>	<u>34,750</u>
		<u>63,680</u>	<u>54,863</u>
Capital and reserves			
Share capital	12	13,399	7,580
Reserves		25,857	24,059
Equity attributable to owners of the Company		<u>39,256</u>	<u>31,639</u>
Non-controlling interests		24,424	23,224
		<u>63,680</u>	<u>54,863</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Attributable to owners of the Company						Attributable to non-controlling interests						
	Share capital HK\$ million	Capital 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)	Accumulated profits HK\$ million	Sub-total HK\$ million	Share of net assets of subsidiaries HK\$ million	Share option reserve of subsidiaries HK\$ million	Sub-total HK\$ million	Total HK\$ million
At 1 January 2011 (audited)	7,580	228	(3,836)	667	1,137	2,074	2,427	21,362	31,639	23,218	6	23,224	54,863
Profit for the period	-	-	-	-	-	-	-	1,995	1,995	958	-	958	2,953
Other comprehensive (expense) income for the period	-	-	-	(2)	(465)	371	-	-	(96)	387	-	387	291
Total comprehensive (expense) income for the period	-	-	-	(2)	(465)	371	-	1,995	1,899	1,345	-	1,345	3,244
Shares issued	5,819	-	-	-	-	-	-	-	5,819	-	-	-	5,819
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(85)	-	(85)	(85)
Acquisition of non-controlling interests	-	(1)	-	-	-	-	-	-	(1)	(2)	-	(2)	(3)
Perpetual convertible securities' distributions	-	-	-	-	-	-	-	(100)	(100)	(58)	-	(58)	(158)
	5,819	(1)	-	-	-	-	-	(100)	5,718	(145)	-	(145)	5,573
At 30 June 2011 (unaudited)	13,399	227	(3,836)	665	672	2,445	2,427	23,257	39,256	24,418	6	24,424	63,680

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	Attributable to owners of the Company					Attributable to non-controlling interests			Total HK\$ million				
	Share capital HK\$ million	Capital 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)	Accumulated profits HK\$ million		Sub-total HK\$ million	Share of net assets of subsidiaries HK\$ million	Share option reserve of subsidiaries HK\$ million	Sub-total HK\$ million
At 1 January 2010 (audited)	7,580	227	(3,836)	644	3,756	1,447	2,595	17,977	30,390	15,346	8	15,354	45,744
Profit for the period	-	-	-	-	-	-	-	4,578	4,578	926	-	926	5,504
Other comprehensive (expense) income for the period	-	-	-	-	(2,941)	116	-	-	(2,825)	(2)	-	(2)	(2,827)
Total comprehensive (expense) income for the period	-	-	-	-	(2,941)	116	-	4,578	1,753	924	-	924	2,677
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(85)	-	(85)	(85)
Capital contribution from non-controlling interests	-	-	-	-	-	-	(167)	-	(167)	14	-	14	14
Deemed distribution to ultimate parent	-	-	-	-	-	-	(167)	-	(167)	-	-	(71)	(167)
At 30 June 2010 (unaudited)	7,580	227	(3,836)	644	815	1,563	2,428	22,555	31,976	16,199	8	16,207	48,183

Notes:

- (a) The capital reserve of the Group mainly comprises of (i) contributions from owners in respect of settlement of doubtful receivables which have been written off and transfer of equity interest in a jointly controlled entity to the Group in previous years; and (ii) contribution 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 as consideration for the group restructuring transactions.
- (c) The statutory reserve comprises a statutory reserve fund and an enterprise expansion fund. In accordance with relevant rules and regulation on foreign investment enterprise established in the People's Republic of China (the "PRC"), the Company'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 statutory reserve fund may be distributed to shareholders in the form of bonus issue. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC.
- (d) Other contribution reserve mainly comprises of capital contributions and deemed contributions from equity owners net of deemed distribution to equity owners.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	NOTES	Six months ended 30 June	
		2011 HK\$ million (unaudited)	2010 HK\$ million (unaudited)
Net cash (used in) from operating activities		(2,570)	3,888
Net cash used in investing activities:			
Placement of other deposits		(19,567)	-
Purchase of oil and gas properties	9	(26,279)	(447)
Purchase of land under development		(12,728)	-
(Increase) decrease in pledged bank deposits		(3,555)	127
Increase in amounts due from fellow subsidiaries		(2,467)	(10,939)
Proceeds from withdrawal of other deposits		16,112	-
Proceeds from disposal of a subsidiary	13	1,831	-
Deposit paid for acquisition of oil and gas properties	9	-	(2,395)
Other investing cash flows		(23)	218
		(46,676)	(13,436)
Net cash from financing activities:			
New bank loans and other loans raised		60,194	34,409
Issuance of new shares		5,819	-
Increase (decrease) in amounts due to fellow subsidiaries		5,695	(1,792)
Increase in amount due to immediate parent		1,090	3,959
Repayment of bank loans and other loans		(18,968)	(25,403)
Dividend paid	7	(1,822)	-
Other financing cash flows		(1,621)	85
		50,387	11,258
Net increase in cash and cash equivalents		1,141	1,710
Cash and cash equivalents at beginning of the period		17,188	5,710
Effect of foreign exchange rate changes, net		312	96
Cash and cash equivalents at end of the period		18,641	7,516
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		19,359	7,516
Less: Bank deposits with original maturity of over three months when acquired		(718)	-
Cash and cash equivalents at end of the period		18,641	7,516

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting".

As at 30 June 2011, the current liabilities of the Group exceeded its current assets by approximately HK\$2,222 million. Nevertheless, the condensed consolidated financial statements have been prepared on the going concern basis as the directors believe the Group will have adequate funds to meet its liabilities as and when they fall due after taking into account the expected cash flows from its operations in the coming twelve month period and unutilised banking facilities of approximately HK\$82,761 million.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statement for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments or interpretations, ("new or revised HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 24 (Revised)	Related party disclosure
HKAS 32 (Amendments)	Classification of rights issues
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010

2. PRINCIPAL ACCOUNTING POLICIES - continued

The Group has applied HKAS 24 Related Party Disclosures (as revised in 2009) in full for the first time in the current period. The application of HKAS 24 (as revised in 2009) has resulted in changes in related party disclosures on the following aspect.

The Group is a government-related entity as defined in HKAS 24 (as revised in 2009). HKAS 24 (as revised in 2009) provides a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the government that has control, joint control or significant influence over the Group and (b) other entities that are controlled, jointly controlled, significantly influenced by the same government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

Except as described below, the application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standard and amendments that have been issued but are not yet effective. The following revised standard and amendments have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKAS 1 (Amendments)	Presentation of items of other comprehensive income ¹
HKAS 19 (Revised in 2011)	Employee benefits ²

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of these revised standard and amendments will have no material impact on the results and the financial position of the Group.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

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3. BUSINESS ANALYSIS

The Group analyses its business activities into the following areas which it calls business segments (i) oil and gas, (ii) fertilizers, (iii) real estate, and (iv) others. The following is an analysis of the Group's revenue and results by business segment for the period under review:

	<u>Oil and gas</u> HK\$ million	<u>Fertilizers</u> HK\$ million	<u>Real estate</u> HK\$ million	<u>Others</u> HK\$ million	<u>Elimination</u> HK\$ million	<u>Total</u> HK\$ million
<u>Six months ended 30 June 2011 (unaudited)</u>						
REVENUE						
External sales	175,870	22,032	1,588	5,478	-	204,968
Inter-segment sales	<u>2</u>	<u>-</u>	<u>-</u>	<u>130</u>	<u>(132)</u>	<u>-</u>
Total	<u>175,872</u>	<u>22,032</u>	<u>1,588</u>	<u>5,608</u>	<u>(132)</u>	<u>204,968</u>
Segment profit (loss)	1,410	293	1,596	(160)	-	3,139
Gain on disposal of a subsidiary						1,137
Gain on deemed dilution in interest in associates						407
Share of results of jointly controlled entities						211
Share of results of associates						365
Finance costs						<u>(1,320)</u>
Profit before taxation						<u>3,939</u>
<u>Six months ended 30 June 2010 (unaudited)</u>						
REVENUE						
External sales	119,555	15,034	3,800	4,020	-	142,409
Inter-segment sales	<u>58</u>	<u>-</u>	<u>14</u>	<u>1,274</u>	<u>(1,346)</u>	<u>-</u>
Total	<u>119,613</u>	<u>15,034</u>	<u>3,814</u>	<u>5,294</u>	<u>(1,346)</u>	<u>142,409</u>
Segment profit	911	321	2,362	2,794	-	6,388
Gain on disposal of an associate						3
Gain on disposal of a jointly controlled entity						27
Share of results of jointly controlled entities						69
Share of results of associates						257
Finance costs						<u>(535)</u>
Profit before taxation						<u>6,209</u>

Segment profit (loss) represents the results earned or incurred by each segment without allocation of gains on disposal of a subsidiary, an associate and a jointly controlled entity, gain on deemed dilution in interest in associates, share of results of jointly controlled entities and associates and finance costs.

4. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2011	2010
	HK\$ million	HK\$ million
	(unaudited)	(unaudited)
Investment income on loans and receivables:		
Interest on bank deposits	229	143
Interest on other advances	3	1
	232	144
Investment income on available-for-sale investments:		
Dividend income	15	10
Gain on disposal	26	2,746
	41	2,756
Net loss on held for trading investments:		
Dividend income	-	1
Fair value changes of held for trading investments	(56)	(22)
	(56)	(21)
Fair value changes of derivative financial instruments	(165)	125
Gain on disposal of a subsidiary (Note 13)	1,137	-
Gain on deemed dilution in interest in associates (Note i)	407	-
Gain on disposal of a jointly controlled entity (Note ii)	-	27
Gain on disposal of an associate (Note iii)	-	3
Government grants (Note iv)	2	36
Impairment loss recognised in respect of property, plant and equipment (Note v)	(71)	-
Impairment loss recognised in respect of available-for-sale investment	(61)	-
Impairment loss recognised in respect of goodwill (Note vi)	(316)	-
Recovery of allowance for bad and doubtful debt	97	80
Sundry income	300	180
	<u>1,547</u>	<u>3,330</u>

4. OTHER GAINS AND LOSSES - continued

Notes:

- (i) During the six months ended 30 June 2011, an associate of the Group, Qinghai Salt Lake Potash Co., Ltd. ("Qinghai Salt Lake") merged with Qinghai Salt Lake Industry Group Co., Ltd. ("Salt Lake Group") (the "Merger"). Qinghai Salt Lake acquired the business of Salt Lake Group by issuance of new shares to the existing shareholders of Salt Lake Group in exchange of all the outstanding shares of Salt Lake Group. Upon completion of the Merger, the equity interest held by the Group in Qinghai Salt Lake decreased from 18.49% to 8.94% and Qinghai Salt Lake changed its name to Qinghai Salt Lake Industrial Co., Ltd..

Upon the Merger, the immediate parent of the Company, Sinochem Corporation irrevocably assigned its voting right and right to nominate representation to the board of directors in Qinghai Salt Lake in respect of its 15.01% equity interest in Qinghai Salt Lake for free to the Group. Consequently, the Group maintained its significant influence over Qinghai Salt Lake after the Merger. The Group accounted for the reduction of equity interest in Qinghai Salt Lake as a result of the Merger as a deemed dilution in investment in an associate and recognised a gain of approximately RMB341 million (equivalent to HK\$407 million) in the current interim period.

- (ii) During the six months ended 30 June 2010, the Group partially disposed of its investment in a jointly controlled entity to its venturer at a consideration of RMB110 million (equivalent to approximately HK\$125 million) and a gain of RMB24 million (equivalent to approximately HK\$27 million) was recognised in profit or loss. The remaining interest in this entity was accounted for as an available for sale investment, which was initially recognised at its fair value of RMB85 million (equivalent to approximately HK\$96 million).
- (iii) During the six months ended 30 June 2010, the Group disposed of its entire investment in an associate at a consideration of RMB140 million (equivalent to approximately HK\$159 million). A gain of RMB3 million (equivalent to approximately HK\$3 million) was recognised in profit or loss.
- (iv) Government grants mainly comprised payments from government to support the development of the business of group entities in accordance with applicable regulations in the PRC.
- (v) During the six months ended 30 June 2011, an impairment loss of RMB60 million (equivalent to HK\$71 million) was recognised in respect of obsolete plant and machinery.

4. OTHER GAINS AND LOSSES - continued

Notes: - continued

- (vi) During the six months ended 30 June 2011, Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan"), a cash-generating unit of the Group engaged in fertilizers continued to make significant loss. The directors of the Company considered there is indication that the goodwill allocated to Sinochem Pingyuan has been impaired.

Recoverable amounts of Sinochem Pingyuan have been determined on the basis of value in use calculations as at 30 June 2011. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs used in the cashflow forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market. The directors of the Company estimate discount rates of 10.40%, using pre-tax rates that reflect current market assessment of the time value of money and the risks specific relating to Sinochem Pingyuan. Cash flow forecasts are derived from financial budgets of 2011 approved by the directors of the Company. The purchase price of key raw materials has been significantly increased in the current period, which attributed to higher direct production cost. However, the sales price of related products has been relatively stable and is expected to maintain at the current level. The growth rates for the first 3 years from 2012 is estimated to be approximately 7.00%, which is based on Sinochem Pingyuan's past performance and management's expectation for the market development, while the growth rates for the following years are steady. Based on the results on the assessment of the recoverable amounts of Sinochem Pingyuan, during current interim period, the Group recognised an impairment loss of RMB265 million (equivalent to HK\$316 million) in relation to goodwill arising on acquisition of Sinochem Pingyuan.

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	<u>2011</u>	<u>2010</u>
	HK\$ million	HK\$ million
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Allowance for obsolete inventories (included in cost of sales)	114	47
Amortisation of other long-term assets	12	12
Amortisation of prepaid lease payments	44	39
Depreciation of oil and gas properties	506	562
Depreciation of property, plant and equipment	350	244
	<u> </u>	<u> </u>

6. TAXATION

	Six months ended 30 June	
	<u>2011</u>	<u>2010</u>
	HK\$ million	HK\$ million
	(unaudited)	(unaudited)
Hong Kong Profits Tax:		
Current tax	2	12
PRC Tax:		
PRC enterprise income tax	446	443
Land appreciation tax ("LAT")	-	204
	<u>446</u>	<u>647</u>
Other jurisdictions:		
Current tax	61	21
Deferred taxation:		
Current year	477	25
Income tax expenses	<u>986</u>	<u>705</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries is 25% for the current and prior period, except for certain PRC subsidiaries entitled to preferential tax rates set out below.

Pursuant to the relevant PRC income tax rules and regulations, preferential income tax rates have been granted to certain PRC subsidiaries which were established and located in Shanghai Pudong New Area and Shenzhen Special Economic Zone. These companies are subject to a preferential rate of 24% for the six months ended 30 June 2011 (six months ended 30 June 2010: 22%) followed by the tax rate of 25% in 2012. Certain subsidiaries which were established and located in Hainan Special Economic Zone and Zuhai Special Economic Zone are subject to corporate income tax rate at a preferential rate of 24% (six months ended 30 June 2010: 22%) and are entitled to full exemption from such tax for the first profitable year and 50% reduction in the following two years.

No provision for income tax has been made for a non-wholly owned subsidiary of the Company incorporated in Macao SAR as this subsidiary is exempted from income tax.

According to the requirements of the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例) effective from 1 January 1994, and the Details Implementation Rules on the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例實施細則) 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 the sale of properties less deductible expenditures including borrowing costs and all property development expenditures.

7. DIVIDENDS

During the year ended 31 December 2010, the Company declared interim dividend of HK\$1,825 million, of which HK\$1,822 million had not paid at 31 December 2010 and was included in amount due to immediate parent. The outstanding 2010 interim dividend fully paid in the current interim period.

8. LAND UNDER DEVELOPMENT

Land under development represents the land requisition cost, compensation cost and other preliminary infrastructure costs in relation to Changsha Meixi Lake International Service and Technology Innovation City project (the "Project"). Though the Group does not have ownership title or land use right to such land, the Group is given the right to carry out construction and preparation works in respect of land infrastructure and ancillary public facilities in the Project. When the land plots are sold by the local government, the Group is entitled to receive from the local authorities the land development fee.

9. DEPOSITS FOR ACQUISITIONS OF NON-CURRENT ASSETS AND OIL AND GAS PROPERTIES

On 21 May 2010, the Group entered into an agreement to purchase a 40% interest in Brazil's Peregrino oilfield from Statoil ASA for US\$3.07 billion (the "Considerations"). The Considerations is subjected to adjustment in respect of revenue, capital expenditure, operating expenditures and change in net working capital of the entities which owned 40% interest in Brazil's Peregrino oil for the period from 1 January 2011 to 14 April 2011. At 31 December 2010, a deposit of US\$307 million was paid (equivalent to HK\$2,395 million) and included in deposits for acquisitions of non-current assets. On 14 April 2011, the acquisition was completed and respective deposit paid has been reclassified to oil and gas properties. In addition, the Group paid the remaining considerations of HK\$26,224 million for Brazil's Peregrino oilfield.

Apart from Brazil's Peregrino oilfield, during current interim period, the Group spent HK\$55 million (six months ended 30 June 2010: HK\$447 million) for acquisitions of oil and gas properties.

10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in other receivables, deposits and prepayments is an amount of HK\$3,521 million (equivalent to RMB2,924 million) (31 December 2010: HK\$59 million (equivalent to RMB50 million)) principal-protected financial products issued by financial institutions in the PRC, which carried at fixed interest rates from 1.65% to 7.00% per annum. Among the principal-protected financial products as at 30 June 2011, balances of HK\$2,907 million (equivalent to RMB2,414 million) (31 December 2010: nil) were restricted and can only be withdrawn until maturity. The directors of the Company consider the other deposits as a current asset since the maturity dates are all within one year at the end of the reporting period.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

11. BORROWINGS

	30 June 2011 HK\$ million (unaudited)	31 December 2010 HK\$ million (audited)
Bank loans, secured	13,654	10,621
Bank loans, guaranteed	11,357	467
Bank loans, unsecured	29,276	11,043
Guaranteed senior notes	23,368	15,415
Other loans, unsecured	2,044	470
Debenture, secured	1,203	1,175
Bonds, guaranteed	2,986	2,918
	<u>83,888</u>	<u>42,109</u>
Carrying amount repayable:		
Within one year	34,667	11,418
More than one year, but not more than five years	20,583	9,592
More than five years	28,638	21,099
	<u>83,888</u>	<u>42,109</u>
Less: Amounts due within one year shown under current liabilities	<u>(34,667)</u>	<u>(11,418)</u>
Amounts due more than one year	<u>49,221</u>	<u>30,691</u>

12. SHARE CAPITAL

	Number of shares HK\$ million	Share capital HK\$ million
Ordinary shares of HK\$1 each		
Authorised, issued and fully paid:		
At 1 January 2010, 30 June 2010 and 31 December 2010	7,580	7,580
Issue of shares	5,819	5,819
At 30 June 2011	<u>13,399</u>	<u>13,399</u>

On 30 June 2011, the Company increased its authorised share capital from HK\$7,580 million to HK\$13,399 million by creation of 5,819 million ordinary shares of HK\$1 each. At the same time, the Company issued and allotted a total of 5,819 million ordinary shares of HK\$1 in the Company each at par to immediate parent. These shares rank pari passu in all respects with other shares in issue.

13. DISPOSAL OF A SUBSIDIARY

The net assets disposed during the six months ended 30 June 2011 are as follows:

	HK\$ million
Properties under development	689
Cash and cash equivalents	<u>2</u>
	691
Gain on disposal of a subsidiary	1,137
Release of exchange differences on translation of foreign operations	<u>5</u>
Total consideration satisfied by cash	<u>1,833</u>
Net cash inflow arising on disposal:	
Cash consideration	1,833
Cash and cash equivalents disposed of	<u>(2)</u>
	<u>1,831</u>

14. CAPITAL COMMITMENTS

	30 June 2011 HK\$ million (unaudited)	31 December 2010 HK\$ million (audited)
Capital expenditure in respect of the acquisitions of property, plant and equipment, land under development, properties under development and oil and gas properties contracted for but not provided in the condensed consolidated financial statements	<u>6,795</u>	<u>24,290</u>
Capital expenditure in respect of the acquisition of property, plant and equipment and properties under development authorised but not contracted for	<u>77</u>	<u>2,176</u>
Capital expenditure in respect of the acquisition of an investment	<u>1,100</u>	<u>1,075</u>

15. RELATED PARTY DISCLOSURES

Apart from related parties balances as disclosed on pages 3 and 4 and related party transaction as set out in note 4, during the period, the Group entered into the following significant transactions with its related parties.

	Six months ended 30 June	
	2011	2010
	HK\$ million	HK\$ million
	(unaudited)	(unaudited)
Ultimate parent:		
Purchase of fertilizers	254	-
Other operating expense	2	-
Rental income	4	4
	<u> </u>	<u> </u>
Immediate parent:		
Rental income	36	33
Management fee income	4	3
	<u> </u>	<u> </u>
Fellow subsidiaries:		
Sales of crude oil and gas products	755	626
Sales of chemical products	1,164	567
Purchase of chemical products	548	141
Interest expense	40	29
Rental income	93	67
Rental expense	12	-
Property management fee income	9	7
Interest income	2	-
Other operating expense	-	21
Other service income	14	-
Property management fee expense	3	-
Disposals of an associate (note)	-	445
	<u> </u>	<u> </u>
Associates:		
Sales of crude oil and gas products	5,861	10,047
Sales of fertilizers	1	-
Purchase of fertilizers	382	33
Sales of chemical products	-	-
Transportation fee expense	-	44
Storage fee expenses	45	7
	<u> </u>	<u> </u>
Jointly controlled entities:		
Sales of fertilizers	12	-
Purchase of fertilizers	569	1,165
	<u> </u>	<u> </u>

Note: During the six months ended 30 June 2010, the Group disposed of its investment in an associate to a fellow subsidiary at a consideration of RMB392 million (equivalent to approximately HK\$445 million) at its carrying amount on the date of loss of significant influence.

In addition, at 31 December 2010 and 30 June 2011, certain bank borrowings granted to the Group are guaranteed by letter of guarantee, letter of comfort or letter of awareness from ultimate parent of the Company.

15. RELATED PARTY DISCLOSURES - continued

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). 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 state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

During the six months ended 30 June 2011, the Group had the following significant transactions with other state-owned enterprises as follows:

	Six months ended 30 June	
	<u>2011</u>	<u>2010</u>
	HK\$ million	HK\$ million
	(unaudited)	(unaudited)
Sales of fertilizers	1,953	475
Purchase of fertilizers	1,888	2,932
	<u> </u>	<u> </u>

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group has provided guarantees in respect of mortgage facilities for certain purchasers of the Group's properties amounting to approximately HK\$33 million (31 December 2010: HK\$46 million).

17. EVENTS AFTER THE END OF THE INTERIM PERIOD

Subsequent to the reporting period, among the outstanding convertible loan notes as at 30 June 2011, notes with face value of HK\$0.4 million were converted into 96,153 ordinary shares of HK\$0.10 each of Sinofert Holdings Limited, a non-wholly owned subsidiary of the Company and the remaining notes with face value of HK\$621 million were redeemed for cash consideration of approximately HK\$790 million.