

SINOCHEM HONG KONG (GROUP) COMPANY  
LIMITED

中化香港(集團)有限公司

Reports and Consolidated Financial Statements  
For the year ended 31 December 2010

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010

<u>CONTENTS</u>	<u>PAGE(S)</u>
DIRECTORS' REPORT	1 & 2
INDEPENDENT AUDITOR'S REPORT	3 & 4
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	5 & 6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	7 & 8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9 & 10
CONSOLIDATED STATEMENT OF CASH FLOWS	11 - 13
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	14 - 88

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company continues to act as an investment holding company. Details of principal activities of the Company's principal subsidiaries, associates and jointly controlled entities are set out in notes 16, 18 and 19 to the consolidated financial statements, respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on pages 5 and 6.

The interim dividend of HK\$1,825,534,000 was declared during the year.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 13 and 14, respectively, to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 36 to the consolidated financial statements.

DIRECTORS

The directors during the year and up to the date of this report were:

Liu Deshu

Li Xuehua

Luo Jian

(appointed on 26 May 2010)

In accordance with the Company's Articles of Association, all directors shall retire and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its ultimate parent or any subsidiaries of its ultimate parent was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Pursuant to the share option schemes of Sinofert Holdings Limited, a subsidiary of the Company, Sinofert Holdings Limited had granted options to a director of the Company. A summary of the share options granted to the director is as follows:

<u>Name of directors</u>	<u>Date of grant</u>	<u>Exercise price</u> HK\$	<u>Number of share options</u>			
			<u>At 1.1.2010</u>	<u>Exercised during the year</u>	<u>Lapsed during the year</u>	<u>At 31.12.2010</u>
Liu Deshu	23.1.2006	1.672	609,900	(608,000)	-	1,900
	28.8.2007	4.990	420,000	-	(210,000)	210,000

Pursuant to the share option scheme of Franshion Properties (China) Limited, a subsidiary of the Company, Franshion Properties (China) Limited had granted options to a director of the Company. A summary of the share options granted to the director is as follows:

<u>Name of director</u>	<u>Date of grant</u>	<u>Exercise price</u> HK\$	<u>Number of share options at 1.1.2010 and 31.12.2010</u>
Li Xuehua	5.5.2008	3.370	<u>487,451</u>

Other than as disclosed above, at no time during the year was the Company, its ultimate parent or any subsidiaries of its ultimate parent a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 46 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board



\_\_\_\_\_  
DIRECTOR

29 JUL 2011

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF  
SINOCHEM HONG KONG (GROUP) COMPANY LIMITED  
中化香港(集團)有限公司  
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Sinochem Hong Kong (Group) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 88, which comprise the consolidated statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF  
SINOCHEM HONG KONG (GROUP) COMPANY LIMITED - continued

中化香港(集團)有限公司

(incorporated in Hong Kong with limited liability)

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong

**29 JUL 2011**

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

中化香港(集團)有限公司

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<u>NOTES</u>	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
<b>Continuing operations</b>			
Revenue	5	293,686,301	217,592,749
Cost of sales		<u>(286,912,001)</u>	<u>(213,888,802)</u>
Gross profit		6,774,300	3,703,947
Other gains and losses	6	3,938,480	2,055,141
Distribution costs and selling expenses		(1,312,942)	(1,286,159)
Administrative expenses		(1,833,924)	(1,533,237)
Fair value changes of investment properties		861,756	184,881
Gain on deemed partial disposal of subsidiaries	7	-	599,580
Share of results of jointly controlled entities		231,877	(55,114)
Share of results of associates		404,067	370,637
Finance costs	8	<u>(1,331,759)</u>	<u>(1,063,786)</u>
Profit before taxation		7,731,855	2,975,890
Taxation	9	<u>(1,215,936)</u>	<u>(218,416)</u>
		6,515,919	2,757,474
<b>Discontinued operation</b>			
Profit from discontinued operation	10	-	348,953
Profit for the year	11	<u>6,515,919</u>	<u>3,106,427</u>
<b>Other comprehensive (expense) income</b>			
Exchange difference arising on translation		1,163,606	164,276
Changes in fair value of available-for-sale investments		74,418	2,629,538
Reclassification adjustment for the cumulative gain included in investment revaluation reserve to profit or loss on disposal of available-for-sale investments		(2,686,436)	(671,987)
Reclassification to profit or loss upon deregistration of subsidiaries		(38,088)	-
Deferred tax relating to available-for-sales investments		<u>(495)</u>	<u>34,243</u>
Other comprehensive (expense) income for the year (net of tax)		<u>(1,486,995)</u>	<u>2,156,070</u>
Total comprehensive income for the year		<u><u>5,028,924</u></u>	<u><u>5,262,497</u></u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Profit for the year attributable to:		
Owners of the Company	5,224,314	2,929,512
Non-controlling interests	1,291,605	176,915
	<u>6,515,919</u>	<u>3,106,427</u>
Total comprehensive income attributable to:		
Owners of the Company	3,232,505	5,092,056
Non-controlling interests	1,796,419	170,441
	<u>5,028,924</u>	<u>5,262,497</u>

SINOCEM HONG KONG (GROUP) COMPANY LIMITED  
 中化香港(集團)有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AT 31 DECEMBER 2010

	<u>NOTES</u>	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Non-current assets			
Property, plant and equipment	13	12,759,864	12,599,500
Investment properties	14	12,843,644	11,610,515
Prepaid lease payments	15	2,384,709	2,263,904
Properties under development	17	12,494,275	8,700,008
Interests in associates	18	9,641,562	9,585,850
Interests in jointly controlled entities	19	4,132,155	5,396,051
Goodwill	20	3,719,070	3,719,070
Oil and gas properties	21	10,927,267	10,984,801
Deposits for acquisitions of non-current assets	22	3,974,246	26,238
Available-for-sale investments	23	4,901,876	4,517,248
Deferred tax assets	34	1,201,276	1,097,167
Pledged bank deposits	24	-	249,876
Amounts due from group companies	29	115,505	112,061
Other long-term assets		79,336	83,618
		<u>79,174,785</u>	<u>70,945,907</u>
Current assets			
Inventories	25	7,664,010	8,590,144
Properties under development	17	1,050,968	2,601,271
Properties held for sale	27	1,021,153	470,451
Held for trading investments	28	262,648	353,207
Trade and bills receivables	26	27,331,990	19,040,761
Other receivables, deposits and prepayments		2,741,873	2,040,822
Prepaid lease payments	15	86,104	80,259
Amounts due from group companies	29	16,025,885	5,473,004
Tax recoverable		40,774	76,793
Pledged bank deposits	24	2,121,556	4,057,861
Bank balances and cash	24	17,220,247	5,710,210
		<u>75,567,208</u>	<u>48,494,783</u>

## SINOCEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

	<u>NOTES</u>	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
<b>Current liabilities</b>			
Borrowings - due within one year	30	11,417,755	22,016,077
Provision for land appreciation tax	31	822,594	571,175
Amounts due to group companies	29	13,506,868	11,718,929
Convertible loans	32	760,914	-
Derivative financial instruments	33	180,916	-
Trade and bills payables		30,379,124	18,052,130
Other payables, receipts in advance and accrued charges		7,512,998	5,648,632
Tax payable		547,395	461,907
		<u>65,128,564</u>	<u>58,468,850</u>
Net current assets (liabilities)		<u>10,438,644</u>	<u>(9,974,067)</u>
Total assets less current liabilities		<u>89,613,429</u>	<u>60,971,840</u>
<b>Non-current liabilities</b>			
Borrowings - due after one year	30	30,691,021	10,479,580
Deferred tax liabilities	34	3,561,432	3,290,377
Other liabilities	35	308,549	269,769
Deferred income		189,067	80,874
Amounts due to group companies	29	-	227,160
Convertible loans	32	-	710,782
Derivative financial instruments	33	-	169,314
		<u>34,750,069</u>	<u>15,227,856</u>
		<u>54,863,360</u>	<u>45,743,984</u>
<b>Capital and reserves</b>			
Share capital	36	7,580,200	7,580,200
Reserves		24,058,648	22,809,822
Equity attributable to owners of the Company		<u>31,638,848</u>	<u>30,390,022</u>
Non-controlling interests		<u>23,224,512</u>	<u>15,353,962</u>
		<u>54,863,360</u>	<u>45,743,984</u>

The consolidated financial statements on pages 5 to 88 were approved and authorised for issue by the Board of Directors on **29 JUL 2011** and are signed on its behalf by:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to owners of the Company								Attributable to non-controlling interests		Total HK\$'000	
	Share capital HK\$'000	Capital reserve HK\$'000 (note a)	Merger reserve HK\$'000 (note b)	Statutory reserve HK\$'000 (note c)	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Other contribution reserve HK\$'000 (note d)	Accumulated profits HK\$'000	Total HK\$'000	Share of net assets of subsidiaries HK\$'000		Share option reserve of subsidiaries HK\$'000
At 1 January 2009	2,008,500	227,314	(3,836,771)	586,323	1,725,692	1,314,627	2,428,535	15,104,877	19,559,097	14,688,097	6,918	34,254,112
Profit for the year	-	-	-	-	-	-	-	2,929,512	2,929,512	176,915	-	3,106,427
Exchange difference arising on translation	-	-	-	-	-	132,466	-	-	132,466	31,810	-	164,276
Change in fair value of available-for-sale investments	-	-	-	-	2,420,320	-	-	-	2,420,320	209,218	-	2,629,538
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal	-	-	-	-	(408,295)	-	-	-	(408,295)	(263,692)	-	(671,987)
Deferred tax relating to available-for-sale investments	-	-	-	-	18,053	-	-	-	18,053	16,190	-	34,243
Other comprehensive income (expense) for the year	-	-	-	-	2,030,078	132,466	-	-	2,162,544	(6,474)	-	2,156,070
Total comprehensive income for the year	-	-	-	-	2,030,078	132,466	-	2,929,512	5,092,056	170,441	-	5,262,497
Shares issued	5,571,700	-	-	-	-	-	-	-	5,571,700	-	-	5,571,700
Recognition of equity-settled share-based payment of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of reserve	-	-	-	57,559	-	-	-	-	-	391	1,492	1,883
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	(56,881)	678	-	(678)	-
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(460,133)	-	(460,133)
Forfeiture of dividends by a non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	(404,474)	-	(404,474)
Capital contribution from shareholders	-	-	-	-	-	-	944	-	944	557	-	1,501
Disposal of subsidiaries	-	-	-	-	-	-	152,487	-	152,487	138,470	-	290,957
Deemed contribution from ultimate parent	-	-	-	-	-	-	-	-	-	(14,139)	-	(14,139)
Increase in non-controlling interests as a result of deemed disposal of subsidiaries	-	-	-	-	-	-	13,060	-	13,060	-	-	13,060
	5,571,700	-	-	57,559	-	-	166,491	(56,881)	5,738,869	1,227,020	-	1,227,020
At 31 December 2009	7,580,200	227,314	(3,836,771)	643,882	3,755,770	1,447,093	2,595,026	17,977,508	30,390,022	15,346,230	7,732	45,743,984

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

中化香港(集團)有限公司

	Attributable to owners of the Company								Attributable to non-controlling interests		Total HK\$'000	
	Share capital HK\$'000	Capital reserve HK\$'000 (note a)	Merger reserve HK\$'000 (note b)	Statutory reserve HK\$'000 (note c)	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Other contribution reserve HK\$'000 (note d)	Accumulated profits HK\$'000	Total HK\$'000	Share of net assets of subsidiaries HK\$'000		Share option reserve of subsidiaries HK\$'000
At 1 January 2010	7,580,200	227,314	(3,836,771)	643,882	3,755,770	1,447,093	2,595,026	17,977,508	30,390,022	15,346,230	7,732	45,743,984
Profit for the year	-	-	-	-	-	-	-	5,224,314	5,224,314	1,291,605	-	6,515,919
Exchange difference arising on translation	-	-	-	-	-	650,463	-	-	650,463	513,143	-	1,163,606
Change in fair value of available-for-sale investments	-	-	-	-	77,326	-	-	-	77,326	(2,908)	-	74,418
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal	-	-	-	-	(2,695,392)	-	-	-	(2,695,392)	8,956	-	(2,686,436)
Reclassification to profit or loss upon deregistration of subsidiaries	-	202	-	(195)	-	(23,953)	-	-	(23,946)	(14,142)	-	(38,088)
Deferred tax relating to available-for-sale investments	-	-	-	-	(260)	-	-	-	(260)	(235)	-	(495)
Other comprehensive income (expense) for the year	-	202	-	(195)	(2,618,326)	626,510	-	-	(1,991,809)	504,814	-	(1,486,995)
Total comprehensive income (expense) for the year	-	202	-	(195)	(2,618,326)	626,510	-	5,224,314	3,232,505	1,796,419	-	5,028,924
Recognition of equity-settled share-based payment of subsidiaries	-	-	-	-	-	-	-	-	-	619	945	1,564
Exercise of share options of subsidiaries	-	-	-	-	-	-	-	8,461	8,461	4,032	(1,517)	10,976
Dividend recognised as distributions	-	-	-	-	-	-	-	(1,825,534)	(1,825,534)	-	-	(1,825,534)
Transfer of reserve	-	-	-	23,914	-	-	-	(22,511)	1,403	(664)	(739)	-
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(378,840)	-	(378,840)
Capital contribution from shareholders	-	-	-	-	-	-	-	-	-	777,115	-	777,115
Deemed distribution to ultimate parent	-	-	-	-	-	-	(190,342)	-	(190,342)	-	-	(190,342)
Issue of perpetual convertible securities (note 32)	-	-	-	-	-	-	-	-	-	4,588,000	-	4,588,000
Increase in non-controlling interests as a result of control gained in a then jointly controlled entity	-	-	-	-	-	-	-	-	-	1,064,968	-	1,064,968
Energy saving and emission reduction fund (note e)	-	-	-	-	-	-	22,333	-	22,333	20,212	-	42,545
	-	-	-	23,914	-	-	(168,009)	(1,839,584)	(1,983,679)	6,075,442	(1,311)	4,090,452
At 31 December 2010	7,580,200	227,516	(3,836,771)	667,601	1,137,444	2,073,603	2,427,017	21,362,238	31,638,848	23,218,091	6,421	54,863,360

Notes:

- 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.
- 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.
- Statutory reserve comprises statutory reserve fund and 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.
- Other contribution reserve mainly comprises of capital contributions and deemed contributions from equity owners net of deemed distribution to equity owners.
- During the year, a non-wholly owned PRC subsidiary of the Company has received funding of RMB36,290,000 (equivalent to approximately HK\$42,545,000) from ultimate parent, which can only be used to fund energy saving and emission reduction projects.

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

中化香港(集團)有限公司

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010 HK\$'000	2009 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit for the year	6,515,919	3,106,427
Adjustments for:		
Taxation	1,215,936	276,684
Allowance for bad and doubtful debts	13,676	4,908
Allowance for obsolete inventories	87,383	849,645
Amortisation of prepaid lease payments	82,175	81,761
Amortisation of other long-term assets	26,345	23,264
Recovery of allowance for bad and doubtful debt	(161,443)	(157,873)
Depreciation of property, plant and equipment	507,926	509,515
Depreciation of oil and gas properties	1,321,883	769,234
Dividend income	(122,029)	(80,329)
(Gain) loss on disposal of property, plant and equipment	(4,573)	132
Impairment loss recognised in respect of property, plant and equipment	46,701	-
Impairment loss recognised in respect of available-for-sale investments	18,925	-
Interest expense	1,331,759	1,359,416
Interest income	(278,321)	(208,487)
Gain on deemed partial disposal of subsidiaries	-	(599,580)
Gain on disposal and deregistration of subsidiaries	(124,267)	(5)
Gain on disposal of associates	(3,065)	(3,676)
Gain on disposal of jointly controlled entities	(27,943)	-
Gain on disposal of available-for-sale investments	(2,744,291)	(882,712)
Gain on debt restructuring	-	(92,093)
Gain on disposal of assets classified as held for sales	-	(3,247)
Fair value changes of derivative financial instruments	(58,469)	(56,566)
Fair value changes of investment properties	(861,756)	(184,881)
Share of results of jointly controlled entities	(231,877)	55,114
Share of results of associates	(404,067)	(370,637)
Write off of non-demand payable	(85,223)	-
Recognition of share-based payment expenses	1,564	1,883
Operating cash flows before movements in working capital	6,062,868	4,397,897
Increase in properties under development	(1,347,946)	(5,678,452)
Decrease in properties held for sale	1,532,707	1,948,723
Decrease (increase) in held for trading investments	90,559	(255,670)
Decrease in inventories	831,592	4,312,551
Increase in trade and bills receivables	(8,143,788)	(7,694,786)
Increase in finance lease receivables	-	(2,563,453)
Increase in other receivables, deposits and prepayments	(704,104)	(415,800)
Increase in derivative financial instruments	70,071	-
Increase in trade and bills payables	12,450,989	4,266,217
Increase (decrease) in other payables, receipts in advance and accrued charges	1,914,832	(1,522,364)
Increase (decrease) in other liabilities	38,789	(8,109)
Increase in deferred income	115,464	43,342
Net cash from (used in) operations	12,912,033	(3,169,904)
Income tax paid	(705,329)	(1,013,392)
Land appreciation tax paid	(22,509)	(13,876)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>12,184,195</b>	<b>(4,197,172)</b>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

	<u>NOTES</u>	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
<b>INVESTING ACTIVITIES</b>			
Increase in amounts due from fellow subsidiaries		(10,287,782)	(3,511,555)
Deposit paid for oil and gas properties		(2,393,040)	-
Advance payments for an investment		(1,551,287)	-
Purchase of oil and gas properties		(1,264,349)	(371,532)
Purchase of property, plant and equipment		(517,193)	(797,984)
(Increase) decrease in amounts due from associates		(340,125)	449,729
(Increase) decrease in amount due from ultimate parent		(222,126)	224,786
Additional investments in jointly controlled entities		(205,300)	-
Additional investments in available-for-sale investment		(154,260)	(45,400)
Additions to prepaid lease payments		(86,845)	-
(Increase) decrease in other long-term assets		(22,063)	70,322
Purchase of investment properties		(11,055)	(3,775)
Decrease (increase) in pledged bank deposits		2,186,181	(2,984,532)
Dividend received from jointly controlled entities		482,355	46,841
Proceeds from disposal of associates		474,531	18,552
Interest received		278,321	208,487
Proceeds from disposal of jointly controlled entities		208,637	-
Dividend received		122,029	80,329
Decrease (increase) in amounts due from jointly controlled entities		103,216	(53,832)
Dividend received from associates		82,210	57,701
Proceeds from disposal of property, plant and equipment		52,301	2,472
Decrease (increase) in amount due from immediate parent		150	(150)
Acquisitions of subsidiaries	39	-	(6,401,025)
Acquisition of additional interests in subsidiaries		-	(1,232,669)
Additional investments in associates		-	(495,754)
Net proceeds from share placement of subsidiaries		-	1,927,617
Proceeds from disposal of available-for-sale investments		-	1,160,938
Proceeds from disposal of subsidiaries	40	-	55,774
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(13,065,494)</u>	<u>(11,594,660)</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED  
中化香港(集團)有限公司

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
<b>FINANCING ACTIVITIES</b>		
New bank loans and other loans raised	43,826,792	58,932,775
Issue of senior loan notes, net of expenses	15,373,120	-
Issue of perpetual convertible securities, net of expenses	4,588,000	-
Increase in amount due to immediate parent	2,421,557	206,859
Capital contribution by non-controlling interests	777,115	138,470
Energy-saving and emission reduction fund received	42,545	-
Increase (decrease) in amounts due to jointly controlled entities	23,698	(47,928)
Increase in amount due to ultimate parent	19,550	32,226
Proceed from exercise of share options of subsidiaries	10,976	-
Repayment of bank loans and other loans	(52,337,271)	(48,123,909)
Interest paid	(1,459,931)	(1,583,799)
(Decrease) increase in amounts due to fellow subsidiaries	(796,769)	802,400
(Decrease) increase in amounts due to associates	(267,633)	536,628
Upfront fee paid on arranging a term loan	(116,483)	-
Dividend paid to non-controlling interests	(85,040)	(404,474)
Dividend paid	(3,934)	-
Capital contribution by ultimate parent	-	152,487
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>12,016,292</u>	<u>10,641,735</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	11,134,993	(5,150,097)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	5,710,210	10,877,185
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u>343,279</u>	<u>(16,878)</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<u>17,188,482</u>	<u>5,710,210</u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	17,220,247	5,710,210
Less: Bank deposits with original maturity of over three months when acquired	(31,765)	-
	<u>17,188,482</u>	<u>5,710,210</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010

---

1. GENERAL

The Company is a private limited company incorporated in Hong Kong. It is a wholly-owned subsidiary. Its ultimate parent is Sinochem Group and immediate parent is Sinochem Corporation, both of them are established in the People's Republic of China (the "PRC"). The address of the registered office and principal place of business of the Company is Room 4701, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"). The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the Company and its major subsidiaries operate. As the Company is a Hong Kong incorporated company, the directors of the Company consider that it is more appropriate to have the consolidated financial statements presented in HK\$.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 16, 18 and 19 to the consolidated financial statements, respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised standards, amendments and interpretations applied in the current year

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners
HK - INT 5	Presentation of financial statements - classification by the borrower of a term loan that contains a repayment on demand clause

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and revised standards, amendments and interpretations issued but not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures - transfers of financial assets <sup>3</sup>
HKFRS 9	Financial instruments <sup>4</sup>
HKFRS 10	Consolidated financial statements <sup>4</sup>
HKFRS 11	Joint arrangements <sup>4</sup>
HKFRS 12	Disclosure of interests in other entities <sup>4</sup>
HKFRS 13	Fair value measurement <sup>4</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>5</sup>
HKAS 24 (Revised)	Related party disclosures <sup>6</sup>
HKAS 27 (as revised in 2011)	Separate financial statements <sup>4</sup>
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures <sup>4</sup>
HKAS 32 (Amendments)	Classification of rights issues <sup>7</sup>
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement <sup>6</sup>
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>7</sup> Effective for annual periods beginning on or after 1 February 2010.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and revised standards, amendments and interpretations issued but not yet effective  
- continued

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

The directors anticipate that application of HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 will not have a material impact on the Groups' financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values, and in accordance with HKFRSs issued by the HKICPA and Hong Kong Companies Ordinance. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

**Allocation of total comprehensive income to non-controlling interests**

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

**Changes in the Group's ownership interests in existing subsidiaries**

*Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

*Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010*

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the recognised amounts of the assets, liabilities and contingent liabilities of that subsidiaries attributable to the non-controlling interests was recognised in profit or loss.

Business combinations

*Business combinations that took place on or after 1 January 2010*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

*Business combinations that took place on or after 1 January 2010* - continued

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

*Business combinations that took place on or after 1 January 2010* - continued

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

*Business combinations that took place prior to 1 January 2010*

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

*Business combinations that took place prior to 1 January 2010* - continued

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, (or groups of cash-generating units), that are expected to benefit from the synergies of the acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill - continued

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates - continued

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Jointly controlled entities - continued

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from sales of goods is recognised when goods are delivered and title has been passed.

Income from hotel operation, transshipment income and other service income are recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

Property, plant and equipment including land and building held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment loss, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment and prepaid lease payments when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Oil and gas properties

The successful efforts method of accounting is adopted for oil and gas properties. The Group capitalises the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. The costs incurred for exploratory wells with potentially economic reserves in areas where major capital expenditure will be required before production and depends upon the successful completion of further exploratory work are capitalised and reviewed periodically for impairment.

Productive oil and gas properties are depreciated on a unit-of-production basis over the proved developed reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Capitalised acquisition costs of proved properties are depreciated on a unit-of-production method over the total proved reserves of the relevant area.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is included in construction in progress and carried at cost less any recognised impairment loss. The leasehold land component is classified as a prepaid lease payment and amortised over a straight line basis over the lease term upon completion of construction period. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Properties under development

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

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost of properties held for sale is determined by an apportionment of total land and building costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on the prevailing market conditions.

Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation.

Investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

**Financial assets**

The Group's financial assets include available-for-sale investments, financial assets at FVTPL and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for loans and receivables.

*Financial assets at FVTPL*

Financial assets at FVTPL are held for trading investments. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables and deposits, amounts due from group companies, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

**Impairment of financial assets**

Financial assets, other than those at FVTPL are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Impairment of financial assets** - continued

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity instruments** - continued

*Financial liabilities*

Financial liabilities including trade and bills payable, other payables, borrowings and amounts due to group companies are subsequently measured at amortised cost, using the effective interest method.

*Convertible loan notes*

Convertible loan notes issued by a subsidiary of the Company are regarded as hybrid instruments. Derivatives embedded in the host debt contracts are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at FVTPL. The conversion option is classified as equity component only if the option can be converted by exchange a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. In the case that the conversion options are not settled by the exchange of a fixed amount of cash or another financial asset for fixed number of equity instrument, the conversion component is an embedded derivative. A call, put or prepayment option embedded in a host debt contract is not closely related to the host contract unless the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument.

At the date of issue, the conversion option derivative, holder redemption option, issuer redemption option (collectively the "derivative component") and liability component are recognised at their respective fair values.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and derivative component in proportion to the allocation of the proceeds. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Derivatives financial instruments**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Embedded derivatives**

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any of such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised an income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

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

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

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

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Other long term assets

Activators and computer softwares included in other long-term assets are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Amortisation is provided using the straight line method.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants related to expense items are recognised in the same period as those expenses are charged to the profit or loss and are reported separately as other gains and losses in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payment transactions

**Equity-settled share-based payment transactions**

*Share options granted to directors and employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share option are exercised, the amount previously recognised in share option reserve will be transferred to accumulated profits. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Retirement benefit costs

Payments to the defined contribution retirement benefit plan, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY - continued

Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Classification between investment properties and owner-occupied properties*

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

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

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

*Classification between investment properties and properties held for sale*

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY - continued

Key sources of estimation uncertainty

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

*Oil and gas properties and reserves*

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas industry. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. The Group has elected to use the successful efforts method. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalised and written-off or depreciated over time.

Management estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Future dismantlement costs for oil and gas properties are estimated with reference to management estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced. In case where the actual oil and gas reserves is different from the estimated amounts, a material disposal or impairment for oil and gas properties may arise.

*Allowance for trade and other receivables*

Allowance for trade and other receivables of the Group is based on the ongoing evaluation of the collectability, and aging analyses of the outstanding receivables and management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY - continued

Key sources of estimation uncertainty - continued

*PRC land appreciation tax ("LAT")*

The Group is subject to LAT in the PRC. The provision of LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT tax returns and payments with the local tax authorities for its property development projects. When the final outcome is determined it may be different from the amounts that were initially recorded, and differences will affect the current income tax expense and LAT provision in the period when LAT is ascertained. The carrying amount of provision for LAT at 31 December 2010 was HK\$822,594,000 (2009: HK\$571,175,000).

*Impairment of inventories*

Determining whether inventories are impaired requires an estimation of its net realisable value. Net realisable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Directors of the Company reassess these estimates at the end of each reporting period. As at 31 December 2010, the carrying amount of inventories is HK\$7,664,010,000 (2009: HK\$8,590,144,000).

*Recognition and allocation of construction cost on properties under development*

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

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

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years. The carrying amount of properties under development at 31 December 2010 was HK\$13,545,243,000 (2009: HK\$11,301,279,000).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY - continued

Key sources of estimation uncertainty - continued

*Fair value of investment properties*

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

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

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2010 was HK\$12,843,644,000 (2009: HK\$11,610,515,000).

*Fair value of derivative financial instruments*

Management uses their judgement in selecting an appropriate valuation technique for derivative financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Derivative financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. At the end of the reporting period, the carrying amount of derivative financial instruments is HK\$180,916,000 (2009: HK\$169,314,000).

*Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses at 31 December 2010 was approximately HK\$971,423,000 (2009: HK\$771,710,000) (details disclosed in note 34).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
 UNCERTAINTY - continued

*Estimated impairment of goodwill*

In determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31 December 2010, the carrying amount of goodwill was approximately HK\$3,719,070,000 (2009: HK\$3,719,070,000).

*Estimated of net realisable value for properties held for sale*

Properties held for sale are stated at the lower of cost and net realisable value. The net realisable value is assessed with reference to market conditions and prices existing at the end of the reporting period and is determined by the Group having taken suitable external advice and in the light of recent market transactions. The carrying amount of properties held for sale and at 31 December 2010 was HK\$1,021,153,000 (2009: HK\$470,451,000).

5. REVENUE AND BUSINESS ANALYSIS

Revenue

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Sales of crude oil and petroleum products	246,061,585	173,563,189
Sales of fertilizers	33,603,196	30,657,155
Sales of chemical products	5,103,899	5,214,840
Sales of properties	2,924,687	3,535,311
Hotel operation	2,007,364	1,576,743
Gross rental income	864,528	862,064
Transshipment income	2,628,067	1,814,078
Others	492,975	369,369
	<u>293,686,301</u>	<u>217,592,749</u>

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

中化香港(集團)有限公司

**5. REVENUE AND BUSINESS ANALYSIS - continued**

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 (mainly chemical products trading, chartered shipping services and securities investment). The following is an analysis of the Group's revenue and results by business segment.

	<u>Oil and Gas</u> HK\$'000	<u>Fertilizers</u> HK\$'000	<u>Real Estate</u> HK\$'000	<u>Others</u> HK\$'000	<u>Elimination</u> HK\$'000	<u>Consolidated</u> HK\$'000
<u>Year ended 31 December 2010</u>						
<b>Continuing operations</b>						
REVENUE						
External sales	246,061,585	33,603,196	5,796,579	8,224,941	-	293,686,301
Inter-segment sales	185,160	-	-	2,494,175	(2,679,335)	-
Total	<u>246,246,745</u>	<u>33,603,196</u>	<u>5,796,579</u>	<u>10,719,116</u>	<u>(2,679,335)</u>	<u>293,686,301</u>
Segment profit	1,366,769	564,278	3,600,833	2,740,515	-	8,272,395
Gain on disposal and deregistration of subsidiaries						124,267
Gain on disposal of associates						3,065
Gain on disposal of jointly controlled entities						27,943
Share of results of jointly controlled entities						231,877
Share of results of associates						404,067
Finance costs						(1,331,759)
Profit before taxation						<u>7,731,855</u>
<u>Year ended 31 December 2009</u>						
<b>Continuing operations</b>						
REVENUE						
External sales	173,563,189	30,657,155	5,974,118	7,398,287	-	217,592,749
Inter-segment sales	28,955	-	21,053	495,792	(545,800)	-
Total	<u>173,592,144</u>	<u>30,657,155</u>	<u>5,995,171</u>	<u>7,894,079</u>	<u>(545,800)</u>	<u>217,592,749</u>
Segment profit (loss)	1,550,157	(2,149,722)	2,960,855	759,607	-	3,120,897
Gain on deemed partial disposal of subsidiaries						599,580
Gain on disposal of associates						3,676
Share of results of jointly controlled entities						(55,114)
Share of results of associates						370,637
Finance costs						(1,063,786)
Profit before taxation						<u>2,975,890</u>

The accounting policies of the business segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the results earned by (loss from) each segment without allocation of gain on deemed partial disposal of subsidiaries, gain/loss on disposals of subsidiaries, associates and jointly controlled entities, shares of results of jointly controlled entities and associates and finance costs.

**5. REVENUE AND BUSINESS ANALYSIS - continued**

**Business analysis - continued**

	<u>Oil and Gas</u> HK\$'000	<u>Fertilizers</u> HK\$'000	<u>Real Estate</u> HK\$'000	<u>Others</u> HK\$'000	<u>Consolidated</u> HK\$'000
<u>Year ended 31 December 2010</u>					
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	9,685	278,666	210,625	8,950	507,926
Depreciation of oil and gas properties	1,321,883	-	-	-	1,321,883
Amortisation of prepaid lease payments	-	35,348	46,583	244	82,175
Amortisation of other long-term assets	-	16,643	9,702	-	26,345
(Loss) gain on fair value changes of derivative financial instruments	(54,281)	112,750	-	-	58,469
Gain on disposal of property, plant and equipment	-	4,567	-	6	4,573
Written-off of non-demand payables	-	85,223	-	-	85,223
Gain on fair value changes of held for trading investments	-	-	-	2,201	2,201
Gain on disposal of available-for-sale investments	-	-	-	2,744,291	2,744,291
Gain on fair value changes of investment properties	-	-	861,756	-	861,756
Allowance for obsolete inventories	5,624	80,569	-	1,190	87,383
Allowance for bad and doubtful debts	-	13,676	-	-	13,676
Recovery of allowance for bad and doubtful debts	161,443	-	-	-	161,443
Impairment loss recognised in respect of property, plant and equipment	-	46,701	-	-	46,701
Impairment loss recognised in respect of available-for-sale investment	-	18,925	-	-	18,925
	<u>-</u>	<u>18,925</u>	<u>-</u>	<u>-</u>	<u>18,925</u>
<u>Year ended 31 December 2009</u>					
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	3,965	277,240	220,171	8,139	509,515
Depreciation of oil and gas properties	769,234	-	-	-	769,234
Amortisation of prepaid lease payments	-	34,607	47,154	-	81,761
Amortisation of other long-term assets	-	18,560	4,704	-	23,264
Gain on disposal of assets classified as held for sales	-	-	-	3,247	3,247
Gain on fair value changes of derivative financial instruments	-	56,566	-	-	56,566
Gain on fair value changes of held for trading investments	-	-	-	229,545	229,545
Gain on disposal of available-for-sale investments	-	557,725	-	324,987	882,712
Gain on fair value changes of investment properties	-	-	184,881	-	184,881
Allowance for bad and doubtful debts	-	3,841	-	-	3,841
Recovery of allowance for bad and doubtful debts	157,321	-	-	-	157,321
(Reversal of) allowance for obsolete inventories	(13,985)	862,716	-	914	849,645
Gain on debt restructuring	-	92,093	-	-	92,093
	<u>-</u>	<u>92,093</u>	<u>-</u>	<u>-</u>	<u>92,093</u>

6. OTHER GAINS AND LOSSES

	2010 HK\$'000	2009 HK\$'000
Investment income on loans and receivables:		
Interest on bank deposits	265,533	198,724
Interest on other advances	12,788	7,612
	278,321	206,336
Investment income on available-for-sale investments:		
Dividend income	122,029	80,209
Gain on disposal	2,744,291	882,712
	2,866,320	962,921
Net gain on held for trading investments:		
Dividend income	-	120
Fair value changes of held for trading investments	2,201	229,545
	2,201	229,665
Fair value changes of derivative financial instruments	58,469	56,566
Gain on disposal of assets classified as held for sales	-	3,247
Gain (loss) on disposal of property, plant and equipment	4,573	(132)
Gain on disposal and deregistration of subsidiaries	124,267	5
Gain on disposal of associates	3,065	3,676
Gain on disposal of jointly controlled entities	27,943	-
Write off of non-demand payables	85,223	-
Impairment loss recognised in respect of property, plant and equipment	(46,701)	-
Impairment loss recognised in respect of available-for-sale investment	(18,925)	-
Government grants (Note i)	131,356	118,201
Allowance for bad and doubtful debts	(13,676)	(3,841)
Recovery of allowance for bad and doubtful debt	161,443	157,321
Net exchange gain (loss)	76,057	(10,277)
Compensation received	9,209	7,370
Sales of scrapped materials	28,177	60,279
Tax refund (Note ii)	-	109,405
Gain on debt restructuring (Note iii)	-	92,093
Sundry income	161,158	62,306
	<u>3,938,480</u>	<u>2,055,141</u>

Notes:

- (i) 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.
- (ii) In June 2009, a subsidiary of the Company obtained approval from the local tax bureau for a 50% reduction in the tax for the three years ended 31 December 2008.
- (iii) The gain on debt restructuring mainly comprised a waiver of interest payables to a bank upon full settlement of the principal outstanding.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

7. GAIN ON DEEMED PARTIAL DISPOSAL OF SUBSIDIARIES

The amount represented gain arising on dilution of the Group's equity interests in Sinofert Holdings Limited ("Sinofert") and Franshion Properties (China) Limited ("Franshion Properties"), non-wholly owned subsidiaries listed on The Hong Kong Stock Exchange Limited, resulted from share placements and rights issue of Franshion Properties and exercises of share options of Sinofert during the year ended 31 December 2009.

8. FINANCE COSTS

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Interest on bank and other borrowings wholly repayable		
- within five years	1,040,567	1,106,461
- after five years	354,364	138,631
Interest expense on convertible loan notes wholly repayable within five years	50,132	44,985
Interest on advances from fellow subsidiaries	65,000	43,077
Effective interest expenses on guaranteed senior notes	104,751	-
Upfront fee charge on arranging a term loan	116,483	-
	<u>1,731,297</u>	<u>1,333,154</u>
Total borrowing costs		
Less: Interest capitalised in properties under development and other qualifying assets	(399,538)	(269,368)
	<u>1,331,759</u>	<u>1,063,786</u>

9. TAXATION

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Hong Kong Profits Tax:		
Current tax	10,493	2,224
PRC Tax:		
PRC enterprise income tax	817,559	820,885
LAT (note 31)	263,793	166,513
(Over)underprovision in prior year	(42,021)	808
	<u>1,039,331</u>	<u>988,206</u>
Other jurisdictions:		
Current tax	25,881	(97)
(Over)underprovision in prior year	(59)	807
	<u>25,822</u>	<u>710</u>
Deferred taxation:		
Current year	140,290	(772,724)
	<u>1,215,936</u>	<u>218,416</u>

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain PRC subsidiaries is 25%.

## 9. TAXATION - continued

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 22% for the year 2010 (2009: 20%) followed by tax rates generally increased to 25% in the ensuing two years towards 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 22% and are entitled to full exemption from such tax for the first profitable year and 50% reduction in the following two years.

According to the policy for the development of the western region of the PRC promulgated by the State Council, Sinochem Chongqing Fuling Chemical Fertilizer Company Limited ("Sinochem Fuling"), a non-wholly owned subsidiary of the Company, is entitled to a preferential income tax treatment of 15% from 2002 to 2010 provided it is engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) and its principal business and revenue from the principal operations accounts for over 70% of its total revenue.

A non-wholly owned subsidiary of the Company incorporated in Macao SAR 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 sale of properties less deductible expenditures including borrowing costs and all property development expenditures.

The taxation for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Profit before taxation	7,731,855	2,975,890
Tax at income tax rate of 25% (2009: 25%)	1,932,964	743,973
Tax effect of share of results of associates	(101,017)	(92,660)
Tax effect of share of results of jointly controlled entities	(57,969)	13,779
Tax effect of expenses not deductible for tax purposes	275,763	311,978
Tax effect of income not taxable for tax purposes	(842,752)	(534,634)
Tax effect of deferred tax assets not recognised	78,207	67,875
(Over)underprovision in prior year	(42,080)	1,615
Utilisation of tax losses previously not recognised	-	(8,733)
Tax effect of preferential tax rate in the PRC	(169,365)	(323,075)
LAT (note 31)	263,793	166,513
Tax effect of LAT	(65,830)	(55,085)
Effect of different income tax rates of subsidiaries operating in other jurisdictions	(48,951)	(80,251)
Others	(6,827)	7,121
Taxation for the year	<u>1,215,936</u>	<u>218,416</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

10. PROFIT FROM DISCONTINUED OPERATION

Due to the group restructuring of the ultimate parent, the Group disposed its entire interest in International Far Eastern Leasing Co. Ltd. and its subsidiaries (collective referred to the "Disposal Group"), which carried out financial leasing business on 16 September 2009.

The results of the Disposal Group which had been included in the consolidated statement of comprehensive income for the year ended 31 December 2009 were analysed as follows:

	<u>2009</u> HK\$'000
Revenue	986,150
Cost of sales	(98,497)
Other gains and losses	977
Distribution costs and selling expenses	(104,330)
Administrative expenses	(81,449)
Finance costs	(295,630)
Profit before taxation	407,221
Taxation	(58,268)
	<u>348,953</u>

Profit for the year ended 31 December 2009 from discontinued operation included the following:

	<u>2009</u> HK\$'000
Amortisation of other long-term assets	1,365
Depreciation of property, plant and equipment	2,386
	<u>3,751</u>

During the year ended 31 December 2009, the Disposal Group paid HK\$1,688,783,000 in respect of operating activities, and contributed HK\$2,164,000 and HK\$1,896,019,000 to the Group's investing and financing cash flows, respectively.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

11. PROFIT FOR THE YEAR

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	15,461	15,744
Allowance for obsolete inventories	87,383	849,645
Amortisation of other long-term assets	26,345	23,264
Amortisation of prepaid lease payments	82,175	81,761
Depreciation of oil and gas properties	1,321,883	769,234
Depreciation of property, plant and equipment	507,926	509,565
Less: Amount capitalised in properties under development	-	(50)
	507,926	509,515
Minimum leases payments under operating lease in respect of properties	163,061	181,009
Gross rental income from investment properties	(864,528)	(862,064)
Less: Direct operating expenses from investment properties that generated rental income during the year	85,437	78,378
	(779,091)	(783,686)
Staff costs		
Directors' fee	-	-
Directors' other emoluments	1,528	5,923
Contribution to retirement benefit schemes	100,588	89,308
Other staff costs	1,188,358	1,107,527
Share-based payments	1,564	1,883
	1,292,038	1,204,641

12. DIVIDENDS

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Dividends recognised as distribution during the year:		
2010 Interim – HK24 cents per share (2009: nil)	1,825,534	-

13. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office and machinery equipments HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>								
At 1 January 2009	5,611,391	1,926,146	64,764	1,489,148	2,252,243	125,534	2,973,469	14,442,695
Additions	-	6,098	4,447	26,955	33,928	22,493	849,116	943,037
Transfer	722,037	22,781	-	163,763	448,112	-	(1,356,693)	-
Transfer to prepaid lease payments	-	-	-	-	-	-	(222,884)	(222,884)
Transfer to properties under development	-	-	-	-	-	-	(415,642)	(415,642)
Transfer to other long-term assets	(16,015)	-	-	-	-	-	(5,029)	(21,044)
Acquired on acquisition of subsidiaries (note 39)	-	-	-	675	5,731	1,521	-	7,927
Disposal of subsidiaries (note 40)	-	-	-	(15,719)	-	(3,845)	-	(19,564)
Disposals	-	(150)	-	(1,687)	(3,358)	(4,853)	-	(10,048)
Exchange realignment	683	9,602	5	(2,654)	15,052	(1,322)	8,497	29,863
At 31 December 2009	6,318,096	1,964,477	69,216	1,660,481	2,751,708	139,528	1,830,834	14,734,340
Additions	18,824	4,930	1,547	38,123	49,375	16,525	384,188	513,512
Transfer	(217,623)	789,817	-	80,831	1,129,020	-	(1,782,045)	-
Transfer from investment properties	-	60,252	-	-	-	-	-	60,252
Disposal of subsidiaries (note 40)	-	(8,427)	-	(484)	(78)	-	(233,564)	(242,553)
Disposals	(3)	(1,122)	-	(6,877)	(17,545)	(12,781)	(28,768)	(67,096)
Exchange realignment	188,857	80,851	265	38,349	130,134	3,632	25,796	467,884
At 31 December 2010	6,308,151	2,890,778	71,028	1,810,423	4,042,614	146,904	196,441	15,466,339
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>								
At 1 January 2009	539,491	172,518	56,469	560,489	263,620	48,890	-	1,641,477
Charge for the year	127,410	64,916	1,935	107,905	189,535	17,864	-	509,565
Disposal of subsidiaries (note 40)	-	-	-	(6,464)	-	(1,687)	-	(8,151)
Eliminated on disposals	-	(150)	-	(1,181)	(2,202)	(3,911)	-	(7,444)
Exchange realignment	124	615	-	(2,523)	2,370	(1,193)	-	(607)
At 31 December 2009	667,025	237,899	58,404	658,226	453,323	59,963	-	2,134,840
Charge for the year	98,428	75,721	2,540	132,768	184,209	14,260	-	507,926
Disposal of subsidiaries (note 40)	-	(680)	-	(199)	(11)	-	-	(890)
Eliminated on disposals	-	(107)	-	(5,563)	(9,027)	(4,671)	-	(19,368)
Impairment loss recognised in profit or loss	-	-	-	26	45,729	946	-	46,701
Exchange realignment	-	9,828	-	4,391	21,813	1,234	-	37,266
At 31 December 2010	765,453	322,661	60,944	789,649	696,036	71,732	-	2,706,475
<b>CARRYING AMOUNTS</b>								
At 31 December 2010	5,542,698	2,568,117	10,084	1,020,774	3,346,578	75,172	196,441	12,759,864
At 31 December 2009	5,651,071	1,726,578	10,812	1,002,255	2,298,385	79,565	1,830,834	12,599,500

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Hotel properties	1.7% to 2.8%
Land and buildings	Over the shorter of the term of the lease or 20 to 50 years
Leasehold improvements	18% to 30%
Furniture and fixtures	3.8% to 33.3%
Office and machinery equipments	7% to 30%
Motor vehicles	8.3% to 40%

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

## 13. PROPERTY, PLANT AND EQUIPMENT - continued

At the end of the reporting period, certain of the Group's hotel properties and buildings with an aggregate carrying amount of approximately HK\$2,354,923,000 (2009: HK\$2,372,545,000) were pledged to secure bank loans granted to the Group.

The Group's land and building are held under medium-term leases.

## 14. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1 January 2009	11,421,527
Exchange realignment	332
Additions	3,775
Increase in fair value recognised in profit or loss	184,881
	<hr/>
At 31 December 2009	11,610,515
Exchange realignment	420,570
Additions	11,055
Transfer to property, plant and equipment	(60,252)
Increase in fair value recognised in profit or loss	861,756
	<hr/>
At 31 December 2010	<u>12,843,644</u>

The Group's investment properties are located outside Hong Kong and held under medium-term leases.

The fair values of the investment properties at 31 December 2010 have been arrived at on the basis of a valuation carried out on that date by Jones Lang LaSalle Sallmanns Limited ("Jones Lang"), Knight Frank Petty Limited and CB Richard Ellis Limited, independent qualified professional valuers not connected with the Group. The valuations were arrived at by reference to market evidence of transaction prices for similar properties in similar locations and conditions.

All of the above investment properties are completed investment properties either rented out under operating leases or for capital appreciation purposes.

At 31 December 2010, the Group's investment properties with an aggregate carrying amount of approximately HK\$7,229,972,000 (2009: HK\$7,476,670,000) were pledged to secure certain of the Group's bank and other borrowings.

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

中化香港(集團)有限公司

**15. PREPAID LEASE PAYMENTS**

	2010 HK\$'000	2009 HK\$'000
Leasehold land in Hong Kong under long leases	96,136	96,379
Leasehold land in the PRC		
Long leases	393,690	383,606
Medium-term leases	1,980,987	1,864,178
	<u>2,374,677</u>	<u>2,247,784</u>
	<u>2,470,813</u>	<u>2,344,163</u>
Analysed for reporting purposes as:		
Current asset	86,104	80,259
Non-current asset	2,384,709	2,263,904
	<u>2,470,813</u>	<u>2,344,163</u>

At 31 December 2010, certain of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK\$373,770,000 (2009: HK\$590,217,000) were pledged to secure certain of the Group's bank and other borrowings.

**16. INVESTMENTS IN SUBSIDIARIES**

Details of the Company's principal subsidiaries as at 31 December 2010 and 2009 are as follows:

Name of company	Place of incorporation	Nominal value of issued capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Franshion Properties	Hong Kong	HK\$9,161,489,000	62.87%	-	Investment holding
Sinochem International Chemicals (Hong Kong) Limited	Hong Kong	HK\$22,770,000	100%	-	Trading of chemical products
Sinochem International Oil (Hong Kong) Company Limited	Hong Kong	HK\$20,000,000	100%	-	Trading of oil products
Sinochem Europe Capital Corporation Limited	British Virgin Islands ("BVI")	US\$1,000	100%	-	Investment holding
Sinofert	Bermuda	HK\$7,015,351,000	52.68% (2009: 52.72%)	-	Investment holding
Sinochem Asia Holdings Co., Ltd.	Singapore	US\$50,642,154	100%	-	Investment holding
Sinochem Europe Holdings PLC	United Kingdom ("UK")	US\$13,031,000	100%	-	Investment holding
Sinochem International Petroleum (Bahamas) Co., Ltd.	Nassau	RMB41,383	100%	-	Trading of crude oil and petroleum products
Sinochem Petroleum Limited 中化石油(開曼)有限公司	Cayman Islands	US\$1,000	100%	-	Trading of crude oil and petroleum products
Sinochem International Oil (London) Co., Ltd.	UK	RMB200,992,143	100%	-	Trading of petroleum products
Sinochem Resources UK Limited	UK	US\$270,063,992,000	100%	-	Investment holding

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

中化香港(集團)有限公司

16. INVESTMENTS IN SUBSIDIARIES - continued

Name of company	Place of incorporation	Nominal value of issued capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Sinochem Overseas Capital Company Limited (Note a)	BVI	US\$1	100%	-	Financing vehicle for issuance of notes
Shanghai Keyi Frانشion Business Consultancy Company Limited 上海科怡方興商務諮詢有限公司 (Note b)	PRC	RMB8,000,000	-	31.44% (Note e)	Investment holding
Shanghai Pudong Jinxin Real Estate Development Co., Ltd. 上海浦東金鑫房地產發展有限公司 (Note b)	PRC	US\$5,600,000	-	31.44% (Note e)	Investment holding
Shanghai Port International Cruise Terminal Development Co., Ltd. 上海港國際客運中心開發有限公司 (Note b)	PRC	RMB61,490,000	-	25.27% (Note e)	Property development
Shanghai International Shipping Service Center Co., Ltd. 上海國際航運服務中心有限公司 (Note b)	PRC	RMB2,450,000,000	-	31.44% (Note e)	Property development
Shanghai Huigang Real Estate Development Co., Ltd. (Note c)	PRC	RMB1,230,000,000	-	31.44% (Note e)	Property development
Sinochem Frانشion Real Estate (Zhuhai) Co., Ltd. 中化方興房地產開發(珠海)有限公司 (Note d)	PRC	RMB490,000,000	-	62.87%	Property development
Beijing Chemsunny Property Company Limited 北京凱晨置業有限公司 (Note d)	PRC	US\$102,400,000	-	62.87%	Property development and investment
Beijing Century Chemsunny Property Management Co., Ltd. (Note b)	PRC	RMB5,000,000	-	62.87%	Property management
Sinochem International Property & Hotels Management Co., Ltd. (Note d)	PRC	RMB387,600,000	-	62.87%	Property investment and management
Wangfujing Hotel Management Company Limited (Note d)	PRC	US\$73,345,000	-	62.87%	Hotel management
Sinochem Frانشion (Shang Hai) Properties Management Company Limited (Note d)	PRC	US\$8,000,000	-	62.87%	Investment holding
Sinochem Frانشion Real Estate Co., Ltd. (Note d)	PRC	RMB150,000,000	-	62.87%	Investment holding
Zhuhai Kai Ming Consultancy Services Co., Ltd. (Note c)	PRC	RMB1,000,000	-	62.87%	Provision of consultancy services
China Jin Mao (Group) Company Limited (Note b)	PRC	RMB2,635,000,000	-	62.87%	Hotel operation and property investment and management
Beijing Jin Mao Real Estate Company Limited (Note c)	PRC	RMB900,000,000	-	62.87%	Hotel operation
Jin Mao Sanya Tourism Company Limited (Note c)	PRC	RMB500,000,000	-	62.87%	Hotel operation
Jin Mao (Li Jiang) Zhi Ye Co., Ltd. (Note c)	PRC	RMB100,000,000	-	62.87%	Hotel operation
Jin Mao (Li Jiang) Hotel Investment Co., Ltd. (Note c)	PRC	RMB100,000,000	-	62.87%	Hotel operation
Shanghai Yin Hui Real Estate Development Co., Ltd. ("Shanghai Yin Hui")	PRC	RMB1,008,000,000	-	31.44% (note e)	Property development
Sinochem Kingsway Capital Inc.	Cayman Islands	HK\$10,000	-	100%	Investment holding
世盈(廈門)創業投資有限公司	PRC	RMB705,643,000	-	100%	Investment holding
Sinochem Japan Co., Ltd.	Japan	RMB4,613,894	-	100%	General trading and commission agents
Emerald Energy Plc	Isle of Man	British Pound 6,821,565	-	100%	Exploration and production of hydrocarbons

**SINOCHEM HONG KONG (GROUP) COMPANY LIMITED**  
**中化香港(集團)有限公司**

**16. INVESTMENTS IN SUBSIDIARIES - continued**

Name of company	Place of incorporation	Nominal value of issued capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Sinochem Chentuo Development Co., Ltd. (Note c)	PRC	RMB100,000,000	-	62.87%	Property development and investment
Qingdao Franshion Development Co., Ltd. (Note c)	PRC	RMB100,000,000	-	62.87%	Property development and investment
Shanghai Jinhang International Trading (Note c)	PRC	RMB10,000,000	-	62.87%	Trading of diversified products
Shanghai Jin Mao Jinsheng International Trading Company Limited (Note c)	PRC	RMB10,000,000	-	62.87%	Trading of diversified products
Shanghai Jin Mao Construction & Decoration Company Limited (Note c)	PRC	RMB10,000,000	-	62.87%	Provision of building decoration services
Jin Mao Sanya Resort Hotel Company Limited (Note c)	PRC	RMB300,000,000	-	37.72% (Note e)	Hotel operation
Jin Mao Shenzhen Hotel Investment Company Limited (Note c)	PRC	RMB400,000,000	-	62.87%	Hotel operation
Kontix Investment Limited	Hong Kong	HK\$10,000	-	62.87%	Investment holding
Wise Pine Limited	BVI	US\$1,000,000	-	62.87%	Investment holding
Franshion Capital Limited	BVI	US\$1	-	62.87%	Investment holding
China Fertilizer (Holdings) Co., Ltd.	BVI	US\$10,002	-	52.68% (2009: 52.72%)	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US\$1,000,000	-	52.68% (2009: 52.72%)	Investment holding
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US\$10,002	-	52.68% (2009: 52.72%)	Investment holding
Sinochem Fertilizer Co., Ltd. (Note d)	PRC	RMB7,600,000,000	-	52.68% (2009: 52.72%)	Fertilizer trading
Dohigh Trading Limited	Hong Kong	HK\$15,000,000	-	52.68% (2009: 52.72%)	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited	Macao SAR	MOP100,000	-	52.68% (2009: 52.72%)	Fertilizer trading
Suifenh Xinkaiyuan Trading Co., Ltd (Note c)	PRC	RMB5,000,000	-	52.68% (2009: 52.72%)	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. (Note c)	PRC	RMB47,000,000	-	28.02% (2009: 28.04%) (Note e)	Sales and manufacturing of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. (Note c)	PRC	RMB80,000,000	-	31.61% (2009: 31.63%) (Note e)	Sales and manufacturing of fertilizers
Sinochem Yantai Crop Nutrition Co., Ltd. (Note b)	PRC	US\$241,000	-	26.87% (2009: 26.89%) (Note e)	Sales of manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Co., Ltd. (Note c)	PRC	RMB5,000,000	-	52.68% (2009: 52.72%)	Fertilizer trading
Sinochem Pinyuan Chemical Co., Ltd. (Note c)	PRC	RMB300,000,000	-	39.51% (2009: 39.54%) (Note e)	Sales and manufacturing of fertilizers
Sinochem Jilin Changshan Chemical Co., Ltd. (Note c)	PRC	RMB589,590,000	-	47.84% (2009: 47.88%) (Note e)	Sales and manufacturing of fertilizers
Hubei Sinochem Orient Fertilizer Co., Ltd. (Note c)	PRC	RMB30,000,000	-	42.14% (2009: 42.14%) (Note e)	Sales and manufacturing
Sinochem Shandong Fertilizer Co., Ltd. (Note c)	PRC	RMB100,000,000	-	26.87% (2009: 26.89%) (Note e)	Sales of manufacturing of fertilizers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd. (Notes a and c)	PRC	RMB100,000,000	-	52.68%	Fertilizer retailing
Sinochem Ningxia Chemical Co., Ltd. (Notes a and c)	PRC	RMB160,000,000	-	52.68%	Sales and manufacturing of fertilizer
Sinochem Franshion Investment and Management (Beijing) Co., Ltd. (Note d)	PRC	US\$415,000,000	-	62.87%	Property development

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

中化香港(集團)有限公司

16. INVESTMENTS IN SUBSIDIARIES - continued

Notes:

- (a) The companies were incorporated during the year ended 31 December 2010.
- (b) Companies registered as Sino-foreign joint ventures under the PRC law.
- (c) Companies registered as limited liability companies under the PRC law.
- (d) Companies registered as wholly-foreign owned entities under the PRC law.
- (e) The Group controls the board of directors of these entities by virtue of its power to cast the majority of votes at meetings of the board, and therefore has the power to exercise control over their operating and financial activities.

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

Under the terms of memorandum and article of association of Shanghai Yin Hui made in 2008, all resolutions must be approved by 2/3 of the board of Shanghai Yin Hui, as such all events must require unanimous consent by the Group and the other shareholder, Shanghai Yin Hui was classified as a jointly controlled entity of the Group. On 18 May 2010, the Group and the other shareholder of Shanghai Yin Hui entered into a joint venture contract, pursuant to which the board composition of Shanghai Yin Hui would consist of 7 directors, 4 of whom would be nominated by the Group while the remaining 3 would be nominated by the other shareholder, and all resolutions could be approved by the majority of votes. As the Group has the power to exercise control over the operating and financial activities of Shanghai Yin Hui, Shanghai Yin Hui has been classified as subsidiary of the Company since 18 May 2010.

17. PROPERTIES UNDER DEVELOPMENT

	HK\$'000		
At 1 January 2009	6,736,455		
Exchange realignment	4,422		
Additions (including development costs, land use rights and capitalised expenditure)	5,947,870		
Transfer from property, plant and equipment	415,642		
Transfer to properties held for sale	(1,803,110)		
	<u>11,301,279</u>		
At 31 December 2009	11,301,279		
Exchange realignment	404,641		
Additions (including development costs, land use rights and capitalised expenditure)	1,747,484		
Addition as a result of control gained in a then jointly controlled entity (note 16)	2,218,775		
Transfer to prepaid lease payments	(43,527)		
Transfer to properties held for sale	(2,083,409)		
	<u>13,545,243</u>		
At 31 December 2010	<u>13,545,243</u>		
		<u>2010</u>	<u>2009</u>
		HK\$'000	HK\$'000
Analysed for reporting purposes as:			
Current asset		1,050,968	2,601,271
Non-current asset		12,494,275	8,700,008
		<u>13,545,243</u>	<u>11,301,279</u>

All the Group's properties under development are located in the PRC and held under medium-term leases.

**SINOCHEM HONG KONG (GROUP) COMPANY LIMITED**  
**中化香港(集團)有限公司**

18. INTERESTS IN ASSOCIATES

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Cost of investments in associates		
Listed in the PRC	7,694,053	7,694,053
Unlisted	1,819,494	2,064,329
Share of post acquisition losses and other comprehensive income, net of dividend received	128,015	(172,532)
	<u>9,641,562</u>	<u>9,585,850</u>
Fair value of listed investments	<u>11,063,749</u>	<u>9,179,099</u>

Included in the cost of investments in associates is goodwill of HK\$7,133 million (2009: HK\$7,091 million) arising on acquisitions of associates. The movement of goodwill is set out below.

	HK\$'000
COST	
At 1 January 2009 and 31 December 2009	7,090,752
Exchange realignment	42,940
At 31 December 2010	<u>7,133,692</u>

Details of the Group's principal associates as at 31 December 2010 and 2009 are as follows:

Name of entity	Country of incorporation	Principal place of operation	Class of share held	Effective interest of issued capital/ registered capital held by the Group		Principal activities
				2010 %	2009 %	
Dongguan Zhonghua Hua Mei Plastics Co., Ltd.	PRC	PRC	Capital contribution	35	35	Production and sale of chemical fibre
Nantong Jiamin Terminal & Storage Co., Ltd. 南通嘉民港儲有限公司	PRC	PRC	Capital contribution	33.33	33.33	Storage of crude oil and related products
Sinochem-Xingyuan Oil Staging (Zhoushan) Co., Limited 中化興源石油儲運(舟山)有限公司	PRC	PRC	Capital contribution	25	25	Godown business
Tianjin North Packing Company Limited 天津北方包裝有限公司	PRC	PRC	Capital contribution	25	25	Goods packaging service
West Pacific Petrochemical Co., Ltd. 大連西太平洋石油化工有限公司	PRC	PRC	Capital contribution	25.2	25.2	Production and sale of crude oil and related products
Shanghai Orient Terminal Company Limited 上海東方儲罐有限公司	PRC	PRC	Capital contribution	25	25	Godown business
Shanghai East Packing Co., Ltd. 上海東方散貨包裝有限公司	PRC	PRC	Capital contribution	31	31	Goods packaging service

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

中化香港(集團)有限公司

18. INTERESTS IN ASSOCIATES - continued

Name of entity	Country of incorporation	Principal place of operation	Class of share held	Effective interest of issued capital/ registered capital held by the Group		Principal activities
				2010 %	2009 %	
Qinghai Salt Lake Potash Co., Ltd. ("Qinghai Salt Lake") 青海鹽湖鉀肥股化有限公司	PRC	PRC	Ordinary	18.49	18.49	Production and sales of fertilizers
Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. 貴州鑫新工農貿易有限公司	PRC	PRC	Ordinary	30	30	Production and sales of phosphate rock
TPFZ Kenhua International Trading & Industry Co., Ltd. (天津港保稅區墾化國際貿易實業有限公司)	PRC	PRC	Capital contribution	30	30	Trading
盈創再生資源有限公司 (note i)	PRC	PRC	Capital contribution	-	40	Production and sales of chemical products
沈陽科創化學品有限公司 (note i)	PRC	PRC	Capital contribution	-	49	Production and sales of chemical products
中化國際太倉興國實業有限公司	PRC	PRC	Capital contribution	25	25	Production and sales of chemical products
中化國際太倉興諾實業有限公司	PRC	PRC	Capital contribution	25	25	Production and sales of chemical products
中化國際(蘇州工業園)新材料研發有限公司	PRC	PRC	Capital contribution	25	25	Production and sales of chemical products
太倉中化環保有限公司	PRC	PRC	Capital contribution	35	35	Production and sales of chemical products
舟山中威石油儲運有限公司 ("舟山中威") (note ii)	PRC	PRC	Capital contribution	50	50	Godown business
中化格力倉儲有限公司 ("格力倉儲")	PRC	PRC	Capital contribution	25	25	Godown business
中化格力港務有限公司	PRC	PRC	Capital contribution	25	25	Godown business
中化揚州石化倉儲碼頭有限公司	PRC	PRC	Capital contribution	25	25	Godown business
中化天津港石化倉儲有限公司	PRC	PRC	Capital contribution	25	25	Godown business
中化興中石油轉運(舟山)有限公司	PRC	PRC	Capital	25	25	Godown business
Qinghai Ganghua Logistics Company Limited 青島港華物流有限公司	PRC	PRC	Ordinary contribution	25	25	Logistics services
Tianjin Beihai Industrial Company Limited 天津北海實業有限公司	PRC	PRC	Capital contribution	30.9	30.9	Logistics services
Yara Sinochem Environment Protection (Qingdao) Co., Ltd. 雅苳中化環保(青島)有限公司	PRC	PRC	Capital contribution	40	40	Sales of fertilizers
天津港中化石化碼頭有限公司	PRC	PRC	Capital contribution	25	25	Godown business

18. INTERESTS IN ASSOCIATES - continued

Notes:

- (i) The Group disposed of the interests in these associates during the year ended 31 December 2010.
- (ii) The Group holds 50% of the registered capital of 舟山中威. However, under the terms of the memorandum and the articles of association of 舟山中威, the Group can only appoint 1 out of the 4 directors on the board of directors of 舟山中威 and control of the entity is by the board. Therefore, 舟山中威 is classified as an associate of the Group as the Group has significant influence by virtue of its right to appoint 1 director.

The above table lists the associates of the Company which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

The summarised financial information in respect of the associates of the Group which are accounted for using the equity method is as follows:

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Total assets	32,162,377	29,584,963
Total liabilities	<u>(22,185,175)</u>	<u>(21,685,053)</u>
Net assets	<u>9,977,202</u>	<u>7,899,910</u>
The Group's share of net assets of associates	<u>2,507,870</u>	<u>2,495,098</u>
Revenue	<u>49,359,186</u>	<u>38,913,405</u>
Profit for the year	<u>3,099,154</u>	<u>3,055,550</u>
Group's share of profits and other comprehensive income of associates for the year	<u>404,067</u>	<u>370,637</u>

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

中化香港(集團)有限公司

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Cost of investment in jointly controlled entities	4,239,544	5,320,154
Share of post-acquisition (loss) profit and other comprehensive income, net of dividends received	<u>(107,389)</u>	<u>75,897</u>
	<u>4,132,155</u>	<u>5,396,051</u>

Included in the cost of investments in jointly controlled entities is goodwill of HK\$2,936 million (2009: HK\$3,428 million) arising on acquisition of jointly controlled entities. The movement of goodwill is set out below.

	HK\$'000
<b>COST</b>	
At 1 January 2009 and 31 December 2009	3,428,060
Eliminated on disposal	<u>(492,138)</u>
At 31 December 2010	<u>2,935,922</u>

Details of the principal jointly controlled entities as at 31 December 2010 and 2009 are as follows:

<u>Name of entity</u>	<u>Country of registration and principal place of operation</u>	<u>Class of share held</u>	<u>Effective interest of issued capital/ registered capital held by the Group</u>		<u>Principal activities</u>
			<u>2010</u> %	<u>2009</u> %	
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited 天津北方化肥物流配送有限公司	PRC	Capital contribution	31.63	31.67	Fertilizer logistics
Guiyang Sinochem Kailin Fertilizer Company Limited 貴陽中化開磷化肥有限公司	PRC	Capital contribution	21	21	Sales and manufacturing of fertilizers
Yunnan Three Circles-Sinochem -Cargill Fertilizer Company Limited 雲南三環中化嘉吉化肥有限公司	PRC	Capital contribution	13	13	Sales and manufacturing of fertilizers
Yunnan Three-Circles Sinochem Fertilizer Company Limited 雲南三環中化化肥有限公司	PRC	Capital contribution	20	20	Sales and manufacturing of fertilizers
Beijing Sinochem Tianji Trading Co., Ltd. 北京中化天脊貿易有限公司	PRC	Capital contribution	31.63	31.67	Fertilizers trading

**SINOCHEM HONG KONG (GROUP) COMPANY LIMITED**  
**中化香港(集團)有限公司**

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES - continued

Name of entity	Country of registration and principal place of operation	Class of share held	Effective interest of issued capital/ registered capital held by the Group		Principal activities
			2010 %	2009 %	
Gansu Wengfu Chemical Co., Ltd. 甘肅瓮福化工有限責任公司	PRC	Capital contribution	15	15	Sales and manufacturing of fertilizers
Tianjin Franshion Head Co., Ltd.	PRC	Capital contribution	30.81	30.81	Property development
Shanghai Yin Hui (Note i)	PRC	Capital contribution	-	50	Provision of development construction and management
Tianji Sinochem Gaoping Chemical Engineering Company Limited 天脊中化高平化工有限公司	PRC	Capital contribution	21.09	21.09	Sales and manufacturing of fertilizers
Shanghai Jin Mao Jin Jiang Automobile Service Company Limited	PRC	Capital contribution	31.44	31.44	Lease of commercial vehicles
Shanghai Jin Mao Auto Hire Company Limited	PRC	Capital contribution	28.29	28.29	Lease of commercial vehicles
Suzhou Jin Mao Jin Jiang Foreign Affairs and Tourism Bus Co., Ltd	PRC	Capital contribution	31.12	31.12	Lease of commercial vehicles
Shanghai Jin Mao International Cruising-Yacht Company Limited	PRC	Capital contribution	14.46	14.46	Provision of yacht service
Comeco Petroleum Inc. (Note ii)	PRC	Capital contribution	58.75	58.75	Sales of crude oil

Notes:

- (i) During the year, Shanghai Yin Hui was classified as the Company's subsidiary as stated in note 16.
- (ii) Under the terms of memorandum and articles of association of Comeco Petroleum Inc., all resolutions must be approved by at least 60% of the voting rights in the board of directors of Comeco Petroleum Inc., as such all events must require unanimous consent by the Company and other shareholder. Therefore, Comeco Petroleum Inc. is classified as a jointly controlled entity of the Group.

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors of the Company, result in particulars of excessive length.

SINOCEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES - continued

The summarised financial information in respect of the Group's interests in jointly controlled entities which are accounted for using equity method is set out below:

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Current assets	1,206,122	1,786,449
Non-current assets	2,195,577	3,040,072
	<u>3,401,699</u>	<u>4,826,521</u>
Current liabilities	(1,704,838)	(1,957,288)
Non-current liabilities	(500,628)	(901,242)
	<u>(2,205,466)</u>	<u>(2,858,530)</u>
Net assets	<u>1,196,233</u>	<u>1,967,991</u>
Income recognised in profit or loss	<u>3,249,327</u>	<u>2,800,734</u>
Expense recognised in profit or loss	<u>(3,017,450)</u>	<u>(2,855,848)</u>
Profit (loss) for the year	<u>231,877</u>	<u>(55,114)</u>

20. GOODWILL

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
COST AND CARRYING AMOUNTS		
At 1 January	3,719,070	3,047,551
Acquisition of additional interests in subsidiaries	-	951,577
Eliminated on partial disposal of subsidiaries	-	(162,123)
Eliminated on deemed disposal of subsidiaries	-	(117,935)
At 31 December	<u>3,719,070</u>	<u>3,719,070</u>

For the purposes of impairment testing, goodwill have been allocated to two cash generating units ("CGUs") relating to fertilizers division and real estate division. The carrying amount of goodwill as at 31 December 2010 and 2009 allocated to these divisions are as follows:

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Fertilizers division	1,719,499	1,719,499
Real estate division	1,999,571	1,999,571
	<u>3,719,070</u>	<u>3,719,070</u>

20. GOODWILL - continued

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific relating to the CGUs. The growth rates are based on GDP growth of the PRC economy. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

Fertilizers division

At the end of the reporting period, the Group performed impairment review for goodwill based on cash flow forecasts of this CGU derived from financial budgets of the next year approved by directors and a discount rate of 10.35% (2009: 10.43%). Both sets of cash flows beyond the year 2010 are extrapolated using an average growth rate of 20% (2009: 16.11%) for the first two years (2009: eight years) and a growth rate of 6.8% (2009: 6.81%) for the following ten (2009: five) years. The value in use calculated is higher than the carrying amount of CGU, accordingly, there are no impairment of CGU relating to the fertilizers division.

Real estate division

At the end of the reporting period, the Group performed impairment review for goodwill based on cash flow forecasts of this CGU derived from financial budgets of the next year approved by directors and a discount rate of 8.5% (2009: 7%). The cash flows beyond the year 2010 are extrapolated using an average growth rate of 7.5% (2009: 7.2%) for five years. The value in use calculated by using the discount rate is higher than the carrying amount of CGU, accordingly, there are no impairment of real estate division.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED  
中化香港(集團)有限公司

21. OIL AND GAS PROPERTIES

	HK\$'000
<b>COST</b>	
At 1 January 2009	6,693,433
Additions	371,532
Acquisition of subsidiaries (note 39)	7,252,432
Exchange realignment	80,629
	<hr/>
At 31 December 2009	14,398,026
Additions	1,264,349
	<hr/>
At 31 December 2010	15,662,375
	<hr/>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	
At 1 January 2009	2,610,596
Charge for the year	769,234
Exchange realignment	33,395
	<hr/>
At 31 December 2009	3,413,225
Charge for the year	1,321,883
	<hr/>
At 31 December 2010	4,735,108
	<hr/>
<b>CARRYING AMOUNTS</b>	
At 31 December 2010	10,927,267
	<hr/>
At 31 December 2009	10,984,801
	<hr/> <hr/>

22. DEPOSITS FOR ACQUISITIONS OF NON-CURRENT ASSETS

	<u>2010</u> HK\$	<u>2009</u> HK\$
Advance payments for an investment (note i)	1,551,287	-
Deposit for oil and gas properties (note ii)	2,393,040	-
Deposits for acquisition of property, plant and equipment	29,919	26,238
	<u>3,974,246</u>	<u>26,238</u>

- (i) On 11 May 2010, the Group entered into a framework cooperation agreement with Qingdao Urban Construction Investment (Group) Co., Ltd. ("Qingdao Urban Investment Group") pursuant to which the Group and Qingdao Urban Investment Group intended to jointly develop Lanhai Xingang City project located in Qingdao, the PRC.

On 5 November 2010, Qingdao Franshion Properties Co., Ltd. ("Qingdao Franshion"), a non-wholly owned subsidiary established for the purpose of operating Lanhai Xingang City project, and Qingdao Urban Investment Group entered into a capital increase agreement pursuant to which Qingdao Franshion agreed to inject RMB1 billion into Qingdao Lanhai Xingang City Properties Co., Ltd. ("Lanhai Xingang City Properties"), a wholly owned subsidiary of Qingdao Urban Investment Group, by way of capital injection to subscribe for its new registered capital. Upon the completion of the above subscription and capital injection, the registered capital of Lanhai Xingang City Properties will be increased to RMB2 billion and each of the Group (through Qingdao Franshion) and Qingdao Urban Investment Group will hold a 50% equity interest in Lanhai Xingang City Properties. Pursuant to the capital increase agreement, Qingdao Franshion also agreed to provide a shareholder's loan of RMB1.235 billion to Lanhai Xingang City Properties to finance the development of Lanhai Xingang City project. Correspondingly, Qingdao Urban Investment Group also agreed to convert an amount of RMB1.235 billion payable by Lanhai Xingang City Properties to a shareholder's loan to finance the development of Lanhai Xingang City project.

The acquisition transaction was not yet completed on 31 December 2010. The Group's advances made to Lanhai Xingang City Properties in respect of the aforementioned subscription and shareholder's loan aggregated to RMB1,320,019,000 (equivalent to approximately HK\$1,551,287,000) at 31 December 2010.

- (ii) On 21 May 2010, the Group entered into an agreement to purchase a 40% interest in Brazil's Peregrino oilfield from Statoil ASA ("Statoil") for US\$3.07 billion. At the end of the reporting period, a deposit of US\$307 million was paid (equivalent to approximately HK\$2,393,040,000). On 14 April 2011, the transaction has been completed.

## 23. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Listed equity securities	4,746,466	4,459,982
Unlisted equity securities	155,410	57,266
	<u>4,901,876</u>	<u>4,517,248</u>

All listed available-for-sale investments are stated at fair value determined by reference to the quoted market bid price from the relevant stock exchange.

The above unlisted securities representing investments in private entities and club memberships. They are measured at cost less impairment at the end of the reporting period, because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 24. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Approximately HK\$2,121,556,000 (2009: HK\$4,057,861,000) pledged bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets. As at 31 December 2009, the remaining pledged bank deposits of approximately HK\$249,876,000 were classified as non-current assets as they had been pledged to secure long-term bank borrowings.

Bank balances and cash

Bank balances and cash comprise cash at banks and cash held by the Group bearing interest at prevailing market rates.

## 25. INVENTORIES

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Fertilizer merchandise and finished goods	6,413,856	7,619,939
Raw materials	1,068,044	806,038
Work in progress	41,201	21,231
Consumables	140,909	142,936
	<u>7,664,010</u>	<u>8,590,144</u>

26. TRADE AND BILLS RECEIVABLES

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Trade receivables	24,171,097	17,032,934
Less: Allowance for bad and doubtful debts	(443,556)	(590,800)
	<u>23,727,541</u>	<u>16,442,134</u>
Bills receivables	3,604,449	2,598,627
	<u>27,331,990</u>	<u>19,040,761</u>

The Group allows an average credit period normally within 90 days to its trade customers.

Before accepting any new customer, the Group uses past experience to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

Included in the Group's trade and bills receivables are debtors with an aggregated carrying amount of HK\$20,126,000 (2009: HK\$60,263,000), which were past due at the end of the reporting period for which the Group had not provided for impairment loss. Based on past experience, the directors of the Company are of the opinion that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 93 days (2009: 220 days).

Aging of trade and bills receivables which are past due but not impaired

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Less than 90 days	14,029	7,263
91-180 days	4,385	12,031
181-360 days	999	38,702
Over 360 days	713	2,267
	<u>20,126</u>	<u>60,263</u>

Movements in the allowance for bad and doubtful debts

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Balance at beginning of the year	590,800	878,011
Amounts recovered	(161,443)	(157,873)
Exchange realignment	523	8,506
Amounts written off as uncollectible	-	(6,307)
Impairment loss recognised	13,676	4,908
Disposal of subsidiaries	-	(136,445)
Balance at end of the year	<u>443,556</u>	<u>590,800</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED  
 中化香港(集團)有限公司

27. PROPERTIES HELD FOR SALE

The Group's properties held for sale are held under medium-term leases in the PRC and are stated at cost.

28. HELD FOR TRADING INVESTMENTS

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Equity securities listed in Hong Kong at fair value	<u>262,648</u>	<u>353,207</u>

29. AMOUNTS DUE FROM AND TO GROUP COMPANIES

	<u>Notes</u>	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
<u>Amounts due from group companies</u>			
Amounts due from associates	(iii)	430,203	90,078
Amounts due from jointly controlled entities	(iii)	56,850	160,066
Amounts due from fellow subsidiaries	(i)	15,450,823	5,163,041
Amount due from ultimate parent	(iii)	203,514	171,730
Amount due from immediate parent	(iii)	-	150
		<u>16,141,390</u>	<u>5,585,065</u>
Analysed for reporting purposes as:			
Current		16,025,885	5,473,004
Non-current		<u>115,505</u>	<u>112,061</u>
		<u>16,141,390</u>	<u>5,585,065</u>
<u>Amounts due to group companies</u>			
Amounts due to jointly controlled entities	(iii)	43,080	19,382
Amount due to ultimate parent	(ii)	274,208	254,658
Amounts due to associates	(iii)	-	267,633
Amount due to immediate parent	(iii)	11,979,001	7,735,844
Amounts due to fellow subsidiaries	(ii)	1,210,579	3,668,572
		<u>13,506,868</u>	<u>11,946,089</u>
Analysed for reporting purposes as:			
Current		13,506,868	11,718,929
Non-current		<u>-</u>	<u>227,160</u>
		<u>13,506,868</u>	<u>11,946,089</u>

## 29. AMOUNTS DUE FROM AND TO GROUP COMPANIES - continued

Notes:

- (i) Included are an amount of US\$6,300,000 (equivalent to approximately HK\$49,034,000) bears interest at 2.71063% per annum and repayable on 6 August 2012 and an amount of US\$8,150,000 (equivalent to approximately HK\$63,433,000) bears interest at 1.48313% per annum and repayable on 21 October 2013. The remaining balances are interest free and repayable on demand except for an amount of US\$50,589,267 (equivalent to approximately HK\$393,745,000) bears interest at 2.03706% per annum.

At 31 December 2009, included was an amount of HK\$112,061,000 borne interest ranging from 1.4% to 2.8% per annum and repayable in five years, the remaining balances were interest free and repayable on demand.

- (ii) At 31 December 2010, the amounts are interest free and repayable on demand. At 31 December 2009, included was an amount of HK\$77,551,000 borne interest rate of 1-month LIBOR + 60bps, HK\$1,476,540,000 borne prevailing market interest rate and HK\$227,160,000 borne interest at 4.86% per annum, the remaining balances were interest free.
- (iii) The amounts are non-interest bearing.
- (iv) All the amounts due from and to group companies are unsecured.

## 30. BORROWINGS

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Bank loans, secured	10,620,887	11,278,419
Bank loans, guaranteed	466,990	6,578,901
Bank loans, unsecured	11,043,209	10,633,877
Guaranteed senior notes (Note i)	15,414,527	-
Debenture, secured (Note ii)	1,175,200	1,135,800
Bonds, guaranteed (Note iii)	2,917,883	2,811,094
Other loans, unsecured (Note iv)	470,080	57,566
	<u>42,108,776</u>	<u>32,495,657</u>
Carrying amount repayable:		
Within one year	11,417,755	22,016,077
More than one year, but not more than five years	9,591,585	5,564,490
More than five years	21,099,436	4,915,090
	<u>42,108,776</u>	<u>32,495,657</u>
Less: Amounts due within one year shown under current liabilities	<u>(11,417,755)</u>	<u>(22,016,077)</u>
Amounts due more than one year	<u>30,691,021</u>	<u>10,479,580</u>

## 30. BORROWINGS - continued

## Notes:

- (i) On 4 November 2010, Sinochem Overseas Capital Company Limited, a wholly owned subsidiary of the Company issued US\$1,500,000,000 4.5% guaranteed senior notes due 2020 (the "2020 Notes") and US\$500,000,000 6.3% guaranteed senior notes due 2040 (the "2040 Notes" and, together with the 2020 Notes, the "Notes"). The Notes are unsecured and guaranteed by the Company. The 2020 Notes and 2040 Notes bear interest at a rate of 4.5% per annum and 6.3% per annum, respectively. Interest will be paid on the Notes semi-annually and in arrears on 12 May and 12 November of each year, beginning on 12 May 2011. Unless previously repurchased, cancelled or redeemed, the 2020 Notes and the 2040 Notes will mature on 12 November 2020 and 12 November 2040, respectively, at a price equal to 100% of the principal amount thereof. The effective interest rates of 2020 Notes and 2040 Notes are 4.63% and 6.43% per annum, respectively.
- (ii) On 20 April 2002, a subsidiary of the Company issued a guaranteed debenture with a principal amount of RMB1,000,000,000 (the "Ten-year Debenture") at an issue price equal to the face value of the debenture. The Ten-year Debenture bears interest at a fixed rate of 4.22% and matures on 28 April 2012.
- (iii) On 25 November 2009, a subsidiary of the Company issued corporate bonds with an aggregate principal amount of RMB2,500,000,000 (the "Ten-year Bonds") with a maturity of 10 years and a fixed interest rate of 5.00% per annum. The transaction costs of RMB23,265,000 directly attributable to issuance of the bonds have been deducted from the principal amount of the Ten-year Bonds. The repayment of the Ten-year Bonds is guaranteed by Sinochem Group, the ultimate parent.
- (iv) Balances represent amounts due to independent third parties.

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

	<u>2010</u>	<u>2009</u>
Effective interest rate:		
Fixed rate borrowings	1.02% to 6.43%	1.55% to 5.76%
Variable-rate borrowings	0.68% to 5.94%	0.76% to 7.47%

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

- (i) certain of the Group's property, plant and equipment with an aggregated carrying amount of approximately HK\$2,354,923,000 (2009: HK\$2,372,545,000);
- (ii) certain of the Group's investment properties with an aggregated carrying amount of approximately HK\$7,229,972,000 (2009: HK\$7,476,670,000);
- (iii) certain of the Group's prepaid lease payments with an aggregated carrying amount of approximately HK\$373,770,000 (2009: HK\$590,217,000);
- (iv) certain of the Group's properties under development with an aggregated carrying amount of approximately HK\$5,216,355,000 (2009: nil);
- (v) certain of the Group's properties held for sale with an aggregated carrying amount of approximately HK\$141,878,000 (2009: nil);
- (vi) bill receivables of approximately HK\$76,263,000 (2009: nil);
- (vii) pledged bank deposits of approximately HK\$2,121,556,000 (2009: HK\$4,307,737,000);
- (viii) bank deposits of certain non-controlling shareholders of the Company's subsidiaries with an aggregated carrying amounts of approximately HK\$411,320,000 (2009: HK\$1,163,059,000); and
- (ix) guarantee from ultimate parent, letter of awareness and letter of comfort issued by ultimate parent.

31. PROVISION FOR LAND APPRECIATION TAX

	HK\$'000
At 1 January 2009	418,390
Charge to the profit or loss during the year (note 9)	166,513
Payment during the year	(13,876)
Exchange realignment	148
At 31 December 2009	571,175
Charge to the profit or loss during the year (note 9)	263,793
Payment during the year	(22,509)
Transfer from tax recoverable	(14,983)
Exchange realignment	25,118
At 31 December 2010	822,594

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

Effective from 4 December 1995 in Shanghai and Beijing and from 8 May 1995 in Zhuhai, the local tax bureau requires the prepayment of LAT on the pre-sale and sale proceeds of property development. According to the relevant tax notices issued by local tax authorities, the Group is required to pre-pay LAT in advance at 1% to 2% on the sales and pre-sale proceeds of the Group's properties.

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

32. CONVERTIBLE LOANS

Convertible loan notes issued by Sinofert

A subsidiary of the Company, Sinofert issued 130,000 zero coupon notes with face value of HK\$10,000 each on 7 August 2006. The convertible loan notes are denominated in HK\$. The notes entitle the holders to convert them into ordinary shares of Sinofert on or after 22 August 2006 up to and including the close of business on 23 July 2011 or, if the notes shall have been called for redemption before the 7 August 2011 (maturity date), then the holders have the option to convert up to the close of business on a date no later than seven business days prior to the date fixed for redemption at a conversion price of HK\$3.74 per ordinary share of Sinofert. Pursuant to the applicable terms in the convertible loan notes agreement, the conversion price was adjusted to HK\$3.64 on 10 June 2009. According to the terms of the convertible loan notes, Sinofert has the option to pay the holder cash amount in HK\$ equal to the arithmetic average of the volume weighted average price of the Sinofert's shares for each day during the three consecutive stock exchange business days immediately after the cash settlement notice date, the next stock exchange business day following the date of delivery of the conversion notice by the holder. If the notes have not been converted or early redeemed, they will be redeemed on the maturity date at 127.23% of the face value of the notes.

At any time after 7 August 2009 and prior to the maturity date, Sinofert has the right to redeem the notes in whole but not in part at the early redemption amount if the closing price of the shares on each of the 30 consecutive trading days immediately prior to the date upon which notice of such redemption is given was at least 130% of the applicable early redemption amount divided by the conversion ratio (as defined in the Terms and Conditions of the convertible loan notes).

On 7 August 2009, the holders have the right to require Sinofert to redeem in whole or in part of the notes at 115.55% of the face value of the notes according to the convertible loan notes adjustments.

The convertible loan notes contain liability component stated at amortised cost and conversion option, holders' redemption option and issuer redemption option (collectively the "derivative component") stated at fair value. The derivative component is presented on a net basis as the terms and conditions of options under the derivative component are inter-related. Issue costs of HK\$29,428,000 are apportioned between the liability component and derivative component based on their relative fair values at the date of issue. An issue cost of HK\$27,513,000 relating to liability component is included into the fair value of liability component at the date of issue. The effective interest rate of the liability component is 6.82%.

No redemption was demanded by the holders on 7 August 2009. As at 31 December 2010, the liability component and derivative component of the convertible loan notes are classified as current liabilities as the maturity date of the notes, which is on 7 August 2011, falls within next year.

## 32. CONVERTIBLE LOANS - continued

Convertible loan notes issued by Sinofert - continued

The movement of the liability component and derivative component of the convertible loan notes for the year is set out as below:

	<u>Liability component</u> HK\$'000	<u>Derivative component</u> HK\$'000	<u>Total</u> HK\$'000
As at 1 January 2009	665,797	225,880	891,677
Interest charge	44,985	-	44,985
Changes in fair value	-	(56,566)	(56,566)
As at 31 December 2009	710,782	169,314	880,096
Interest charge	50,132	-	50,132
Changes in fair value	-	(112,750)	(112,750)
As at 31 December 2010	760,914	56,564	817,478

Perpetual convertible securities issued by Franshion Capital Limited

On 12 October 2010, Franshion Capital Limited, a non-wholly owned subsidiary of the Company issued perpetual convertible securities with a nominal value of US\$600 million (equivalent to HK\$4,655,166,000). The direct transaction costs attributable to the perpetual convertible securities amounted to HK\$67,166,000. The perpetual convertible securities are convertible at the option of the holders of perpetual convertible securities into ordinary shares of Franshion Properties, at any time on or after 11 October 2011 at the initial conversion price of HK\$2.83 per ordinary share of Franshion Properties. While the perpetual convertible securities confer a right to receive distributions at 6.8% per annum, Franshion Capital Limited may, at its sole discretion, elect to defer a distribution pursuant to the terms of the perpetual convertible securities. The perpetual convertible securities have no maturity date and are redeemable at the option of Franshion Capital Limited at any time after 11 October 2015 at 110% of the outstanding principal amount, together with all outstanding arrears of distribution (if any) and the distribution accrued to the date fixed for redemption.

33. DERIVATIVE FINANCIAL INSTRUMENTS

	<u>2010</u> HK\$	<u>2009</u> HK\$
<u>Financial liabilities</u>		
Derivative component of convertible loan notes (note 32)	56,564	169,314
Crude oil derivative financial instruments	124,352	-
	<u>180,916</u>	<u>169,314</u>

The fair values of the derivative financial instruments are estimated based on the difference between the contracted strike prices and prevailing futures prices or published oil indexes as at the end of the reporting period. Such prevailing futures prices or published oil indexes are derived from the relevant futures exchanges or oil prices publication as specified in the contracts.

The fair value of the derivative component of convertible loan notes, at the end of the reporting period is determined based on the valuation performed by Jones Lang, an independent professionally qualified valuer, using the applicable pricing model.

34. DEFERRED TAX

The following are major deferred tax liabilities recognised and movements thereon during the current and prior years:

Deferred tax liabilities

	Provision for LAT HK\$'000	Revaluation of investment properties HK\$'000	Revaluation of available- for-sales investment HK\$'000	Depreciation allowance in excess of related depreciation HK\$'000	Fair value adjustment on business combination HK\$'000	Revaluation of oil and gas properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2009	-	1,465,069	32,193	236,131	422,718	-	(8,011)	2,148,100
Acquired on acquisition of subsidiaries (note 39)	-	-	-	-	1,090,830	68,234	1,630	1,160,694
(Credit) charge to profit or loss	(60,935)	51,863	-	28,730	8,847	(17,277)	(16)	11,212
Credit to other comprehensive income	-	-	(34,243)	-	-	-	-	(34,243)
Exchange realignment	(60)	42	194	28	4,410	-	-	4,614
At 31 December 2009	<u>(60,995)</u>	<u>1,516,974</u>	<u>(1,856)</u>	<u>264,889</u>	<u>1,526,805</u>	<u>50,957</u>	<u>(6,397)</u>	<u>3,290,377</u>
Charge (credit) to profit or loss	-	216,760	-	35,143	147	(35,209)	(11,692)	205,149
Credit to other comprehensive income	-	-	495	-	-	-	-	495
Exchange realignment	-	56,490	(69)	10,037	2,755	5,967	(9,769)	65,411
At 31 December 2010	<u>(60,995)</u>	<u>1,790,224</u>	<u>(1,430)</u>	<u>310,069</u>	<u>1,529,707</u>	<u>21,715</u>	<u>(27,858)</u>	<u>3,561,432</u>

34. DEFERRED TAX - continued

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

Deferred tax assets

	Accelerated tax depreciation HK\$'000	Provision HK\$'000	Provision for LAT HK\$'000	Unrealised profits in inventories HK\$'000	Losses available for offset against future taxable profits HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2009	6,888	129,462	60,995	30,546	82,395	2,623	312,909
(Charge) credit to profit or loss	(323)	110,186	2,404	(5,703)	689,070	7,359	802,993
Disposal of subsidiaries (note 40)	-	(20,012)	-	-	-	-	(20,012)
Exchange realignment	43	780	2	184	245	23	1,277
At 31 December 2009	6,608	220,416	63,401	25,027	771,710	10,005	1,097,167
Credit (charge) to profit or loss	8,521	(184,375)	64,309	(19,831)	172,196	24,039	64,859
Exchange realignment	459	3,499	5,922	424	29,699	1,429	41,432
Disposal of a subsidiary (note 40)	-	-	-	-	(2,182)	-	(2,182)
At 31 December 2010	15,588	39,540	133,632	5,620	971,423	35,473	1,201,276

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through the future taxable profits is probable.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries to overseas investors from 1 January 2008 onwards. As the Company controls the dividend policy of its PRC subsidiaries, it has the ability to control the timing of the reversal of temporary differences associated with the investments in subsidiaries and jointly controlled entities. Furthermore, the Company has determined that those profits earned by the PRC subsidiaries and jointly controlled entities will not be distributed to overseas investors in the foreseeable future. Therefore, the Company did not recognise a withholding tax liability and the related deferred tax liability at 31 December 2009 and 2010.

35. OTHER LIABILITIES

Other liabilities primarily represent provision for future dismantlement costs of oil and gas properties. Due to the rising environmental concern in the PRC, the Group has committed to the PRC government to establish certain standardised measures for the dismantlement of its retired oil and gas properties by making reference to the industry practices and is thereafter constructively obligated to take dismantlement measures of its retired oil and gas properties. The following is the movements thereon during the current and prior year.

	HK\$'000
At 1 January 2009	274,700
Provisions reversed	(8,109)
Exchange realignment	3,178
At 31 December 2009	269,769
Additional provisions recognised	38,789
Exchange realignment	(9)
At 31 December 2010	308,549

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

中化香港(集團)有限公司

36. SHARE CAPITAL

	<u>Number of shares</u>		<u>Share capital</u>	
	<u>2010</u> <u>'000</u>	<u>2009</u> <u>'000</u>	<u>2010</u> <u>HK\$'000</u>	<u>2009</u> <u>HK\$'000</u>
Ordinary shares of HK\$1 each				
Authorised:				
At beginning of year	7,580,200	2,008,500	7,580,200	2,008,500
Increase during the year	-	5,571,700	-	5,571,700
At end of the year	<u>7,580,200</u>	<u>7,580,200</u>	<u>7,580,200</u>	<u>7,580,200</u>
Issued and fully paid:				
At beginning of year	7,580,200	2,008,500	7,580,200	2,008,500
Issue of shares	-	5,571,700	-	5,571,700
At end of the year	<u>7,580,200</u>	<u>7,580,200</u>	<u>7,580,200</u>	<u>7,580,200</u>

There was no movement of the Company's share capital during the year ended 31 December 2010.

On 27 February 2009, the Company increased its authorised share capital from HK\$2,008,500,000 to HK\$7,580,200,000 by creation of 5,571,700,000 ordinary shares of HK\$1 each. At the same time, the Company issued and allotted a total of 5,571,700,000 ordinary shares of HK\$1 in the Company each at par. These shares rank pari passu in all respects with other shares in issue.

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2010</u> <u>HK\$'000</u>	<u>2009</u> <u>HK\$'000</u>
Financial assets		
Held for trading investments	262,648	353,207
Loan and receivables (including cash and cash equivalent)	63,460,962	35,356,368
Available-for-sale investments	<u>4,901,876</u>	<u>4,517,248</u>
Financial liabilities		
Derivative financial instruments	180,916	169,314
Amortised cost	<u>91,327,518</u>	<u>65,366,469</u>

## 37. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Group's major financial instruments include held for trading investments, available-for-sale investments, pledged bank deposits, trade and bills receivables, other receivables and deposits, amounts due from and to group companies, bank balances and cash, trade and bills payable, other payables, derivative financial instruments, borrowings and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***Currency risk*

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at end of the reporting period are as follows:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
US\$	14,755,381	13,769,952	5,652,236	2,239,952
HK\$	7,705	506,227	13,507	315,169
RMB	-	754	118,364	32,601
Colombian Peso	251,339	78,047	153,683	71,963
Euro	1,635	4,447	-	19,626
Others	1,349	904	46,792	50,057

Sensitivity analysis

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

37. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Market risk** - continued

*Currency risk* - continued

Sensitivity analysis - continued

	Increase (decrease) in profit	
	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
US\$	182,063	230,600
HK\$	(116)	3,821
RMB	(2,367)	(636)
Colombian Peso	1,953	122

*Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to its fixed-rate borrowings (see notes 32, 30 and 29 for details of convertible loan notes, borrowings and amounts due from fellow subsidiaries, respectively). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings, of which details disclosed in notes 24 and 30 respectively.

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances and borrowings of the Group at the end of the reporting period and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. Management used 50 basis points (2009: 50 basis points) for assessing interest rate risk on borrowings. The directors used 10 basis points (2009: 50 basis points) for assessing interest rate risk on bank balances because they considered that the fluctuations on the interest rate on bank balances would be less significant. If interest rates had been 50 basis points (2009: 50 basis points) higher/lower for borrowings and 10 basis points (2009: 50 basis points) higher/lower for bank balances and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately HK\$98,710,000 (2009: increase/decrease by approximately HK\$132,042,000).

37. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Market risk** - continued

*Other price risk*

The Group are exposed to equity price risk either through its available-for-sale investments or held for trading investments in respect of equity securities listed in the respective stock exchange.

Management would manage its exposure arising from these investments by closely monitoring the performance of respective listed equity securities and market conditions. Management will consider diversifying the portfolio of these investments as they consider appropriate.

In addition, the Group is required to estimate the fair value of the derivative portion embedded in the convertible loan notes at the end of the reporting period with changes in fair value to be recognised in the consolidated statement of comprehensive income as long as the convertible loan notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Sinofert's share market price and respective share price volatility. Details of the derivative financial instruments are set out in notes 32 and 33.

Sensitivity analysis

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

Available-for-sale investments

If the prices of the respective listed equity securities had been 5% (2009: 5%) higher/lower, investment revaluation reserve would increase/decrease by approximately HK\$237,323,000 (2009: HK\$222,999,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Held for trading investments

If the prices of the respective listed equity securities had been 5% (2009: 5%) higher/lower, the Group's post-tax profit for the year would increase/decrease by approximately HK\$13,132,000 (2009: HK\$17,660,000).

Derivative financial instruments

If the share price of Sinofert had been 5% (2009: 5%) higher/lower while all other input variables of the valuation models were held constant, post-tax profit for the year would decrease by approximately HK\$14,184,000 (2009: HK\$22,784,000)/increase by approximately HK\$7,908,000 (2009: HK\$7,629,000) as a result of the changes in fair value of derivatives.

In management's opinion, the above sensitivity analysis is unrepresentative of price risk as the year end exposure does not reflect the exposure during the year.

## 37. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued**Credit risk**

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the counterparties failure to discharge their obligation is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

**Liquidity risk**

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

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

2010

	Weighted average interest rate %	Within 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2010 HK\$'000
Trade and bills payables	-	30,379,124	-	-	30,379,124	30,379,124
Other payables	-	4,571,836	-	-	4,571,836	4,571,836
Amount due to ultimate parent	-	274,208	-	-	274,208	274,208
Amounts due to fellow subsidiaries	-	1,210,579	-	-	1,210,579	1,210,579
Amounts due to jointly controlled entities	-	43,080	-	-	43,080	43,080
Amount due to immediate parent	-	11,979,001	-	-	11,979,001	11,979,001
Borrowings						
- fixed rate	4.94	1,279,917	3,917,328	27,875,185	33,072,430	18,917,353
- variable rate	2.05	11,828,112	10,657,162	3,177,123	25,662,397	23,191,423
Convertible loan notes (Note)	4.93	791,928	-	-	791,928	760,914
		<u>62,357,785</u>	<u>14,574,490</u>	<u>31,052,308</u>	<u>107,984,583</u>	<u>91,327,518</u>

## 37. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued**Liquidity risk - continued**2009

	Weighted average interest rate %	Within 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2009 HK\$'000
Trade and bills payables	-	18,052,130	-	-	18,052,130	18,052,130
Other payables	-	2,161,811	-	-	2,161,811	2,161,811
Amount due to ultimate parent	-	254,658	-	-	254,658	254,658
Amounts due to fellow subsidiaries						
- interest bearing	-	1,508,000	238,000	-	1,746,000	1,703,700
- interest free	-	1,964,872	-	-	1,964,872	1,964,872
Amounts due to jointly controlled entities	-	19,382	-	-	19,382	19,382
Amounts due to associates	-	267,633	-	-	267,633	267,633
Amount due to immediate parent	-	7,735,844	-	-	7,735,844	7,735,844
Bank and other borrowings						
- fixed rate	5.17	3,732,757	622,019	3,509,573	7,864,349	6,416,265
- variable rate	3.56	19,108,854	6,502,297	2,353,206	27,964,357	26,079,392
Convertible loan notes (Note)	4.94	-	790,235	-	790,235	710,782
		<u>54,805,941</u>	<u>8,152,551</u>	<u>5,862,779</u>	<u>68,821,271</u>	<u>65,366,469</u>

Note: The undiscounted cash flows of convertible loan notes represent the entire redemption amount upon the exercise of redemption right by the bondholders. The carrying amount of convertible loan notes represents the total carrying amounts of the liability component as at 31 December 2010 and 2009.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- (i) the fair value of financial assets and financial liabilities (including derivative financial instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- (ii) the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black Scholes-Merton Model).

## 37. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	<u>2010</u>		<u>2009</u>	
	<u>Carrying amount</u> HK\$'000	<u>Fair value</u> HK\$'000	<u>Carrying amount</u> HK\$'000	<u>Fair value</u> HK\$'000
<b>Financial liabilities</b>				
Convertible loan notes (liability component)	760,914	710,782	710,782	665,797
Borrowings - Ten-year Debenture	1,175,200	1,187,540	1,135,800	1,135,800

The Group's held for trading investments and listed available-for-sale investments as set out in note 23 are measured subsequent to initial recognition at fair value grouped into level 1, which are derived from quoted prices (unadjusted) in active market for identical assets or liabilities. In addition, the Group's crude oil derivative financial instruments as set out in note 33 are measured subsequent to initial recognition at fair value grouped in level 2, which are derived from inputs other than quoted price (unadjusted) in active market for identified assets and liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Group's derivative component of convertible loan notes as set out in note 33 are measured subsequent to initial recognition at fair value grouped in level 3, which are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The reconciliation from the beginning balances to the end balances of the level 3 financial instruments are disclosed in note 32.

## 38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the convertible loan notes and borrowings disclosed in notes 32 and 30 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

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

## 39. ACQUISITION OF SUBSIDIARIES

Emerald Energy Plc

On 12 October 2009, a wholly-owned subsidiary of the Company, Sinochem Resources UK Limited completed an acquisition of 100% issued equity of Emerald Energy Plc ("EEN") with consideration of USD864,500,000 (equivalent to approximately HK\$6,743,100,000). This transaction has been accounted for using the purchase method of accounting. The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before <u>combination</u> HK\$'000	Fair value <u>adjustments</u> HK\$'000	<u>Fair value</u> HK\$'000
Net assets acquired:			
Oil and gas properties	956,303	6,296,129	7,252,432
Property, plant and equipment	7,927	-	7,927
Inventories	104,169	-	104,169
Trade and bills receivables	406,644	-	406,644
Bank balances and cash	342,389	-	342,389
Trade payables	(206,255)	-	(206,255)
Other payables and accrued charges	(3,198)	-	(3,198)
Borrowings	(105,440)	(27,316)	(132,756)
Deferred tax liabilities	(59,030)	(1,101,664)	(1,160,694)
Net assets	<u>1,443,509</u>	<u>5,167,149</u>	6,610,658
Loan receivables (note)			<u>132,756</u>
Total consideration			<u>6,743,414</u>
Satisfied by:			
Cash			<u>6,743,414</u>
Net cash outflow arising on acquisition:			
Cash consideration			(6,743,414)
Bank balances and cash acquired			<u>342,389</u>
			<u>(6,401,025)</u>

Note: Before the acquisition of EEN, EEN issued a loan note ("EEN Loan Note") to an independent financial institution with carrying amount of USD13,518,000 (equivalent to approximately HK\$105,440,000), representing the total borrowings of EEN. At the date of acquisition, the Group also acquired EEN Loan Note from the independent financial institution at its fair value of USD17,020,000 (equivalent to approximately HK\$132,756,000) and therefore the EEN Loan Note is considered being the net assets acquired at the acquisition date.

If the acquisition of EEN had been completed on 1 January 2009, total group revenue for the year ended 31 December 2009 would have been HK\$219,337 million, and profit for the year ended 31 December 2009 would have been HK\$3,372 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

## 40. DISPOSAL OF SUBSIDIARIES

During the year ended December 2010, the Group disposed its equity interest in Pingyuan County Xianglong Paper Co., Ltd. ("Xianglong").

During the year ended 31 December 2009, the Group disposed its 100% equity interest in Disposal Group to a fellow subsidiary for a consideration of approximately HK\$1,958 million. In addition, the Group liquidated its non-wholly owned subsidiary, Sinochem Beidahuang Heilongjiang Agricultural Material Co., Ltd. ("Beidahuang").

The net assets disposed of are as follows:

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Property, plant and equipment	241,663	11,413
Other long-term assets	-	76,446
Finance lease receivables	-	12,846,017
Amounts due from group companies	-	19,081
Inventories	7,159	8,343
Trade and bills receivables	326	130,383
Other receivables, deposits and prepayments	3,053	46,379
Available-for-sale investments	-	119,787
Deferred tax assets	2,182	20,012
Bank balances and cash	-	546,162
Trade and bills payables	(123,995)	(479,490)
Other payables, receipts in advance and accrued charges	(259,043)	(2,008,750)
Tax payable	-	(4,324)
Bank and other borrowings	-	(9,353,368)
Non-controlling interests	-	(14,139)
Cumulative translation and other reserves in respect of the net assets of the subsidiaries reclassified to profit or loss on disposal	(38,088)	-
	<u>(166,743)</u>	<u>1,963,952</u>
Gain on disposal	124,267	5
Deemed contribution from ultimate parent	-	13,060
	<u>42,476</u>	<u>1,977,017</u>
Satisfied by:		
Cash	-	1,957,936
Amounts due to group companies	42,476	19,081
	<u>42,476</u>	<u>1,977,017</u>
Net cash inflow arising on disposal:		
Cash consideration	-	1,957,936
Bank balances and cash disposed of	-	(546,162)
	<u>-</u>	<u>1,411,774</u>

41. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2010, a non-wholly owned subsidiary of the Group declared dividends of RMB250,000,000 (equivalent to HK\$293,800,000) to the non-controlling shareholder. The amount remained unpaid as at 31 December 2010.

During the year ended 31 December 2010, the Company entered into a share transfer agreement with an independent party pursuant to which the Company disposed of its 423,186,120 shares in Sino-Ocean Land Holdings Limited and settled by 492,076,884 H shares in China Construction Bank.

During the year ended 31 December 2010, the Company declared dividend of HK\$1,821,600,000 and the amount has not paid at the end of the reporting period and is included in amount due to immediate parent.

During the year ended 31 December 2010, the Group waived the amount due from its ultimate parent of HK\$190,342,000.

During the year ended 31 December 2009, the ultimate parent transferred its advance to the Company of HK\$7,528,985,000 to the immediate parent of the Company.

During the year ended 31 December 2009, the Group disposed of certain subsidiaries at considerations of HK\$1,957,936,000 to its fellow subsidiary of which an amount of HK\$1,356,000,000 was not yet settled at the end of the reporting period and included in amounts due from fellow subsidiaries.

During the year ended 31 December 2009, Qinghai Salt Lake, an associate company, declared dividends of RMB237 million (equivalent to approximately HK\$269 million) to the Group and both parties agreed to settle the dividends to be received by the Group with the Group's trade payables to Qinghai Salt Lake.

42. CAPITAL COMMITMENTS

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment, properties under development and oil and gas properties contracted for but not provided in the consolidated financial statements	24,289,789	254,956
Capital expenditure in respect of the acquisition of property, plant and equipment and properties under development authorised but not contracted for	2,175,735	170,228
Capital expenditure in respect of the acquisition of an investment as set out in note 22	1,075,285	-

43. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Within one year	140,262	104,311
In the second to fifth year inclusive	25,095	98,307
Over five years	8,156	8,626
	<u>173,513</u>	<u>211,244</u>

The Group as lessor

The investment properties are expected to generate rental yields of 6% on an ongoing basis. The properties held have committed tenants for one to ten years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Within one year	645,465	668,615
In the second to fifth year inclusive	447,653	483,203
Over five years	34	6,066
	<u>1,093,152</u>	<u>1,157,884</u>

## 44. RELATED PARTY TRANSACTION

- (a) Apart from related parties balances as disclosed in note 29 during the year, the Group entered into the following significant transactions with its related parties.

	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
The ultimate parent:		
Management fee income	397	11,726
Sales of fertilizers	177	378,290
Purchase of fertilizers	262,435	777,273
Other operating expense	219	58
Rental income	8,482	62,544
Fellow subsidiaries:		
Sales of crude oil and petroleum products	1,835,074	566,718
Sales of chemical products	1,395,035	1,013,444
Purchase of chemical products	538,301	97,830
Rental expense	19,499	19,021
Interest expense	65,000	114,007
Rental income	155,858	131,672
Property management fee income	17,865	16,305
Other income	-	151
Interest income	10,858	3,027
Other operating expense	55	55
Property management fee expense	65,331	-
Disposals of subsidiaries	-	1,957,234
Associates:		
Sales of crude oil and petroleum products	17,235,253	10,753,863
Purchase of fertilizers	278,457	2,276,741
Dividend income	82,210	326,696
Sales of chemical products	11,041	11,041
Management fee income	2,350	2,350
Management fee expenses	601	594
Storage fee expenses	29,999	2,705
Jointly controlled entities:		
Sales of fertilizers	-	34,926
Purchase of fertilizers	1,721,486	1,867,950

## 44. RELATED PARTY TRANSACTION - continued

- (b) At the end of the reporting period, certain bank borrowings granted to the Group are guaranteed by letter of guarantee, letter of comfort or 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 ("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 year, the Group had the following significant transactions with other state-owned enterprises as follows:

	<u>THE GROUP</u>	
	<u>2010</u> HK\$'000	<u>2009</u> HK\$'000
Sales of fertilizers	3,139,779	2,459,124
Purchase of fertilizers	<u>4,992,554</u>	<u>4,363,924</u>

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state controlled entities are not significant to the Group's operations.

## 45. 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\$45,531,000 (2009: HK\$259,022,000).

46. EVENTS AFTER THE REPORTING PERIOD

On 11 January 2011, a subsidiary of the Company issued RMB3,500 million 1.8% guarantee notes due 2014 and the fund raised was advanced to the Company thereafter.

On 26 January 2011, the Group entered into an agreement with the Management Committee of Dahexi Pilot Zone in Changsha and other related parties, confirming that the Group, through a wholly-owned subsidiary, has won the bid to become the investor in the project for developing Meixi Lake International Service and Technology Innovation City (the "Project"), in which the Group would be in charge of land requisition, compensation and resettlement, all preliminary municipal infrastructure and urban public facilities, and other related developments within the area. The Group will also subsequently participate in the bidding, auction or listing-for-sale of the land in the Project according to the terms of the bid. Further details of the Project are set out in the announcement of Franshion Properties dated 26 January 2011.

On 24 February 2011, the Company drawn down a 5-year US\$1,000 million senior syndicated loan facility granted by several banks.

On 8 April 2011, the Group through a non-wholly owned subsidiary of the Company entered into an agreement with Hongkong and Shanghai Banking Corporation Limited, The Royal Bank of Scotland plc, Deutsche Bank AG and Nomura International plc in connection with the issue of US\$500,000,000 6.75% guaranteed senior notes due 2021.

On 14 April 2011, the acquisition of 40% interest in Statoil has been completed.

On 2 June 2011, the Group through a non-wholly owned subsidiary of the Company and Baogang Resource Company Limited ("Baogang Resource") entered into an equity transfer agreement dated 2 June 2011, pursuant to which the Group agreed to sell and Baogang Resource agreed to acquire the entire equity interest in Shanghai Chentuo Investment Consultancy Company Limited ("Shanghai Chentuo Investment"), a non-wholly owned subsidiary at a consideration of approximately RMB933 million (equivalent to approximately HK\$1,098 million). In addition, pursuant to the a debt repayment agreement dated 2 June 2011, Baogang Resource agreed to settle, for and on behalf of Shanghai Chentuo Property Company Limited ("Shanghai Chentuo Property"), a wholly owned subsidiary of Shanghai Chentuo Investment, a debt in the amount of approximately RMB609 million due to Beijing Chemsunny Property Company Limited, a non wholly owned subsidiary of the Company.

On 30 June 2011, the Company issued 5,819,000,000 ordinary shares of HK\$1 each in the Company at par to the immediate parent.