

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

Report of the Directors and Audited Consolidated Financial  
Statements

31 December 2011

## CONTENTS

	Pages
REPORT OF DIRECTORS	1 - 2
INDEPENDENT AUDITORS' REPORT	3
AUDITED FINANCIAL STATEMENTS	
Consolidated statement of comprehensive income	4
Consolidated statement of financial position	5 - 6
Consolidated statement of changes in equity	7 - 8
Consolidated statement of cash flows	9 - 11
Notes to financial statements	12 - 99

## REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011.

### Principal activities

The principal activity of the Company is investment holding. Details of principal activities of the Company's principal subsidiaries, jointly-controlled entities and associates are set out in notes 18, 19 and 20 to the consolidated financial statements, respectively. There were no significant changes in the nature of the Group's principal activities during the year.

### Results and dividends

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 4 to 99.

The directors do not recommend the payment of any dividend in respect of the year.

### Property, plant and equipment and investment properties

Details of the movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 10 and 13, respectively, to the consolidated financial statements.

### Share capital and convertible loan notes

Details of movements in the Company's share capital, and the subsidiaries' convertible loan notes during the year are set out in notes 37 and 33, respectively, to the consolidated financial statements.

### Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

### Directors

The directors of the Group during the year were:

Liu Deshu  
Li Xuehua  
Luo Jian

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

### Directors' rights to acquire shares

Pursuant to the share option schemes of Sinofert Holdings Limited ("Sinofert"), a subsidiary of the Company, a director of the Company has been granted options to purchase ordinary shares of the subsidiary. 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</u> <u>at 1.1.2011 and 31.12.2011</u>	
Liu Deshu	23.1.2006	1.672		1,900
	28.8.2007	4.990		210,000

Pursuant to the share option scheme of Franshion Properties (China) Limited ("Franshion"), a subsidiary of the Company, a director of the Company has been granted options to purchase ordinary shares of the subsidiary. 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</u>			
			<u>At</u> <u>1.1.2011</u>	<u>Exercised</u> <u>during the year</u>	<u>Lapsed</u> <u>during the year</u>	<u>At</u> <u>31.12.2011</u>
Li Xuehua	5.5.2008	3.370	487,451	-	(146,235)	341,216

## REPORT OF THE DIRECTORS

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

### Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

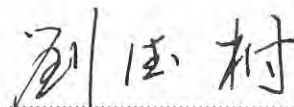
### Event after the reporting period

Details of significant events of the Group after the reporting period are set out in note 48 to the consolidated financial statements.

### Auditors

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Director

Hong Kong  
28 April 2012



## Independent auditors' report

To the shareholders of Sinochem Hong Kong (Group) Company Limited  
(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 (together, the "Group") set out on pages 4 to 99, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 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.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made 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.

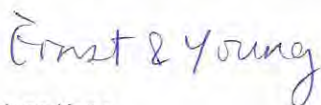
We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial 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 auditors' 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 auditors consider 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.

## 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 2011, 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.



Hong Kong  
28 April 2012

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
REVENUE	4	412,670,877	293,686,301
Cost of sales		(403,769,949)	(286,912,001)
Gross profit		8,900,928	6,774,300
Other income, gains and losses, net	5	1,972,273	3,938,480
Selling and distribution costs		( 1,343,830)	( 1,312,942)
Administrative expenses		( 2,415,932)	( 1,833,924)
Fair value changes of investment properties		947,561	861,756
Finance costs	6	( 2,512,836)	( 1,331,759)
Share of results of:			
Jointly-controlled entities		559,347	231,877
Associates		<u>569,820</u>	<u>404,067</u>
PROFIT BEFORE TAX	7	6,677,331	7,731,855
Income tax expense	8	( 1,988,338)	( 1,215,936)
PROFIT FOR THE YEAR		<u>4,688,993</u>	<u>6,515,919</u>
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value		( 1,156,594)	74,418
Reclassification adjustments for gains/(losses) included in the profit or loss:			
- disposal of investments		8,131	( 2,686,436)
- impairment losses		83,254	-
Income tax effect		( 1,464)	( 495)
Gains on property revaluation, net of tax		112,044	-
Reclassification to profit or loss upon			
de-registration and disposal of subsidiaries, net of tax		662	( 38,088)
Exchange differences on translation of foreign operations		<u>2,004,406</u>	<u>1,163,606</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>1,050,439</u>	<u>( 1,486,995)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>5,739,432</u>	<u>5,028,924</u>
Profit attributable to:			
Owners of the parent		2,855,953	5,224,314
Non-controlling interests		<u>1,833,040</u>	<u>1,291,605</u>
		<u>4,688,993</u>	<u>6,515,919</u>
Total comprehensive income attributable to:			
Owners of the parent		2,961,611	3,232,505
Non-controlling interests		<u>2,777,821</u>	<u>1,796,419</u>
		<u>5,739,432</u>	<u>5,028,924</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	12,746,171	12,759,864
Land under development	11	9,222,684	-
Properties under development	12	8,987,095	12,494,275
Investment properties	13	14,980,146	12,843,644
Prepaid land lease payments	14	2,557,836	2,384,709
Goodwill	15	3,421,490	3,719,070
Oil and gas properties	16	37,421,266	10,927,267
Deposits for acquisition of non-current assets	17	49,804	3,974,246
Investments in jointly-controlled entities	19	8,998,640	4,132,155
Investments in associates	20	10,861,370	9,641,562
Available-for-sale investments	21	3,733,104	4,901,876
Amounts due from related parties	22	-	115,505
Deferred tax assets	35	1,111,148	1,201,276
Other long-term assets		<u>68,712</u>	<u>79,336</u>
Total non-current assets		<u>114,159,466</u>	<u>79,174,785</u>
<b>CURRENT ASSETS</b>			
Inventories	23	10,431,078	7,664,010
Land under development	11	2,623,209	-
Properties under development	12	7,030,281	1,050,968
Properties held for sale	24	839,806	1,021,153
Prepaid land lease payments	14	67,673	86,104
Trade and bills receivables	25	18,864,798	27,331,990
Prepayments, deposits and other receivables	26	4,775,586	2,684,358
Amounts due from related parties	22	23,263,943	16,025,885
Held-for-trading investments	27	112,908	248,794
Tax recoverable		159,674	40,774
Derivative financial instruments	28	97,224	13,854
Pledged bank deposits	29	381,089	2,121,556
Cash and cash equivalents	29	18,999,786	17,220,247
Other deposits	30	<u>2,034,150</u>	<u>57,515</u>
Total current assets		<u>89,681,205</u>	<u>75,567,208</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables		36,333,190	30,379,124
Other payables and accruals	31	14,115,296	7,512,998
Derivative financial instruments	28	17,193	180,916
Interest-bearing borrowings	32	10,167,341	11,417,755
Convertible loan notes	33	-	760,914
Amounts due to related parties	22	11,986,355	13,506,868
Tax payable		1,080,547	547,395
Provision for land appreciation tax	34	<u>483,717</u>	<u>822,594</u>
Total current liabilities		<u>74,183,639</u>	<u>65,128,564</u>
<b>NET CURRENT ASSETS</b>		<u>15,497,566</u>	<u>10,438,644</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>129,657,032</u>	<u>89,613,429</u>

Continued/...

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>129,657,032</u>	<u>89,613,429</u>
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	32	53,201,553	30,691,021
Deferred tax liabilities	35	4,028,263	3,561,432
Deferred income		184,947	189,067
Provision for dismantlement costs	36	<u>1,576,827</u>	<u>308,549</u>
Total non-current liabilities		<u>58,991,590</u>	<u>34,750,069</u>
NET ASSETS		<u>70,665,442</u>	<u>54,863,360</u>
CAPITAL AND RESERVES			
Issued capital	37	18,129,500	7,580,200
Reserves		<u>26,984,860</u>	<u>24,058,648</u>
Equity attributable to owners of the parent		45,114,360	31,638,848
Non-controlling interests		<u>25,551,082</u>	<u>23,224,512</u>
TOTAL EQUITY		<u>70,665,442</u>	<u>54,863,360</u>

Director

Director

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

Notes	Attributable to owners of the parent						Attributable to non-controlling interests		Total equity HK\$'000			
	Issued 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)	Retained profits HK\$'000		Total HK\$'000	Share of net assets of subsidiaries HK\$'000	Share option reserve of subsidiaries HK\$'000
	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
At 1 January 2010	-	-	-	-	-	-	-	5,224,314	5,224,314	1,291,605	-	6,515,919
Profit for the year												
Other comprehensive income for the year												
Available-for-sale investments:												
Change in fair value	-	-	-	-	77,326	-	-	-	77,326	(2,908)	-	74,418
Reclassification adjustments for gains on disposal included in the profit or loss	-	-	-	-	(2,695,392)	-	-	-	(2,695,392)	8,956	-	(2,686,436)
Income tax effect	-	-	-	-	(260)	-	-	-	(260)	(235)	-	(495)
Reclassification to profit or loss upon de-registration and disposal of subsidiaries, net of tax	-	202	-	(195)	-	(23,953)	-	-	(23,946)	(14,142)	-	(38,088)
Exchange differences on translation of foreign operations	-	-	-	-	-	650,463	-	-	650,463	513,143	-	1,163,606
Total comprehensive income for the year	-	202	-	(195)	(2,618,326)	626,510	-	5,224,314	3,232,505	1,796,419	-	5,028,924
Equity-settled share-based payment of subsidiaries	-	-	-	-	-	-	-	-	-	619	945	1,564
Exercise of share options of subsidiaries	-	-	-	-	-	-	-	-	-	4,032	(1,517)	10,976
Dividend recognized as distributions	-	-	-	-	-	-	-	(1,825,534)	(1,825,534)	-	-	(1,825,534)
Transfer from retained profits	-	-	-	23,914	-	-	-	(22,511)	1,403	(664)	(739)	-
Dividend paid by subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(378,840)	-	(378,840)
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	777,115	-	777,115
Deemed distribution to the ultimate parent	-	-	-	-	-	-	(190,342)	-	(190,342)	4,588,000	-	(190,342)
Issue of perpetual convertible securities, net of expenses	-	-	-	-	-	-	-	-	-	-	-	-
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
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

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2011

	Note	Attributable to owners of the parent					Attributable to non-controlling interests						
		Issued 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)	Retained profits HK\$'000	Total HK\$'000	Share of net assets of subsidiaries HK\$'000	Share option reserve of subsidiaries HK\$'000	Total equity HK\$'000
At 1 January 2011		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
Profit for the year		-	-	-	-	-	-	-	2,855,953	2,855,953	1,833,040	-	4,688,993
Other comprehensive income for the year													
Available-for-sale investments:													
Change in fair value		-	-	-	-	(1,116,116)	-	-	-	(1,116,116)	(40,478)	-	(1,156,594)
Reclassification adjustments for losses included in the profit or loss:													
- disposal of investments		-	-	-	-	4,283	-	-	-	4,283	3,848	-	8,131
- impairment losses		-	-	-	-	43,850	-	-	-	43,850	39,404	-	83,254
Income tax effect		-	-	-	-	(771)	-	-	-	(771)	(693)	-	(1,464)
Gains on property revaluation, net of tax		-	70,442	-	-	-	-	-	-	70,442	41,602	-	112,044
Reclassification to profit or loss upon de-registration and disposal of subsidiaries, net of tax		-	(447)	-	(1,785)	-	864	-	2,838	1,470	(808)	-	662
Exchange differences on translation of foreign operations		-	-	-	-	34,714	1,067,786	-	-	1,102,500	901,906	-	2,004,406
Total comprehensive income for the year, net of tax		-	69,995	-	(1,785)	(1,034,040)	1,068,650	-	2,858,791	2,961,611	2,777,821	-	5,739,432
Issue of shares		10,549,300	-	-	-	-	-	-	-	10,549,300	-	-	10,549,300
Equity-settled share-based payment of subsidiaries		-	-	-	-	-	-	-	-	-	531	900	1,431
Exercise of share options of subsidiaries		-	-	-	-	-	-	-	2,113	2,113	1,184	(413)	2,884
Conversion of convertible loan notes		-	-	-	-	-	-	-	454	454	-	-	454
Transfer from retained profits		-	-	-	294,656	-	-	-	(291,893)	2,763	(1,134)	(1,629)	-
Dividend paid by subsidiaries to non-controlling shareholders		-	-	-	-	-	-	-	-	-	(837,268)	-	(837,268)
Capital contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	893,993	-	893,993
Perpetual convertible securities' distribution paid		-	-	-	-	-	-	-	-	-	(317,354)	-	(317,354)
Withdrawal of capital	33	-	-	-	-	-	-	-	-	-	(11,400)	-	(11,400)
Acquisition of non-controlling interests		-	(45,251)	-	-	-	-	-	-	(45,251)	(182,724)	-	(227,975)
Energy saving and emission reduction fund (note e)		-	-	-	-	-	-	4,522	-	4,522	4,063	-	8,585
At 31 December 2011		18,129,500	252,260*	(3,836,771)*	960,472*	103,404*	3,142,253*	2,431,539*	23,931,703*	45,114,360	25,545,803	5,279	70,665,442

(a) The capital reserve of the Group mainly comprises of (i) contributions from owners in respect of settlement of doubtful receivables which have been written off and transfer of an equity interest in a jointly-controlled entity to the Group in previous years; (ii) contribution made by the shareholders to the Company's subsidiaries; and (iii) asset revaluation reserve arose from a change in use from an own-occupied property to an investment property carried at fair value in 2011.

(b) The merger reserve of the Group comprises the difference between the nominal value of the subsidiaries acquired and the nominal value of the shares issued by the holding companies of the acquirees as consideration for the group restructuring transactions.

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

(d) Other contribution reserve mainly comprises capital contributions and deemed contributions from equity owners net of deemed distributions to equity owners.

(e) A non-wholly-owned PRC subsidiary of the Group has received funding of HK\$8,585,000 (2010: HK\$42,545,000) from the ultimate parent of the Group, which can only be used to fund energy saving and emission reduction projects.

\* These reserve accounts comprise the consolidated reserves of HK\$26,984,860,000 (2010: HK\$24,058,648,000) in the consolidated statement of financial position.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	2011 HK\$'000	2010 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax:	6,677,331	7,731,855
Adjustments for:		
Gain/(Loss) on disposal of:		
Property, plant and equipment	13,758	( 4,573)
Subsidiaries	( 1,137,510)	( 58,849)
Associates	87,401	( 3,065)
Jointly-controlled entities	-	( 27,943)
Available-for-sale investments	8,131	( 2,744,291)
Held-for-trading investments	( 4,004)	-
Gain on de-registration of subsidiaries	( 3,972)	( 65,418)
Gain on deemed dilution of an investment in an associate	( 411,042)	-
Write-off of non-demand payables	( 155)	( 85,223)
Impairment losses of:		
Oil and gas properties	18,987	-
Property, plant and equipment	221,568	46,701
Available-for-sale investments	83,254	18,925
Goodwill	319,835	-
Impairment and impairment losses reversed for		
bad and doubtful debts, net	( 177,777)	( 147,767)
Write-down of inventories	66,601	87,383
Fair value gain/(loss) on:		
Held-for-trading investment	130,594	-
Derivative financial instruments	( 56,556)	( 58,469)
Transfers from properties held for sale to investment properties	( 267,963)	-
Finance costs	2,512,836	1,331,759
Share of results of jointly-controlled entities	( 559,347)	( 231,877)
Share of results of associates	( 569,820)	( 404,067)
Interest income	( 391,527)	( 278,321)
Changes in fair value of investment properties	( 947,561)	( 861,756)
Depreciation of:		
Oil and gas properties	1,552,691	1,321,883
Property, plant and equipment	713,194	507,926
Amortization of:		
Other long-term assets	28,350	26,345
Prepaid land lease payments	80,494	82,175
Dividend income from available-for-sale investments	( 3,955)	( 122,029)
Equity-settled share-based payment expense	1,431	1,564
(Increase)/decrease in inventories	( 2,832,973)	831,592
Decrease/(increase) in trade and bills receivables	8,638,861	( 8,143,788)
Increase in prepayments, deposits and other receivables	( 1,716,767)	( 704,104)
Increase in properties under development	( 3,521,381)	( 1,347,946)
Increase in land under development	(11,845,893)	-
Decrease in properties held for sale	1,168,002	1,532,707
Increase in trade and bills payables	5,953,900	12,450,989
Increase in other payables and accruals	5,350,439	1,914,832
(Decrease)/increase in deferred income	( 4,120)	115,464
Decrease in held-for-trading investments	9,297	90,559
(Decrease)/increase in derivative financial instruments	( 190,537)	70,071
Increase in provision for dismantlement costs	1,268,278	38,789
Decrease in amounts due from related parties	3,351,588	-
Increase in amounts due to related parties	337,240	-

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES (continued)</b>			
Cash generated from operations		13,951,201	12,912,033
Income tax paid		( 834,165)	( 705,329)
Land appreciation tax paid		( 659,526)	( 22,509)
Net cash flows from operating activities		<u>12,457,510</u>	<u>12,184,195</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		391,527	278,321
Dividends received from:			
Jointly-controlled entities		792,372	482,355
Associates		-	82,210
Available-for-sale investments		3,955	122,029
Purchases of property, plant and equipment		( 369,186)	( 517,193)
Proceeds from disposal of property, plant and equipment		43,924	52,301
Purchase of investment properties		( 9,583)	( 11,055)
Purchase of oil and gas properties		(25,325,259)	( 1,264,349)
Deposit paid for the purchase of oil and gas properties		-	( 2,393,040)
Additions to prepaid lease payments		( 3,259)	( 86,845)
Increase in other long-term assets		( 16,516)	( 22,063)
Acquisition of subsidiaries	39	432	-
Acquisition of non-controlling holding interests		( 227,975)	-
Proceeds from disposal of subsidiaries	40	1,831,251	-
Additional investments in jointly-controlled entities		( 3,510,492)	( 205,300)
Proceeds from disposal of jointly-controlled entities		-	208,637
Advance payment for an investment		-	( 1,551,287)
Proceeds from disposal of associates		3,653	474,531
Purchases of available-for-sale investments		( 4,821)	( 154,260)
Decrease in pledged bank deposits		1,875,783	2,186,181
Increase in restricted bank deposits		( 135,316)	-
Placement of other deposits		(41,886,330)	-
Proceeds from withdrawal of other deposits		39,913,978	-
Increase in amounts due from related parties		(10,474,141)	(10,746,667)
Net cash flows used in investing activities		<u>(37,106,003)</u>	<u>(13,065,494)</u>

Continued/...



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	2011 HK\$'000	2010 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of senior loan notes, net of expenses	4,132,338	15,373,120
Issue of perpetual convertible securities, net of expenses	-	4,588,000
Perpetual convertible securities' distribution paid	( 317,354)	-
Withdraw of capital	( 11,400)	-
New bank loans and other loans	52,772,281	43,826,792
Repayment of bank loans and other loans	(36,711,560)	(52,337,271)
Redemption of convertible loan notes	( 809,882)	-
Capital contribution by non-controlling shareholders	893,993	777,115
Dividends paid	( 1,825,534)	( 3,934)
Dividends paid to non-controlling shareholders	( 739,236)	( 85,040)
Interest paid	( 2,105,451)	( 1,459,931)
Increase in amounts due to related parties	10,517,081	1,400,403
Energy saving and emission reduction fund received	8,585	42,545
Upfront fee paid on arranging a term loan	-	( 116,483)
Proceed from exercise of share options of subsidiaries	<u>2,884</u>	<u>10,976</u>
Net cash flows from financing activities	<u>25,806,745</u>	<u>12,016,292</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,158,252	11,134,993
Cash and cash equivalents at beginning of year	17,188,482	5,710,210
Effect of foreign exchange rate changes, net	<u>566,846</u>	<u>343,279</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>18,913,580</u>	<u>17,188,482</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	18,999,786	17,220,247
Time deposits with original maturity of over three months	( 86,206)	( 31,765)
Cash and cash equivalents as stated in the statement of cash flows	<u>18,913,580</u>	<u>17,188,482</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2011

### 1. CORPORATE INFORMATION

Sinochem Hong Kong (Group) Company Limited is a limited company incorporated in Hong Kong. Its registered office is located at Room 4701, 47<sup>th</sup> Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. Details of principal activities of the Company's principal subsidiaries, jointly-controlled entities and associates are set out in notes 18, 19 and 20 to the consolidated financial statements, respectively.

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

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial instruments, which have been measured at fair value.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"). The functional currency of the Company is Renminbi ("RMB").

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

For the year ended 31 December 2011, the Group adopted, for the first time, the following new and revised HKFRSs which became effective in 2011 and are applicable to its operations:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to HKFRSs 2010</i>	<i>Amendments to a number of HKFRSs issued in May 2010</i>

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.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied any of the new and revised HKFRSs, that have been issued but are not yet effective for the accounting year ended 31 December 2011 in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>1</sup> Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> <sup>4</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> <sup>1</sup> Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> <sup>4</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>6</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>4</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>4</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>4</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>4</sup>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>3</sup>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> <sup>3</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>4</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>4</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>4</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>5</sup>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>4</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<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 2014

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 replaces HKAS 39 *Financial Instruments: Recognition and Measurement*. Under HKFRS 9, instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current de-recognition principals of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

The guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly-Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in non-controlling interests. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from January 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in Hong Kong is expected to be reduced.

HKAS 19 (2011) introduces a number of changes in the accounting for pensions and other post-employment benefits that impact on the amount of net plan assets or liabilities for defined benefit pension plans and the results of entities with defined benefit pension plans. The standard also requires termination benefits outside of a wider restructuring to be recognized only when the offer becomes legally binding and cannot be withdrawn, and termination benefits under a wider restructuring to be recognized at the same time as the other restructuring costs. The Group expects to adopt the HKAS 19 (2011) from 1 January 2013.

The director of the Company are currently assessing the impacts of application of the new and revised standards, amendments and interpretations on the results and the financial position of the Group.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

#### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realized upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the profit or loss and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealized losses provide evidence of an impairment of the asset transferred.

Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets for Sale and Discontinued Operations*.

#### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the profit or loss and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations and goodwill

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

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

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

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 business 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 recognized 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 business 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 comprehensive 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.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of non-financial assets

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

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

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

#### Related parties

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

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

or

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment and depreciation

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

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

Other than freehold land which is not depreciated, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Hotel properties	1.7% to 2.8%
Land and buildings	Over the shorter of the term of the lease and 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%

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

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

Leasehold land and buildings originally classified as investment property 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.

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment properties

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

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

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

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

#### Oil and gas properties

The successful efforts method of accounting is adopted for oil and gas properties. The Group capitalizes the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognized 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 the assets, and the related borrowing costs are capitalized. 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 operation 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 capitalized 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 project are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 recognized impairment loss. The leasehold land component is classified as a prepaid lease payment and amortized 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).

#### Operating leases

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

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

#### Leasehold land and building

When a lease includes both land 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 amortized 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.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Non-current assets and disposal groups held for sale

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

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

#### Land under development

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

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

#### Properties under development

Properties under development are stated at the lower of cost and net realisable value and 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. Once 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.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets

##### *Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

As of 31 December 2011, the Group's financial assets include held-for-trading investments, trade and other receivables, amounts due from related parties, pledged bank deposits, cash and cash equivalents, available-for-sale investments and derivative financial instruments.

##### *Subsequent measurement*

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

##### *Financial assets at fair value through profit or loss*

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in other income and gains or finance costs in the profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held-for-trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (continued)

##### *Financial assets at fair value through profit or loss* (continued)

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

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in the profit or loss. The loss arising from impairment is recognized in the profit or loss in finance costs for loans and in other expenses for receivables.

##### *Available-for-sale financial investments*

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other financial assets (continued)

##### Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

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

#### De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

#### Impairment of financial assets

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets (continued)

##### *Financial assets carried at amortized cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

##### *Available-for-sale financial investments*

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

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

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include loans and borrowings, trade and other payables, amounts due to related parties, and derivative financial instruments.

##### *Subsequent measurement*

The Group subsequently measures its financial liabilities based on their classification as follows:

##### *Loans and borrowings*

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

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

##### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities (continued)

##### *Convertible loan notes*

The component of convertible loan notes that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs. On issuance of convertible loan notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible loan notes; and this amount is carried as a long-term liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible loan notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

##### *Equity Instrument*

Equity instrument issued by the company is recorded at the proceeds received, net of direct issue cost.

#### De-recognition of financial liabilities

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

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

#### Offsetting of financial instruments

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

#### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

#### *Current versus non-current classification*

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

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Inventories

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

#### Cash and cash equivalents

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

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

#### Provisions

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

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

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

Provision for dismantlement costs are dismantlement liabilities recognized when the Group has a present legal or constructive obligation as a result of the past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of dismantlement, discounted to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dismantlement provision is included as a finance cost.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income tax

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Government grants

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

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

#### Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) sales and purchases of physical commodities, which are not settled net, are presented on a gross basis as revenue and cost of goods sold in profit or loss. Activities related to trading and commodity-based derivative instruments are reported on a net basis, with the margin included in revenue;
- (c) from the sale of completed properties, when the risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectability of related receivables is reasonably assured;
- (d) from the land development, when the risks and rewards in connection with the land development are transferred, that is when the related construction works have been completed as well as the land is sold, and the collectability of the proceeds from land sales is reasonably assured;
- (e) hotel and other service income, in the period in which such services are rendered;
- (f) rental income, on a time proportion basis over the lease terms, except for contingent rental income which is recognized when it arises, where premiums received to terminate leases are recognized in the profit or loss when they arise;
- (g) from the rendering of property management services, in the period in which such the services are rendered;
- (h) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;
- (i) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (j) dividend income, when the shareholders' right to receive payment has been established.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

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

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

#### Share-based payment transactions

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

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 original estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

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

#### Borrowing costs

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currency

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 ruling on the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates ruling at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the exchange rates at 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 recognized 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 recognized 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 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 recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized 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 ruling 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 ruling at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (the translation reserve).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a 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 accumulate in equity in respect of that operation attributable to the owners of the parent are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized 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.

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

#### Judgments

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

(a) Operating lease commitments – Group as lessor

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

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

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. 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.

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

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. 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.

#### Estimation uncertainty

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

(a) 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 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 where 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 capitalized and written off or depreciated over time.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

#### Estimation uncertainty (continued)

##### (a) Oil and gas properties and reserves (continued)

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 capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. In case where the actual oil and gas reserves are different from the estimated amounts, a material disposal or impairment for oil and gas properties may arise.

##### (b) Depreciation of property, plant and equipment

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

##### (c) Deferred tax assets

Deferred tax assets are recognized for all unused tax losses the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses at 31 December 2011 was HK\$847,988,000 (2010: HK\$971,423,000). Further details are given in note 35 to the financial statements.

##### (d) Carrying amount of land under development

The Group's land under development is stated at the lower of cost and net realizable value. Based on the Group's recent experience and the nature of the subject land development, the Group makes estimates of cost allocated to each parcel of land under development, and its net realizable value, i.e., the revenue to be derived from the land under development for sale by government authorities, less costs to completion and the costs to be incurred in realizing the revenue from the sale of land under development based on prevailing market conditions.

If the cost is higher than the estimated net realizable value, provision for the excess of cost of land under development over its net realizable value should be made. Such provision would require the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value and provision for land under development in the periods in which such estimate is changed will be adjusted accordingly. The carrying amount of land under development at 31 December 2011 was HK\$11,845,893,000 (2010: Nil). Further details are given in note 11 to the financial statements.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

#### Estimation uncertainty (continued)

##### (e) Measurement of cost from land development

Development costs of land are recorded as land under development during construction stage and an apportionment of these costs will be recognized in the profit or loss upon the recognition of the revenue of the land under development. Before the final settlement of the development costs and other costs relating to the land under development, these costs are accrued by the Group based on management's best estimate.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

##### (f) 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 recognized in the profit or loss upon the recognition of the sale of properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of 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 year. The carrying amount of properties under development at 31 December 2011 was HK\$16,017,376,000 (2010: HK\$13,545,243,000).

##### (g) PRC corporate income tax

Some subsidiaries of the Group are subject to income taxes in PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgment based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realize. The carrying amount of income tax payable at 31 December 2011 was HK\$506,057,000 (2010: HK\$220,605,000).

##### (h) PRC land appreciation tax ("LAT")

One subsidiary of 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 finalized its LAT tax returns and payments with the local tax authorities for its property development projects. The final outcome may be different from the amounts that were initially recorded, and the differences will affect the current income tax expense and LAT provision in the period when LAT is ascertained. The carrying amount of provision for LAT at 31 December 2011 was HK\$483,717,000 (2010: HK\$822,594,000).



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

#### Estimation uncertainty (continued)

##### (i) Estimation of fair value of investment properties

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

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

The 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 2011 was HK\$14,980,146,000 (2010: HK\$12,843,644,000). Further details are given in note 13 to the financial statements.

##### (j) Estimation of net realizable value for properties held for sale and inventories

Properties held for sale and inventories are stated at the lower of cost and net realizable value. The net realizable 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 amounts of properties held for sale and inventories at 31 December 2011 were HK\$839,806,000 (2010: HK\$1,021,153,000) and HK\$10,431,078,000 (2010: HK\$7,664,010,000), respectively.

##### (k) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was HK\$3,421,490,000 (2010: HK\$3,719,070,000). Further details are given in note 15 to the financial statements.

##### (l) Impairment of trade and other receivables

The provision policy for impairment of trade and other receivables of the Group is based on the ongoing evaluation of the collectability, aged analysis 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 deteriorated, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade receivables and other receivables at 31 December 2011 were HK\$18,864,798,000 (2010: HK\$27,331,990,000) and HK\$4,775,586,000 (2010: HK\$2,684,358,000), respectively. Further details are given in notes 25 and 26 to the financial statements.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

#### Estimation uncertainty (continued)

##### (m) Impairment of other non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 4. REVENUE AND BUSINESS ANALYSIS

#### Revenue

Revenue, which is also the Group's turnover, is analyzed as follows:

	2011 HK\$'000	2010 HK\$'000
Sales of crude oil and petroleum products	351,547,186	246,061,585
Sales of fertilizers	44,216,386	33,603,196
Sales of chemical products	9,531,089	5,103,899
Sales of properties	1,322,400	2,924,687
Hotel operation	2,133,826	2,007,364
Gross rental income	972,137	864,528
Land development	1,673,128	-
Property management	470,020	533,587
Others	<u>804,705</u>	<u>2,587,455</u>
	<u>412,670,877</u>	<u>293,686,301</u>

#### Business analysis

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

	Oil and Gas HK\$'000	Fertilizers HK\$'000	Real Estate HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<u>Year ended 31 December 2011</u>						
<b>REVENUE</b>						
External sales	351,547,186	44,216,386	6,571,511	10,335,794	-	412,670,877
Inter-segment sales	<u>686,803</u>	<u>-</u>	<u>20,181</u>	<u>2,542,211</u>	<u>( 3,249,195)</u>	<u>-</u>
Total	<u>352,233,989</u>	<u>44,216,386</u>	<u>6,591,692</u>	<u>12,878,005</u>	<u>( 3,249,195)</u>	<u>412,670,877</u>
Segment profit / (loss)	4,246,575	905,651	3,605,563	( 2,233,604)	-	6,524,185
Interest income						391,527
Gains on disposal and de-registration of subsidiaries						1,141,482
Losses on disposal of associates						( 87,401)
Gains on deemed dilution of an investment in an associate						411,042
Impairment loss on goodwill						( 319,835)
Finance costs						( 2,512,836)
Share of results of:						
Jointly-controlled entities						559,347
Associates						<u>569,820</u>
Profit before tax						<u>6,677,331</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 4. REVENUE AND BUSINESS ANALYSIS (continued)

#### Business analysis (continued)

	Oil and Gas HK\$'000	Fertilizers HK\$'000	Real Estate HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<u>Year ended 31 December 2010</u>						
REVENUE						
External sales	246,061,585	33,603,196	6,330,166	7,691,354	-	293,686,301
Inter-segment sales	<u>185,160</u>	<u>-</u>	<u>17,835</u>	<u>2,476,340</u>	<u>(2,679,335)</u>	<u>-</u>
Total	<u>246,246,745</u>	<u>33,603,196</u>	<u>6,348,001</u>	<u>10,167,694</u>	<u>(2,679,335)</u>	<u>293,686,301</u>
Segment profit	1,337,065	555,299	3,361,195	2,740,515	-	7,994,074
Interest income						278,321
Gains on disposal and de-registration of subsidiaries						124,267
Gains on disposal of associates						3,065
Gains on disposal of jointly-controlled entities						27,943
Finance costs						( 1,331,759)
Share of results of:						
Jointly-controlled entities						231,877
Associates						<u>404,067</u>
Profit before tax						<u>7,731,855</u>

Segment profit or loss represents the results earned by or loss from each segment without allocation of interest income, gains on disposal and de-registration of subsidiaries, gains and losses on disposal of associates and jointly-controlled entities, shares of results of jointly-controlled entities and associates, finance costs, impairment loss on goodwill, and gains on deemed dilution of investment in an associate.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 4. REVENUE AND BUSINESS ANALYSIS (continued)

	Oil and Gas HK\$'000	Fertilizers HK\$'000	Real Estate HK\$'000	Others HK\$'000	Consolidated HK\$'000
<u>Year ended 31 December 2011</u>					
Amounts included in the measure of segment profit or loss:					
(Losses) / gains on disposal of:					
Property, plant and equipment	136	( 13,274)	-	( 620)	( 13,758)
Available-for-sale investments	-	( 8,131)	-	-	( 8,131)
Held-for-trading investments	-	-	-	4,004	4,004
Write-off of non-demand payables	-	155	-	-	155
Impairment losses of:					
Oil and gas properties	18,987	-	-	-	18,987
Property, plant and equipment	-	98,019	123,549	-	221,568
Available-for-sale investments	-	83,254	-	-	83,254
Impairment of trade and bills receivables	-	-	1,045	-	1,045
Impairment losses reversed of:					
Trade receivables	154,687	19,294	-	-	173,981
Other receivables	-	4,841	-	-	4,841
Fair value gains/(losses), net:					
Held-for-trading investments	-	-	-	( 130,594)	( 130,594)
Derivative financial instruments	-	56,556	-	-	56,556
Fair value changes of investment properties	-	-	930,697	16,864	947,561
Depreciation of oil and gas properties	1,552,691	-	-	-	1,552,691
Depreciation of property, plant and equipment	12,778	478,767	216,838	4,811	713,194
Amortization of other long-term assets	-	17,326	6,790	4,234	28,350
Amortization of prepaid lease payments	-	27,706	52,544	244	80,494
Write-down of inventories	-	66,601	-	-	66,601
	Oil and Gas HK\$'000	Fertilizers HK\$'000	Real Estate HK\$'000	Others HK\$'000	Consolidated HK\$'000

Year ended 31 December 2010

Amounts included in the measure of segment profit or loss:

(Losses) / gains on disposal of:					
Property, plant and equipment	-	4,567	-	6	4,573
Available-for-sale investments	-	-	-	2,744,291	2,744,291
Write-off of non-demand payables	-	85,223	-	-	85,223
Impairment losses of:					
Property, plant and equipment	-	46,701	-	-	46,701
Available-for-sale investments	-	18,925	-	-	18,925
Impairment of trade and bills receivables	-	13,676	-	-	13,676
Impairment losses reversed of					
trade receivables	161,443	-	-	-	161,443
Fair value gains/(losses), net:					
Held-for-trading investments	-	-	-	2,201	2,201
Derivative financial instruments	( 54,281)	112,750	-	-	58,469
Fair value changes of investment properties	-	-	861,756	-	861,756
Depreciation of oil and gas properties	1,321,883	-	-	-	1,321,883
Depreciation of property, plant and equipment	9,685	278,666	210,625	8,950	507,926
Amortization of other long-term assets	-	16,643	9,702	-	26,345
Amortization of prepaid lease payments	-	35,348	46,583	244	82,175
Write-down of inventories	5,624	80,569	-	1,190	87,383

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

	2011 HK\$'000	2010 HK\$'000
<u>Other income</u>		
Bank interest income	245,225	265,533
Interest on other advances	34,783	7,746
Interest on other deposits	111,519	5,042
Dividend income from available-for-sale investments	3,955	122,029
Government grants (note i)	4,103	131,356
Compensation received	11,906	9,209
Sales of scrapped materials	22,520	28,177
Sundry income, net	<u>65,541</u>	<u>161,158</u>
	<u>499,552</u>	<u>730,250</u>
<u>Gains and losses</u>		
Gains/(losses) on disposal of:		
Property, plant and equipment	( 13,758)	4,573
Subsidiaries (Note 40)	1,137,510	58,849
Associates	( 87,401)	3,065
Jointly-controlled entities	-	27,943
Gains/(losses) on disposal of:		
Available-for-sale investments	( 8,131)	2,744,291
Held-for-trading investments	4,004	-
Gain on de-registration of subsidiaries	3,972	65,418
Gain on deemed dilution of an investment in an associate (Note 20(ii))	411,042	-
Write-off of non-demand payables	155	85,223
Impairment losses of:		
Oil and gas properties (Note 16)	( 18,987)	-
Property, plant and equipment (Note 10)	( 221,568)	( 46,701)
Available-for-sale investments	( 83,254)	( 18,925)
Impairment loss on goodwill (Note 15)	( 319,835)	-
Impairment of trade and bills receivables (Note 25)	( 1,045)	( 13,676)
Impairment losses reversed of:		
Trade receivables (Note 25)	173,981	161,443
Other receivables	4,841	-
Net exchange gain	357,219	76,057
Fair value gains/(losses), net:		
Held-for-trading investments	( 130,594)	2,201
Derivative financial instruments	56,556	58,469
Transfers from properties held for sale to investment properties	267,963	-
Other expenses	<u>( 59,949)</u>	<u>-</u>
	<u>1,472,721</u>	<u>3,208,230</u>
Other income, gains and losses, net	<u>1,972,273</u>	<u>3,938,480</u>

Note:

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 6. FINANCE COSTS

An analysis of finance costs is as follows:

	2011 HK\$'000	2010 HK\$'000
Interest on bank and other borrowings wholly repayable		
- within five years	1,581,426	1,040,567
- after five years	518,170	354,364
Interest expense on convertible loan notes wholly repayable within five years	31,006	50,132
Interest on advances from fellow subsidiaries	37,588	65,000
Effective interest expenses on guaranteed senior notes	784,383	104,751
Effective interest expenses on guaranteed notes	75,233	-
Upfront fee charge on arranging a term loan	-	116,483
Total borrowing costs	3,027,806	1,731,297
Less: Interest capitalized in properties under development and other qualifying assets	( 514,970)	( 399,538)
	<u>2,512,836</u>	<u>1,331,759</u>

### 7. PROFIT BEFORE TAX

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

	2011 HK\$'000	2010 HK\$'000
Depreciation of oil and gas properties	1,552,691	1,321,883
Depreciation of property, plant and equipment	713,194	507,926
Amortization of other long-term assets	28,350	26,345
Amortization of prepaid lease payments	80,494	82,175
Minimum lease payments under operating leases of land and buildings	143,787	163,061
Auditors' remuneration	14,749	15,461
Direct operating expenses arising from investment properties that generated rental income	86,578	85,437
Write-down of inventories	66,601	87,383
Staff costs:		
Directors' fees	-	-
Directors' other emoluments	2,675	1,528
Other staff costs	1,320,065	1,188,358
Shared-based payment expense	1,431	1,564
Contributions to retirement benefit schemes	98,142	100,588
	<u>1,422,313</u>	<u>1,292,038</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 8. INCOME TAX

	2011 HK\$'000	2010 HK\$'000
Hong Kong profits tax:		
Current tax	<u>19,237</u>	<u>10,493</u>
PRC tax:		
PRC enterprise income tax	813,768	817,559
LAT (Note 34)	216,139	263,793
Overprovision in prior years	<u>-</u>	<u>(42,021)</u>
	<u>1,029,907</u>	<u>1,039,331</u>
Other jurisdictions:		
Current tax	439,861	25,881
Overprovision in prior years	<u>683</u>	<u>(59)</u>
	<u>440,544</u>	<u>25,822</u>
Deferred taxation:	<u>498,650</u>	<u>140,290</u>
	<u>1,988,338</u>	<u>1,215,936</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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% (2010: 25%).

PRC corporate income tax has been provided at the rate of 25% (2010: 25%) on the taxable profits of the Group's PRC subsidiaries.

Pursuant to the relevant PRC income tax rules and regulations, preferential corporate income tax rates have been granted to certain of the Group's PRC subsidiaries which were established and located in Shanghai Pudong New Area, Shenzhen Special Economic Zone, Hainan Special Economic Zone, Zhuhai Special Economic Zone and Changsha Pilot Zone. These companies are subject to a preferential rate of 24% during the year (2010: 22%), followed by a rate of 25% in 2012, or tax rates in accordance with the tax practices as approved by the tax authority in charge.

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

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 8. INCOME TAX (continued)

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

	2011 HK\$'000	2010 HK\$'000
Profit before tax	<u>6,677,331</u>	<u>7,731,855</u>
Tax at the statutory tax rate of 25%	1,669,333	1,932,964
Preferential tax rate in the PRC	( 229,345)	( 169,365)
LAT (Note 34)	216,139	263,793
Tax effect of LAT	( 54,050)	( 65,830)
Effect of lower or higher tax rates enacted by local authorities of other jurisdictions	89,368	( 48,951)
Withholding tax at 5% on the profit of a subsidiary established in the PRC distributed to the parent	40,346	-
Adjustments in respect of current tax of previous periods	683	( 42,080)
Income not subject to tax	( 222,800)	( 842,752)
Expenses not deductible for tax	254,529	275,763
Tax effect of share of results of associates	( 60,645)	( 101,017)
Tax effect of share of results of jointly-controlled entities	( 114,823)	( 57,969)
Tax effect of impairment loss on goodwill	79,958	-
Tax effect of gain on deemed dilution of an investment in an associate	( 102,760)	-
Utilization of tax losses previously not recognized	( 28,764)	-
Tax effect of tax losses and deductible temporary differences not recognized	446,972	78,207
Others	<u>4,197</u>	<u>( 6,827)</u>
Income tax expense	<u>1,988,338</u>	<u>1,215,936</u>

### 9. DIVIDENDS

	2011 HK\$'000	2010 HK\$'000
Dividends recognized as distribution during the year:		
2011 final – nil per share (2010 interim: HK24 cents)	<u>-</u>	<u>1,825,534</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 10. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties	Land and buildings	Leasehold improve- ments	Furniture and fixtures	Office and machinery equipments	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010 and at 1 January 2011:								
Cost	6,308,151	2,890,778	71,028	1,810,423	4,042,614	146,904	196,441	15,466,339
Accumulated depreciation and impairment	<u>765,453</u>	<u>322,661</u>	<u>60,944</u>	<u>789,649</u>	<u>696,036</u>	<u>71,732</u>	-	<u>2,706,475</u>
Net carrying amount	<u>5,542,698</u>	<u>2,568,117</u>	<u>10,084</u>	<u>1,020,774</u>	<u>3,346,578</u>	<u>75,172</u>	<u>196,441</u>	<u>12,759,864</u>
At 1 January 2011, net of accumulated depreciation and impairment	5,542,698	2,568,117	10,084	1,020,774	3,346,578	75,172	196,441	12,759,864
Additions	3,616	14,175	130	37,419	86,451	38,876	188,519	369,186
Acquisition of a subsidiary	-	994	-	-	56	99	-	1,149
Transfers	5,616	102,774	-	13,591	76,836	-	(198,817)	-
Transfer from investment properties (Note 13)	-	54,422	-	-	-	-	-	54,422
Disposal	( 1,287)	( 28,108)	-	( 5,382)	( 8,508)	( 7,621)	( 6,776)	( 57,682)
Depreciation provided during the year	( 111,503)	( 115,586)	( 2,799)	( 119,059)	( 343,340)	( 20,907)	-	( 713,194)
Impairment loss recognized in profit or loss	( 113,852)	( 8,862)	( 3,737)	( 6,834)	( 88,283)	-	-	( 221,568)
Gains on properties revaluation in relation to the transfers to investment properties	111,668	376	-	-	-	-	-	112,044
Transfer to investment properties (Note 13)	( 147,575)	( 2,998)	-	-	-	-	-	( 150,573)
Exchange realignment	<u>268,995</u>	<u>112,335</u>	<u>286</u>	<u>47,340</u>	<u>150,134</u>	<u>3,082</u>	<u>10,351</u>	<u>592,523</u>
At 31 December 2011, net of accumulated depreciation and impairment	<u>5,558,376</u>	<u>2,697,639</u>	<u>3,964</u>	<u>987,849</u>	<u>3,219,924</u>	<u>88,701</u>	<u>189,718</u>	<u>12,746,171</u>
At 31 December 2011:								
Cost	6,582,204	3,151,721	74,342	1,908,528	4,347,710	172,043	189,718	16,426,266
Accumulated depreciation and impairment	<u>1,023,828</u>	<u>454,082</u>	<u>70,378</u>	<u>920,679</u>	<u>1,127,786</u>	<u>83,342</u>	-	<u>3,680,095</u>
Net carrying amount	<u>5,558,376</u>	<u>2,697,639</u>	<u>3,964</u>	<u>987,849</u>	<u>3,219,924</u>	<u>88,701</u>	<u>189,718</u>	<u>12,746,171</u>

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

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

At the end of the reporting period, certain of the Group's hotel properties and buildings with an aggregate carrying amount of approximately HK\$5,531,340,000 (2010: HK\$2,354,923,000) were pledged to secure bank loans granted to the Group (Note 32).

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Hotel properties	Land and buildings	Leasehold improve- -ments	Furniture and fixtures	Office and machinery equipments	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2009 and at 1 January 2010:								
Cost	6,318,096	1,964,477	69,216	1,660,481	2,751,708	139,528	1,830,834	14,734,340
Accumulated depreciation and impairment	<u>667,025</u>	<u>237,899</u>	<u>58,404</u>	<u>658,226</u>	<u>453,323</u>	<u>59,963</u>	<u>-</u>	<u>2,134,840</u>
Net carrying amount	<u>5,651,071</u>	<u>1,726,578</u>	<u>10,812</u>	<u>1,002,255</u>	<u>2,298,385</u>	<u>79,565</u>	<u>1,830,834</u>	<u>12,599,500</u>
At 1 January 2010, net of accumulated depreciation and impairment	5,651,071	1,726,578	10,812	1,002,255	2,298,385	79,565	1,830,834	12,599,500
Additions	18,824	4,930	1,547	38,123	49,375	16,525	384,188	513,512
Transfers	( 217,623)	789,817	-	80,831	1,129,020	-	(1,782,045)	-
Transfer from investment properties (Note 13)	-	60,252	-	-	-	-	-	60,252
Disposal of subsidiaries	- ( 7,747)	- ( 7,747)	- ( 285)	( 285)	( 67)	-	( 233,564)	( 241,663)
Disposal	( 3)	( 1,015)	- ( 1,314)	( 1,314)	( 8,518)	( 8,110)	( 28,768)	( 47,728)
Depreciation provided during the year	( 98,428)	( 75,721)	( 2,540)	( 132,768)	( 184,209)	( 14,260)	-	( 507,926)
Impairment loss recognized in profit or loss	-	-	- ( 26)	( 26)	( 45,729)	( 946)	-	( 46,701)
Exchange realignment	<u>188,857</u>	<u>71,023</u>	<u>265</u>	<u>33,958</u>	<u>108,321</u>	<u>2,398</u>	<u>25,796</u>	<u>430,618</u>
At 31 December 2010, net of accumulated depreciation and impairment	<u>5,542,698</u>	<u>2,568,117</u>	<u>10,084</u>	<u>1,020,774</u>	<u>3,346,578</u>	<u>75,172</u>	<u>196,441</u>	<u>12,759,864</u>
At 31 December 2010:								
Cost	6,308,151	2,890,778	71,028	1,810,423	4,042,614	146,904	196,441	15,466,339
Accumulated depreciation and impairment	<u>765,453</u>	<u>322,661</u>	<u>60,944</u>	<u>789,649</u>	<u>696,036</u>	<u>71,732</u>	<u>-</u>	<u>2,706,475</u>
Net carrying amount	<u>5,542,698</u>	<u>2,568,117</u>	<u>10,084</u>	<u>1,020,774</u>	<u>3,346,578</u>	<u>75,172</u>	<u>196,441</u>	<u>12,759,864</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 11. LAND UNDER DEVELOPMENT

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

	2011 HK\$'000	2010 HK\$'000
Carrying amount:		
At 1 January	-	-
Additions	13,324,348	-
Recognized during the year	( 1,749,764 )	-
Exchange realignment	<u>271,309</u>	<u>-</u>
At 31 December	<u>11,845,893</u>	<u>-</u>
Analyzed as:		
Current portion	2,623,209	-
Non-current portion	<u>9,222,684</u>	<u>-</u>

### 12. PROPERTIES UNDER DEVELOPMENT

	2011 HK\$'000	2010 HK\$'000
Carrying amount:		
At 1 January	13,545,243	11,301,279
Additions	2,832,274	3,966,259
Transfer to properties held for sale	( 1,133,315 )	( 2,083,409 )
Transfer to prepaid land lease payments	-	( 43,527 )
Exchange realignment	<u>773,174</u>	<u>404,641</u>
At 31 December	<u>16,017,376</u>	<u>13,545,243</u>
Analyzed as:		
Current portion	7,030,281	1,050,968
Non-current portion	<u>8,987,095</u>	<u>12,494,275</u>

At 31 December 2011, certain of the Group's properties included in properties under development with net carrying amount of approximately HK\$5,693,596,000 (2010: HK\$5,216,355,000) were pledged to secure bank loans granted to the Group (Note 32).

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 13. INVESTMENT PROPERTIES

	2011 HK\$'000	2010 HK\$'000
Fair value:		
At 1 January	12,843,644	11,610,515
Additions	9,583	11,055
Fair value gains recognized in profit or loss	947,561	861,756
Transfer from properties held for sale	414,623	-
Transfer from property, plant and equipment (Note 10)	150,573	-
Transfer to property, plant and equipment (Note 10)	( 54,422)	( 60,252)
Exchange realignment	<u>668,584</u>	<u>420,570</u>
At 31 December	<u>14,980,146</u>	<u>12,843,644</u>

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

The fair value of the investment properties at 31 December 2011 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, CB Richard Ellis Limited, and Jones Lang LaSalle Sallmanns Limited, independent qualified professional valuers. The valuation was arrived at by reference to either existing use basis on an open market or transaction prices for similar properties in similar locations and conditions in market.

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

At 31 December 2011, the Group's investment properties with a total carrying amount of HK\$13,387,042,000 (2010: HK\$7,229,972,000) were pledged to secure bank loans granted to the Group and the debenture issued by the Group (Note 32).

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 14. PREPAID LAND LEASE PAYMENTS

	2011 HK\$'000	2010 HK\$'000
Leasehold land in Hong Kong under long-term leases	<u>95,892</u>	<u>96,136</u>
Leasehold land in the PRC:		
Long-term leases	404,922	393,690
Medium-term leases	<u>2,124,695</u>	<u>1,980,987</u>
	<u>2,529,617</u>	<u>2,374,677</u>
	<u>2,625,509</u>	<u>2,470,813</u>
Analyzed as:		
Current portion	67,673	86,104
Non-current portion	<u>2,557,836</u>	<u>2,384,709</u>

At 31 December 2011, certain of the Group's prepaid lease payments with an aggregate carrying amount of approximately HK\$397,785,000 (2010: HK\$373,770,000) were pledged to secure certain of the Group's bank and other borrowings (Note 32).



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 15. GOODWILL

	HK\$'000
At 1 January 2010 and 31 December 2010:	
Cost	3,719,070
Accumulated impairment	<u>-</u>
Net carrying amount	<u>3,719,070</u>
Cost at 1 January 2011, net of accumulated impairment	3,719,070
Impairment during the year	( 319,835)
Exchange realignment	<u>22,255</u>
Net carrying amount at 31 December 2011	<u>3,421,490</u>
At 31 December 2011:	
Cost	3,741,325
Accumulated impairment	<u>( 319,835)</u>
Net carrying amount	<u>3,421,490</u>

For the purposes of impairment testing, goodwill have been allocated to two groups of cash-generating units relating to fertilizers division and real estate division. The carrying amounts of goodwill as at 31 December 2011 and 2010 allocated to these divisions are as follows:

	2011 HK\$'000	2010 HK\$'000
Fertilizers division	1,421,919	1,719,499
Real estate division	<u>1,999,571</u>	<u>1,999,571</u>
	<u>3,421,490</u>	<u>3,719,070</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 15. GOODWILL (continued)

#### Impairment testing of goodwill

The recoverable amounts of these groups of cash-generating units have been determined by value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct cost 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 groups of cash-generating units. 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 test for goodwill based on cash flow forecasts of this group of cash-generating unit derived from financial budgets of the next year approved by directors and a discount rate of 10.4% (2010: 10.35%). Both sets of cash flows are extrapolated using an average growth rate of 16% (2010: 20%) for the first three years from 2013 (2010: two years) and a growth rate of 6.92% (2010: 6.8%) for the following ten years (2010: ten years). The value in use calculated is higher than the carrying amount of this group of cash-generating unit, and therefore, there are no impairment of cash-generating unit relating to this unit, except for one of the subsidiaries of Sinofer Holdings Limited ("Sinofer", one of the Company's subsidiaries), Sinochem Pingyuan Chemical Co., Ltd. ("Sinochem Pingyuan"), that continued to make significant loss. The directors of the Company considered there is indication that the goodwill allocated to Sinochem Pingyuan has been impaired in 2011.

Recoverable amounts of Sinochem Pingyuan have been determined by value in use calculations as at 30 June 2011 as the indicators arose. Cash flow forecasts are derived from financial budgets of 2012 approved by the directors of the Company. The purchase price of key raw materials applied in the production process of Sinochem Pingyuan has significantly increased in the first half of 2011, which attributed to higher direct production cost. However, the sales prices of related products have been relatively stable and are expected to maintain at the levels at that time. The growth rate for the first three years from 2013 is estimated to 7.00%, which is based on Sinochem Pingyuan's past performance and management's expectation for the market development that the growth rates for the following years are steady.

Based on the results on the assessment of the recoverable amounts of Sinochem Pingyuan, during the year ended 31 December 2011, the Group recognized an impairment loss of approximately HK\$319,835,000 (2010: Nil) in relation to goodwill arising on acquisition of Sinochem Pingyuan.

#### *Real estate division*

At the end of the reporting period, the recoverable amount of the real estate division was determined based on a value in use calculation using cash flow projections based on financial budgets covering a certain period approved by directors. The discount rate applied to the cash flow projections was 12% (2010: 8.5%) and cash flows were extrapolated using a growth rate of 10% (2010: 7.5%) for the first two years from 2013 (2010: two years), and a growth rate of 5% (2010: 7.5%) for the following three years (2010: three years). The value in use calculated by using the discount rate is higher than the carrying amount of this group of cash-generation unit, therefore there is no impairment of the real estate division.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 16. OIL AND GAS PROPERTIES

	HK\$'000
Cost	
At 1 January 2010	14,398,026
Additions	<u>1,264,349</u>
At 31 December 2010	15,662,375
Additions	3,163,429
Acquisition of a subsidiary (Note 39)	<u>24,902,248</u>
At 31 December 2011	<u>43,728,052</u>
Accumulated depreciation and impairment	
At 1 January 2010	3,413,225
Depreciation provided during the year	<u>1,321,883</u>
At 31 December 2010	4,735,108
Depreciation provided during the year (Note 7)	1,552,691
Impairment loss recognized in profit or loss (Note 5)	<u>18,987</u>
At 31 December 2011	<u>6,306,786</u>
Carrying amount	
At 31 December 2011	<u>37,421,266</u>
At 31 December 2010	<u>10,927,267</u>

#### Note:

Emerald Energy Plc ("EEP"), a wholly-owned subsidiary of the Company, owns a 50% working interest and is a contractor of Block 26 in North East Syria. There are approximately HK\$3 billion oil and gas properties in EEP.

On 2 December 2011, the European Union's ("EU") Official Journal carried the announcement of a decision of the EU Council made on 1 December 2011 in relation to the additional sanctions against Syria. Among the new measures included in that decision are the prohibition on the supply of key equipment and technology to the oil and gas industry in Syria and the addition of General Petroleum Corporation ("GPC") of Syria to the list of proscribed organizations. GPC is the Syrian government's representative and effectively the Group's partner in the production of oil from Block 26.

Gulfsands Petroleum Ltd. ("Gulfsands"), the operator of the Block 26, declared force majeure in respect of Block 26 production operations on 11 December 2011, in response to the decision the EU Council made on 1 December 2011 against Syria. EEP has agreed to the issuing of this declaration of force majeure.

Impairment testing of oil and gas properties was carried out on Block 26, and no impairment charge was considered necessary by the directors of the Company as at 31 December 2011.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 17. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

	2011 HK\$'000	2010 HK\$'000
Advance payments for an investment (note i)	-	1,551,287
Deposit paid for the purchase of oil and gas properties (note ii)	-	2,393,040
Deposits for the purchase of property, plant and equipment	<u>49,804</u>	<u>29,919</u>
	<u>49,804</u>	<u>3,974,246</u>

#### Notes:

- (i) In November 2010, Franshion entered through its indirect wholly-owned subsidiary, Qingdao Franshion Properties Co., Ltd. ("Qingdao Franshion"), with Qingdao Urban Construction Investment (Group) Co., Ltd. ("Qingdao Urban Investment Group") into an agreement in respect of a capital injection to Qingdao Lanhai Xingang City Properties Co., Ltd. ("Lanhai Xingang City Properties"), a wholly-owned subsidiary of Qingdao Urban Investment Group. Both parties are to jointly develop Lanhai Xingang City project which takes place in Qingdao, the PRC, through the Lanhai Xingang City Properties.

Franshion's advances made to Lanhai Xingang City Properties in respect of the aforementioned subscription and shareholder's loan aggregated to HK\$1,551,287,000 (equivalent to RMB1,320,019,000) at 31 December 2010, which were included in the prepayment for investment.

On 28 July 2011, Qingdao Franshion completed the acquisition of a 50% equity interest in Lanhai Xingang City Properties through contributing RMB1,000,000,000 to its newly registered capital.

The Group assessed this arrangement as a jointly-controlled entity and stated Lanhai Xingang City Properties in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting.

- (ii) On 21 May 2010, the Group acquired from subsidiaries of Statoil ASA a 100% equity interest in Statoil Petroleo Brazil Limited ("SPBL") and a 40% equity interest in South Atlantic Holding BV ("SAHBV") at a consideration of US\$3,070,000,000 (equivalent to approximately HK\$23,930,400,000) plus adjustments. At the year end of 31 December 2011, a deposit of HK\$2,393,040,000 was paid (equivalent to approximately US\$307,000,000). The transaction was completed on 14 April 2011 (Note 39).

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 18. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at the end of the reporting period are as follows:

<u>Name of entity</u>	<u>Place of incorporation/ registration</u>	<u>Nominal value of issued capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Directly	Indirectly	
Franshion	Hong Kong	HK\$9,161,489,000	62.87%	-	Investment holding
Sinochem International Chemicals (Hong Kong) Limited	Hong Kong	HK\$22,770,000	100.00%	-	Trading of chemical products
Sinochem International Oil (Hong Kong) Company Limited	Hong Kong	HK\$20,000,000	100.00%	-	Trading of oil products
Sinochem Europe Capital Corporation Limited	British Virgin Islands ("BVI")	US\$1,000	100.00%	-	Investment holding
Sinofert	Bermuda	HK\$7,022,686,000	52.67% (2010: 52.68%)	-	Investment holding
Sinochem Asia Holding Co., Ltd.	Singapore	US\$50,642,154	100.00%	-	Investment holding
Sinochem Europe Holdings PLC	United Kingdom	US\$13,031,000	100.00%	-	Investment holding
Sinochem International Petroleum (Bahamas) Co., Ltd.	Nassau	RMB41,383	100.00%	-	Trading of crude oil and petroleum products
Sinochem Petroleum Netherlands Cooperatief U.A.	Netherlands	US\$1,441,955,000	100.00%	-	Exploration and production of crude oil
Sinochem Petroleum Limited 中化石油（開曼）有限公司	Cayman Islands	US\$572,600,000	100.00%	-	Trading of crude oil and petroleum products
Sinochem International Oil (London) Co., Ltd	United Kingdom	RMB200,992,143	100.00%	-	Trading of petroleum products
Sinochem Resources UK Limited	United Kingdom	US\$435,370,161	100.00%	-	Investment holding
Sinochem Overseas Capital Company Limited	BVI	US\$1	100.00%	-	Financing vehicle for issuance of notes
Shanghai Pudong Jinxin Real Estate Development Co., Ltd. (note ii) 上海浦東金鑫房地產發展有限公司	PRC	US\$5,600,000	-	31.44%	Investment holding
Shanghai Port International Cruise Terminal Development Co., Ltd. (note ii) 上海港國際客運中心開發有限公司	PRC	RMB61,490,000	-	31.44%	Property development
Sinochem Offshore Capital Company Limited (note i)	BVI	US\$1	100.00%	-	Financing vehicle for issuance of notes

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of incorporation/ registration</u>	<u>Nominal value of issued capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Directly	Indirectly	
Shanghai International Shipping Service Center Co., Ltd. 上海國際航運服務中心有限公司 (note ii)	PRC	RMB2,450,000,000	-	31.44%	Property development
Shanghai Huigang Real Estate Development Co., Ltd. (note ii)	PRC	RMB1,230,000,000	-	31.44%	Property development
Sinochem Franshion Real Estate (Zhuhai) Co., Ltd 中化方興房地產開發(珠海)有限公司	PRC	RMB490,000,000	-	62.87%	Property development
Beijing Century Chemsunny Property Management Co., Ltd 北京凱晨置業有限公司	PRC	RMB5,000,000	-	62.87%	Property management
Sinochem International Property & Hotels Management Co., Ltd.	PRC	RMB387,600,000	-	62.87%	Property investment and management
Wangfujing Hotel Management Company Limited	PRC	US\$73,345,000	-	62.87%	Hotel management
Sinochem Franshion (Shang Hai) Properties Management Company Limited	PRC	US\$8,000,000	-	62.87%	Investment holding
Sinochem Franshion Real Estate Co., Ltd.	PRC	RMB150,000,000	-	62.87%	Investment holding
Zhuhai Kai Ming Consultancy Services Co., Ltd.	PRC	RMB1,000,000	-	62.87%	Provision of consultancy services
China Jin Mao (Group) Company Limited	PRC	RMB2,635,000,000	-	62.87%	Hotel operation and property investment and management
Beijing Jin Mao Real Estate Company Limited	PRC	RMB1,600,000,000	-	62.87%	Hotel operation
Jin Mao Sanya Tourism Company Limited	PRC	RMB500,000,000	-	62.87%	Hotel operation
Jin Mao (Li Jiang) Zhi Ye Co., Ltd.	PRC	RMB100,000,000	-	62.87%	Hotel operation
Jin Mao (Li Jiang) Hotel Investment Co., Ltd.	PRC	RMB100,000,000	-	62.87%	Hotel operation
Shanghai Yin Hui Real Estate Development Co., Ltd. ("Shanghai Yin Hui") (note ii)	PRC	RMB1,008,000,000	-	31.44%	Property development
Sinochem Kingsway Capital Inc.	Cayman Islands	US\$10,000	-	100.00%	Investment holding

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of incorporation/ registration</u>	<u>Nominal value of issued capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Directly	Indirectly	
世盈（厦門）创业投资有限公司	PRC	RMB705,643,000	-	100.00%	Investment holding
Sinochem Japan Co., Ltd.	Japan	RMB4,613,894	-	100.00%	General trading and commission agency
Emerald Energy Plc	Isle of Man	British Pound 6,821,565	-	100.00%	Exploration and production of hydrocarbons
Qingdao Franshion Development Co., Ltd.	PRC	RMB100,000,000	-	62.87%	Property development and investment
Shanghai Jinhong International Trading Co., Ltd	PRC	RMB10,000,000	-	62.87%	Trading of diversified products
Shanghai Jin Mao Jinsheng International Trading Company Limited	PRC	RMB10,000,000	-	62.87%	Trading of diversified products
Shanghai Jin Mao Construction & Decoration Company Limited	PRC	RMB10,000,000	-	62.87%	Provision of building decoration services
Jin Mao Sanya Resort Hotel Company Limited	PRC	RMB300,000,000	-	62.87%	Hotel operation
Jin Mao Shenzhen Hotel Investment Company Limited	PRC	RMB700,000,000	-	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
Franshion Development Limited (note i)	BVI	US\$1	-	62.87%	Investment holding

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of incorporation/ registration</u>	<u>Nominal value of issued capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			<u>Directly</u>	<u>Indirectly</u>	
Changsha Franshion Shengrong Properties Limited (note i)	PRC	RMB10,000,000	-	62.87%	Property development
Shanghai Yingtan Investment Limited	PRC	RMB21,000,000	-	62.87%	Property development
Jin Mao Investment (Chang Sha) Co., Ltd. (note i)	PRC	RMB3,750,000,000	-	50.30%	Land development
China Fertilizer (Holdings) Co., Ltd.	BVI	US\$10,002	-	52.67% (2010: 52.68%)	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US\$1,000,000	-	52.67% (2010: 52.68%)	Investment holding
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US\$10,002	-	52.67% (2010: 52.68%)	Investment holding
Sinochem Fertilizer Co., Ltd.	PRC	RMB7,600,000,000		52.67% (2010: 52.68%)	Fertilizer trading
Dohigh Trading Limited	Hong Kong	HK\$15,000,000	-	52.67% (2010: 52.68%)	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited	Macao	MOP100,000	-	52.67% (2010: 52.68%)	Fertilizer trading
Suifenhe Xinkaiyuan Trading Co., Ltd.	PRC	RMB5,000,000	-	52.67% (2010: 52.68%)	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd.	PRC	RMB47,000,000	-	28.02%	Sale and manufacture of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. (notes i, ii)	PRC	RMB80,000,000	-	31.60% (2010: 31.61%)	Sale and manufacture of fertilizers
Sinochem Yantai Crop Nutrition Co., Ltd. (note iv)	PRC	US\$241,000	-	52.67% (2010: 26.87%)	Sale and manufacture of fertilizers
Manzhouli Kaiming Fertilizer Co., Ltd.	PRC	RMB5,000,000	-	52.67% (2010: 52.68%)	Fertilizer trading

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of incorporation/ registration</u>	<u>Nominal value of issued capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Directly	Indirectly	
Sinochem Pingyuan	PRC	RMB300,000,000	-	39.50% (2010: 39.51%)	Sale and manufacture of fertilizers
Sinochem Jilin Changshan Chemical Co., Ltd. (note ii)	PRC	RMB589,590,000	-	47.83% (2010: 47.84%)	Sale and manufacture of fertilizers
Hubei Sinochem Orient Fertilizer Co., Ltd. (note ii)	PRC	RMB30,000,000	-	42.14%	Sale and manufacture of fertilizers
Sinochem Shandong Fertilizer Co., Ltd. (note ii)	PRC	RMB100,000,000	-	26.86% (2010: 26.87%)	Sale and manufacture of fertilizers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd.	PRC	RMB100,000,000	-	52.67% (2010: 52.68%)	Fertilizer retailing
Sinochem Ningxia Chemical Co., Ltd	PRC	RMB160,000,000	-	52.67% (2010: 52.58%)	Sale and manufacture of fertilizers
Sinochem Franshion Investment and Management (Beijing) Co., Ltd	PRC	US\$415,000,000	-	62.87%	Property development
Sinochem Hainan Crop Science and Technology Co., Ltd. (note i)	PRC	RMB200,000,000	-	52.67%	Sale and manufacture of fertilizers
SPBL (note iii)	Brazil	US\$950,590,000	-	100.00%	Exploration and production of hydrocarbons

#### Notes:

- The companies were incorporated/established during the year ended 31 December 2011.
- The Group controls the boards 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.
- During the year, the Group acquired a 100% equity interest in SPBL from unrelated third parties, STATOIL BRAZIL ÓLEO E GAS LIMITADA ("SBOGL") and STATOIL DO BRAZIL LIMITADA ("SDBL"), respectively. Further details of this acquisition are included in Note 39 to the financial statements.
- The company acquired non-controlling interests in 2011.

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	2011 HK\$'000	2010 HK\$'000
Unlisted investments		
Cost of investments	9,316,570	4,239,544
Share of post-acquisition loss, net of dividends received	( 317,930 )	( 107,389 )
	<u>8,998,640</u>	<u>4,132,155</u>

Included in the cost of investments in jointly-controlled entities is goodwill of HK\$2,935,922,000 (2010: HK\$2,935,922,000) arising on acquisition of jointly-controlled entities. The movement of goodwill is set out below.

	2011 HK\$'000	2010 HK\$'000
Cost		
At 1 January	2,935,922	3,428,060
Eliminated on disposal	-	( 492,138 )
At 31 December	<u>2,935,922</u>	<u>2,935,922</u>

Particulars of the jointly-controlled entities which are directly held by the Group are as follows:

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
			2011 %	2010 %	
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	31.60	31.63	Fertilizer logistics
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	13.17	13.17	Sale and manufacture of fertilizers
Yunnan Three Circles-Sinochem Fertilizer Company Limited 雲南三環中化化肥有限公司	PRC	Capital contribution	21.07	21.07	Sale and manufacture of fertilizers
Gansu Wengfu Chemical Co., Ltd. 甘肅翁福化工有限責任公司	PRC	Capital contribution	15.80	15.80	Sale and manufacture of fertilizers
Lanhai Xingang City Properties 青島藍海新港城置業有限公司(note i)	PRC	Capital contribution	31.44	-	Property development

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

<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>2011</u>	<u>2010</u>	
			%	%	
SAHBV (note ii) Netherlands	Capital	40.00 contribution	-	-	Equipment lease and technique support for oil and gas exploration
Shanghai Jin Mao Jin Jiang Automobile Service Company Limited 上海金茂錦江汽車服務有限公司	PRC	Capital contribution	31.44	31.44	Lease of commercial vehicles
Shanghai Jin Mao Auto Hire Company Limited 上海金茂汽車租賃有限公司	PRC	Capital contribution	28.29	28.29	Lease of commercial vehicles
Suzhou Jin Mao Jin Jiang Foreign Affairs and Tourism Bus Co., Ltd. 蘇州金茂錦江汽車服務有限公司 (note iv)	PRC	Capital contribution	-	31.12	Lease of commercial vehicles
Shanghai Jin Mao International Cruising-Yacht Company Limited 上海金茂盛融遊艇俱樂部有限公司 (note iv)	PRC	Capital contribution	-	14.46	Provision of yacht service
Comeco Petroleum Inc. (note iii)	PRC	Capital contribution	58.75	58.75	Sale of crude oil

#### Notes:

- (i) During the year, Qingdao Franshion completed the acquisition of 50% equity interest in Lanhai Xingang City Properties (Note 17 (i)).
- (ii) During the year, the Group acquired 40% of SAHBV from subsidiaries of Statoil ASA. Further details of this acquisition are included in Note 39 to the financial statements.
- (iii) 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.
- (iv) The Group disposed of the investments in those jointly-controlled entities during the year ended 31 December 2011.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the aggregate summarized financial information of the Group's jointly-controlled entities :

	2011 HK\$'000	2010 HK\$'000
Share of the joint ventures' assets and liabilities		
Current assets	3,948,231	1,206,122
Non-current assets	10,126,771	2,195,577
Current liabilities	( 2,840,230)	(1,704,838)
Non-current liabilities	( 4,620,334)	( 500,628)
Net assets	<u>6,614,438</u>	<u>1,196,233</u>
Share of the joint ventures' results		
Revenue	3,484,855	3,249,327
Other revenue	<u>1,460</u>	<u>-</u>
	<u>3,486,315</u>	<u>3,249,327</u>
Total expenses	( 2,057,744)	(3,017,450)
Tax	( 474,816)	-
Profit after tax	<u>953,755</u>	<u>231,877</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 20. INVESTMENTS IN ASSOCIATES

	2011 HK\$'000	2010 HK\$'000
Listed companies, at cost	7,719,603	7,694,053
Unlisted investments, at cost	1,584,425	1,819,494
Share of post acquisition profits and other comprehensive income, net of dividend received	<u>1,557,342</u>	<u>128,015</u>
	<u>10,861,370</u>	<u>9,641,562</u>
Fair value of listed investments	<u>5,607,322</u>	<u>11,063,749</u>

Particulars of the principal associates as at the end of the reporting period 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>2011</u>	<u>2010</u>	
			%	%	
Dongguan Zhonghua Mei Plastics Co., Ltd.	PRC	Capital contribution	35.00	35.00	Production and sale of chemical fiber
Nantong Jiamin Terminal & Storage Co., Ltd. 南通嘉民港儲有限公司	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	Capital contribution	25.00	25.00	Godown business
West Pacific Petrochemical Co., Ltd. 大連西太平洋石油化工 有限公司	PRC	Capital contribution	25.20	25.20	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	Capital contribution	25.00	25.00	Godown business

Continued/...

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 20. INVESTMENTS IN ASSOCIATES (continued)

<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>2011</u>	<u>2010</u>	
			%	%	
Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") 青海鹽湖工業股份有限公司	PRC	Capital contribution	8.94 (note i)	18.49	Production and sale of fertilizers
Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. 貴州鑫新工農貿易有限公司	PRC	Capital contribution	30.00	30.00	Production and sale of phosphate rocks
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	Capital contribution	30.00	30.00	Trading
北京中孚石油有限公司	PRC	Capital contribution	60.00	60.00	Vehicle oil supply and maintenance
中化國際太倉興國實業有限公司(note ii)	PRC	Capital contribution	-	25.00	Production and sale of chemical products
中化國際太倉興諾實業有限公司	PRC	Capital contribution	25.00	25.00	Production and sale of chemical products
中化國際(蘇州工業園)新材料研發有限公司	PRC	Capital contribution	25.00	25.00	Production and sale of chemical products
太倉中化環保有限公司	PRC	Capital contribution	35.00	35.00	Production and sale of chemical products
舟山中威石油儲運有限公司 (“舟山中威”)	PRC	Capital contribution	50.00	50.00	Godown business
中化格力倉儲有限公司 (“格力倉儲”)	PRC	Capital contribution	25.00	25.00	Godown business
中化格力港務有限公司	PRC	Capital contribution	25.00	25.00	Godown business

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# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 20. INVESTMENTS IN ASSOCIATES (continued)

<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>2011</u>	<u>2010</u>	
			%	%	
中化揚州石化碼頭倉儲有限公司	PRC	Capital contribution	25.00	25.00	Godown business
中化天津港石化倉儲有限公司	PRC	Capital contribution	25.00	25.00	Godown business
中化興中石油轉運(舟山)有限公司	PRC	Capital contribution	25.00	25.00	Godown business
Qinghai Ganghua Logistics Company Limited 青島港華物流有限公司	PRC	Capital contribution	25.00	25.00	Logistics services
Tianjin Beihai Industrial Company Limited 天津北海實業有限公司	PRC	Capital contribution	30.90	30.90	Logistics services
Yara Sinochem Environment Protection (Qingdao) Co., Ltd. 雅荊中化環保(青島)有限公司	PRC	Capital contribution	40.00	40.00	Sale of fertilizers
天津港中化石化碼頭有限公司	PRC	Capital contribution	25.00	25.00	Godown business
寧德世紀源臨港工業發展諮詢有限公司(note ii)	PRC	Capital contribution	-	40.00	Engineering consulting services

#### Notes:

- (i) During the year ended 31 December 2011, an associate of Sinofer, Qinghai Salt Lake Potash Co., Ltd. ("Qinghai Salt Lake") merged with Qinghai Salt Lake Industry Group Co., Ltd. ("Salt Lake Group") (the "Merger"). Qinghai Salt Lake acquired the business of Salt Lake Group by issuance of new shares to the existing shareholders of Salt Lake Group in exchange of all the outstanding shares of Salt Lake Group. Upon completion of the Merger, the equity interest held by Sinofer in Qinghai Salt Lake decreased from 18.49% to 8.94% and Qinghai Salt Lake changed its name to Qinghai Salt Lake Industrial Co., Ltd.

Upon the Merger, the intermediate parent of Sinofer, Sinochem Corporation, irrevocably assigned its voting right and right to nominate representation to the board of directors in Qinghai Salt Lake in respect of its 15.01% equity interest in Qinghai Salt Lake for free to Sinofer. Consequently, Sinofer maintained its significant influence over Qinghai Salt Lake after the Merger. The Group accounted for the reduction of equity interest in Qinghai Salt Lake as a result of the Merger as a deemed dilution in investment in an associate and recognized a gain of approximately HK\$411 million (equivalent to RMB341 million) in the current year (Note 5).

- (ii) The Group disposed of the investments in those associates during the year ended 31 December 2011.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 20. INVESTMENTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the directors, 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, result in particulars of excessive length.

The following table illustrates the aggregate summarized financial information of the Group's associates extracted from their audited financial statements :

	2011 HK\$'000	2010 HK\$'000
Total assets	<u>67,464,089</u>	<u>32,162,377</u>
Total liabilities	<u>38,707,604</u>	<u>22,185,175</u>
Net assets	<u>28,756,485</u>	<u>9,977,202</u>
Revenues	<u>55,880,762</u>	<u>49,359,186</u>
Profit	<u>2,478,691</u>	<u>3,099,154</u>

### 21. AVAILABLE-FOR-SALE INVESTMENTS

	2011 HK\$'000	2010 HK\$'000
Listed equity investments, at fair value	3,565,243	4,746,466
Unlisted equity investments:		
At cost	169,452	156,928
Impairment	( 1,591)	( 1,518)
At cost less impairment	<u>3,733,104</u>	<u>4,901,876</u>

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

For listed equity investments, the fair values are based on quoted market prices at the end of the reporting period. During the year, the fair value losses in respect of the Group's available-for-sale investments recognized in other comprehensive income amounted to HK\$1,156,594,000 (2010: fair value gains amounted to HK\$74,418,000), of which HK\$83,254,000 was reclassified from other comprehensive income to profit or loss for the year.

The above unlisted available-for-sale investments represent investments in private entities and club memberships. They are stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 22. AMOUNTS DUE FROM AND DUE TO RELATED PARTIES

	2011 HK\$'000	2010 HK\$'000
<u>Amounts due from related parties</u>		
Amounts due from associates (note ii)	217,781	430,203
Amounts due from jointly-controlled entities (note ii)	1,083,964	56,850
Amounts due from fellow subsidiaries (note i)	21,940,584	15,411,716
Amounts due from the ultimate parent (note ii)	15,498	203,514
Amounts due from the immediate parent (note ii)	6,116	39,107
	<u>23,263,943</u>	<u>16,141,390</u>
Analyzed as:		
Current	23,263,943	16,025,885
Non-current	-	115,505
	<u>23,263,943</u>	<u>16,141,390</u>
<u>Amounts due to related parties</u>		
Amounts due to jointly-controlled entities (note ii)	65,651	43,080
Amounts due to the ultimate parent (note ii)	699,107	274,208
Amounts due to associates (note ii)	2,110	-
Amounts due to the immediate parent (note ii)	7,956,405	11,979,001
Amounts due to fellow subsidiaries (note ii)	3,263,082	1,210,579
	<u>11,986,355</u>	<u>13,506,868</u>
Analyzed as:		
Current	11,986,355	13,506,868
Non-current	-	-
	<u>11,986,355</u>	<u>13,506,868</u>

#### Notes:

(i) At 31 December 2011, the amounts are interest-free, unsecured, and repayable on demand. At 31 December 2010, amounts due from fellow subsidiaries included an amount of US\$6,300,000 (equivalent to approximately HK\$49,034,000) bearing interest at 2.71063% per annum and repayable on 6 August 2012 and an amount of HK\$63,433,000 (equivalent to approximately US\$8,150,000) bearing interest at 1.48313% per annum and repayable on 21 October 2013. The remaining balances were interest-free and repayable on demand except for an amount of HK\$393,745,000 (equivalent to approximately US\$50,589,000) bearing interest at 2.03706% per annum. The Group has entered into transactions covering the sales of goods and rendering of services with fellow subsidiaries.

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 23. INVENTORIES

	2011 HK\$'000	2010 HK\$'000
Raw materials	1,406,722	1,068,044
Work in progress	54,188	41,201
Fertilizer merchandize and finished goods	8,933,711	6,413,856
Consumables	36,457	140,909
	<u>10,431,078</u>	<u>7,664,010</u>

### 24. PROPERTIES HELD FOR SALE

All the properties held for sale are stated at cost. The Group's properties held for sale are situated in Mainland China and are held under the following lease terms:

	2011 HK\$'000	2010 HK\$'000
Long-term leases	36,785	37,658
Medium-term leases	<u>803,021</u>	<u>983,495</u>
	<u>839,806</u>	<u>1,021,153</u>

At 31 December 2011, certain of the Group's properties included in properties held for sale with a net carrying amount of approximately HK\$148,916,000 (2010: HK\$141,878,000) were pledged to secure bank loans granted to the Group (Note 32).

### 25. TRADE AND BILLS RECEIVABLES

	2011 HK\$'000	2010 HK\$'000
Trade debtors	19,136,963	27,775,546
Impairment and reversal of impairment losses	( 272,165)	( 443,556)
	<u>18,864,798</u>	<u>27,331,990</u>

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



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 25. TRADE AND BILLS RECEIVABLES (continued)

At 31 December 2011, trade debtors of HK\$272,165,000 (2010: HK\$443,556,000) were individually determined to be impaired. The individually impaired trade receivables relate to customers that were in unexpected financial difficulties and it is assessed that only a portion of the receivables is expected to be recovered. Movements in the provision for impairment losses are as follows:

	2011 HK\$'000	2010 HK\$'000
At 1 January	443,556	590,800
Impairment losses recognized (Note 5)	1,045	13,676
Impairment losses reversed (Note 5)	( 173,981)	( 161,443)
Exchange realignment	1,667	523
Amounts written off as uncollectible	( 122)	-
At 31 December	<u>272,165</u>	<u>443,556</u>

The aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2011 HK\$'000	2010 HK\$'000
Neither past due nor impaired	18,695,113	27,311,864
Past due but not impaired:		
Less than 90 days	167,152	14,029
91 to 360 days	915	5,384
Over 360 days	<u>1,618</u>	<u>713</u>
	<u>18,864,798</u>	<u>27,331,990</u>

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

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for 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.

### 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011 HK\$'000	2010 HK\$'000
Prepayments	3,049,838	1,874,955
Deposits	710,021	12,215
Other receivables	<u>1,015,727</u>	<u>797,188</u>
	<u>4,775,586</u>	<u>2,684,358</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 27. HELD-FOR-TRADING INVESTMENTS

	2011 HK\$'000	2010 HK\$'000
Equity securities listed in Hong Kong at fair value	<u>112,908</u>	<u>248,794</u>

### 28. DERIVATIVE FINANCIAL INSTRUMENTS

	2011 HK\$'000	2010 HK\$'000
Financial assets:		
Crude oil derivative financial instruments	<u>97,224</u>	<u>13,854</u>
Financial liabilities:		
Derivative component of convertible loan notes (Note 33)	-	56,564
Crude oil derivative financial instruments	<u>17,193</u>	<u>124,352</u>
	<u>17,193</u>	<u>180,916</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 future prices or published oil indexes are derived from the relevant futures exchanges or oil price publications 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 LaSalle Sallmanns Limited, an independent professionally qualified valuer, using the applicable pricing model (Note 33).

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2011 HK\$'000	2010 HK\$'000
Cash and bank balances (note ii)	13,745,915	17,220,247
Time deposits	<u>5,634,960</u>	<u>2,121,556</u>
	19,380,875	19,341,803
Less: Pledged for short-term bank loans (note i)	245,773	2,121,556
Restricted bank balances	<u>135,316</u>	<u>-</u>
Pledged bank deposits	<u>381,089</u>	<u>2,121,556</u>
Cash and cash equivalents	<u>18,999,786</u>	<u>17,220,247</u>

Notes:

(i) Pledged bank deposits

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Pledged bank deposits of approximately HK\$245,773,000 (2010: HK\$2,121,556,000) have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

(ii) Cash and cash equivalents

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

### 30. OTHER DEPOSITS

Other deposits represent principal-protected financial products issued by financial institutions in the PRC, which carried fixed interest rates from 1.50% to 7.00% (2010: 1.5%) per annum. Included in other deposits as at 31 December 2011 were balances of approximately HK\$801,775,000 (2010: nil) which were restricted and can only be withdrawn until maturity. The directors of the Company consider the other deposits as current assets since the maturity dates are all within one year at the end of the reporting period.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 31. OTHER PAYABLES AND ACCRUALS

	2011 HK\$'000	2010 HK\$'000
Other payables	2,868,331	3,971,819
Receipt in advances	9,543,966	2,949,873
Accruals	395,489	297,506
Due to non-controlling shareholders	900,455	-
Dividend payable to non-controlling shareholders	407,055	293,800
	<u>14,115,296</u>	<u>7,512,998</u>

Other payables are non-interest-bearing with an average term of not more than one year.

The amounts due to non-controlling shareholders are unsecured, interest-bearing at rates ranging from 7.32% to 7.87% per annum and are repayable within one year.

### 32. INTEREST-BEARING BORROWINGS

Current	2011 HK\$'000	2010 HK\$'000
Bank loans, secured (note v)	1,870,991	2,972,123
Bank loans, guaranteed (note vi)	103,629	103,776
Bank loans, unsecured	6,712,521	8,106,816
Debenture, secured (notes ii and v)	1,233,500	-
Other loans, unsecured (note iv)	246,700	235,040
	<u>10,167,341</u>	<u>11,417,755</u>
Non-current	2011 HK\$'000	2010 HK\$'000
Bank loans, secured (note v)	13,209,342	7,648,763
Bank loans, guaranteed (note vi)	10,683,242	363,215
Bank loans, unsecured	2,827,992	2,936,393
Guaranteed senior notes (note i)	19,287,789	15,414,527
Guaranteed notes (note i)	4,132,338	-
Debenture, secured (notes ii and v)	-	1,175,200
Bonds, guaranteed (note iii)	3,060,850	2,917,883
Other loans, unsecured (note iv)	-	235,040
	<u>53,201,553</u>	<u>30,691,021</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 32. INTEREST-BEARING BORROWINGS (continued)

Carrying amounts repayable:	2011 HK\$'000	2010 HK\$'000
Within one year	10,167,341	11,417,755
More than one year, but not exceeding two years	5,637,004	3,171,960
More than two years, but not more than five years	16,124,704	6,419,625
More than five years	<u>31,439,845</u>	<u>21,099,436</u>
	<u>63,368,894</u>	<u>42,108,776</u>

#### Notes:

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

On 11 January 2011, Sinochem Offshore Capital Company Limited, a wholly owned subsidiary of the Group, issued RMB3,500,000,000 1.8% guaranteed notes due 2014 (the "2014 Notes"). The 2014 Notes are unsecured and guaranteed by the Group. The 2014 Notes bear interest at a rate of 1.8% per annum. Interest will be paid on the 2014 Notes semi-annually in arrears on 18 January and 18 July of each year beginning on 18 July 2011. Unless previously repurchased, cancelled or redeemed, the 2014 Notes will mature on 18 January 2014, at a price equal to 100% of principal amount thereof. The effective interest of the 2014 Notes is 1.87% per annum.

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

- (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.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 32. INTEREST-BEARING BORROWINGS (continued)

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

- (i) mortgages over certain of the Group's property, plant and equipment with an aggregated carrying amount of approximately HK\$5,531,340,000 (2010: HK\$2,354,923,000) (Note 10);
- (ii) mortgages over certain of the Group's investment properties with an aggregated carrying amount of approximately HK\$13,387,042,000 (2010: HK\$7,229,972,000) (Note 13);
- (iii) mortgages over certain of the Group's prepaid lease payments with an aggregated carrying amount of approximately HK\$397,785,000 (2010: HK\$373,770,000) (Note 14);
- (iv) mortgages over certain of the Group's properties under development with an aggregated carrying amount of approximately HK\$5,693,596,000 (2010: HK\$5,216,355,000) (Note 12);
- (v) mortgages over certain of the Group's properties held for sale with an aggregated carrying amount of approximately HK\$148,916,000 (2010: HK\$141,878,000) (Note 24);
- (vi) bills receivables of nil (2010: HK\$76,263,000);
- (vii) pledged bank deposits of approximately HK\$245,773,000 (2010: HK\$2,121,556,000) (Note 29); and
- (viii) bank deposits of certain non-controlling interests of the Company's subsidiaries with an aggregate carrying amount of nil (2010: HK\$411,320,000).

(vi) The Group's bank and other borrowings are guaranteed by the ultimate parent, letter of awareness and letter of comfort issued by the ultimate parent.

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

	2011	2010
Effective interest rate:		
Fixed rate borrowings	2.55% to 6.85%	1.02% to 6.43%
Variable rate borrowings	<u>1.74% to 7.76%</u>	<u>0.68% to 5.94%</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 33. CONVERTIBLE LOAN NOTES

#### 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 Hong Kong dollars. 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 note agreement, the conversion price was adjusted to HK\$3.64 on 10 June 2009. According to the terms of the convertible loan notes, Sinofert had the option to pay the holder a cash amount in Hong Kong dollars equal to the arithmetic average of the daily volume weighted average prices of 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 had 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 had 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 note adjustments.

The convertible loan notes contain liability component stated at amortized 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%.

During the year, convertible loan notes with face value of HK\$350,000 were converted into 96,153 ordinary share of HK\$0.10 each and the remaining notes with face value of HK\$621,150,000 were redeemed at maturity for a cash consideration of approximately RMB656,572,000.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 33. CONVERTIBLE LOAN NOTES (continued)

#### Convertible loan notes issued by Sinoferf (continued)

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

	Liability component HK\$'000	Derivative component HK\$'000	Total HK\$'000
At 1 January 2010	737,084	175,579	912,663
Interest charge	49,734	-	49,734
Changes in fair value	-	(112,879)	(112,879)
Exchange realignment	( 25,904)	( 6,136)	( 32,040)
At 31 December 2010	760,914	56,564	817,478
Interest charge	31,732	-	31,732
Changes in fair value	-	( 56,556)	( 56,556)
Exchange realignment	17,690	( 8)	17,682
Conversion to ordinary shares	( 454)	-	( 454)
Redemption by cash	(809,882)	-	(809,882)
At 31 December 2011	-	-	-

#### Perpetual convertible securities issued by Franshion Capital Limited

On 12 October 2010, Franshion Capital Limited, a direct wholly-owned subsidiary of Franshion, issued perpetual convertible securities with a nominal value of US\$600 million (equivalent to HK\$4,655,166,000). There was no movement in the number of perpetual convertible securities during the year. 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 at any time on or after 11 October 2011 at the initial conversion price of HK\$2.83 per ordinary share of Franshion. 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. The perpetual convertible securities are also redeemable at the option of the holders of perpetual convertible securities upon any delisting or prolonged suspension (for a period of 90 consecutive days) arising from or as a result of an application to the Stock Exchange having been initiated or made by Franshion or such delisting or prolonged suspension having been effected or imposed through any other means controlled by Franshion or otherwise resulting from any action of Franshion.

In the opinion of the directors, Franshion is able to control the delivery of cash or other financial assets to the holders of perpetual convertible securities due to redemption other than an unforeseen liquidation of Franshion or Franshion Capital Limited. Accordingly, the perpetual convertible securities are classified as equity instruments.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 34. PROVISION FOR LAND APPRECIATION TAX

	Provision for Land Appreciation Tax ("LAT") HK\$'000
At 1 January 2010	571,175
Charge to the profit or loss during the year (Note 8)	263,793
Payment during the year	( 22,509)
Transfer from tax recoverable	( 14,983)
Exchange realignment	<u>25,118</u>
At 31 December 2010	822,594
Charge to the profit or loss during the year (Note 8)	216,139
Payment during the year	(587,705)
Exchange realignment	<u>32,689</u>
At 31 December 2011	<u>483,717</u>

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 require the prepayment of LAT on the pre-sale and sales proceeds of properties. According to the relevant tax notices issued by local tax authorities, Franshion is required to pay LAT in advance at 1% to 2% on the pre-sale and sales proceeds of Franshion's properties.

Franshion 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.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 35. DEFERRED TAX ASSETS AND LIABILITIES

#### Deferred tax liabilities

	Depreciation allowance in excess of related <u>depreciation</u> HK\$'000	Fair value adjustments on business <u>combinations</u> HK\$'000	Provision for LAT HK\$'000	Revaluation of investment properties HK\$'000	Revaluation of available- for-sale investments HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2011	310,069	1,551,422	( 60,995)	1,790,224	( 1,430)	( 27,858)	3,561,432
Deferred tax charged/ (credit) to the profit or loss during the year	34,072	( 9,743)	-	299,665	-	17,648	341,642
Deferred tax recognized in other comprehensive income during the year	-	-	-	-	1,464	-	1,464
Exchange realignment	<u>16,178</u>	<u>3,464</u>	<u>-</u>	<u>93,870</u>	<u>( 34)</u>	<u>10,247</u>	<u>123,725</u>
Gross deferred tax liabilities at 31 December 2011	<u>360,319</u>	<u>1,545,143</u>	<u>( 60,995)</u>	<u>2,183,759</u>	<u>-</u>	<u>37</u>	<u>4,028,263</u>

#### Deferred tax assets

	Accelerated tax <u>depreciation</u> HK\$'000	Other <u>provision</u> HK\$'000	Provision for LAT HK\$'000	Unrealized profits in inventories HK\$'000	Losses available for offsetting taxable profits HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2011	15,588	39,540	133,632	5,620	971,423	35,473	1,201,276
Deferred tax credit/ (charge) to the profit or loss during the year	( 15,681)	16,354	( 83,545)	9,692	(176,207)	92,379	( 157,008)
Exchange realignment	<u>382</u>	<u>2,280</u>	<u>7,702</u>	<u>497</u>	<u>52,772</u>	<u>3,247</u>	<u>66,880</u>
Gross deferred tax assets at 31 December 2011	<u>289</u>	<u>58,174</u>	<u>57,789</u>	<u>15,809</u>	<u>847,988</u>	<u>131,099</u>	<u>1,111,148</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 35. DEFERRED TAX ASSETS AND LIABILITIES (continued)

#### Deferred tax liabilities

	Depreciation allowance in excess of related <u>depreciation</u> HK\$'000	Fair value adjustments on business <u>combinations</u> HK\$'000	Provision for LAT <u>for LAT</u> HK\$'000	Revaluation of investment properties HK\$'000	Revaluation of available- for-sale investments HK\$'000	<u>Others</u> HK\$'000	<u>Total</u> HK\$'000
At 1 January 2010	264,889	1,577,762	( 60,995)	1,516,974	( 1,856)	( 6,397)	3,290,377
Deferred tax charged/ (credit) to the profit or loss during the year	35,143	( 35,062)	-	216,760	-	(11,692)	205,149
Deferred tax recognized in other comprehensive income during the year	-	-	-	-	495	-	495
Exchange realignment	<u>10,037</u>	<u>8,722</u>	<u>-</u>	<u>56,490</u>	<u>( 69)</u>	<u>( 9,769)</u>	<u>65,411</u>
Gross deferred tax liabilities at 31 December 2010	<u>310,069</u>	<u>1,551,422</u>	<u>( 60,995)</u>	<u>1,790,224</u>	<u>( 1,430)</u>	<u>(27,858)</u>	<u>3,561,432</u>

#### Deferred tax assets

	Accelerated tax <u>depreciation</u> HK\$'000	Other <u>provision</u> HK\$'000	Provision for LAT <u>for LAT</u> HK\$'000	Unrealized profits in <u>inventories</u> HK\$'000	Losses available for offsetting taxable profits HK\$'000	<u>Others</u> HK\$'000	<u>Total</u> HK\$'000
At 1 January 2010	6,608	220,416	63,401	25,027	771,710	10,005	1,097,167
Deferred tax credit/ (charge) to the profit or loss during the year	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	-	-	-	-	( 2,182)	-	( 2,182)
Gross deferred tax assets at 31 December 2010	<u>15,588</u>	<u>39,540</u>	<u>133,632</u>	<u>5,620</u>	<u>971,423</u>	<u>35,473</u>	<u>1,201,276</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 35. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets are recognized 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 tax laws 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 recognize a withholding tax liability and the related deferred tax liability at 31 December 2010 and 2011.

At 31 December 2011, certain subsidiaries of the Group recognized deferred tax liabilities of approximately HK\$20,937,000 for withholding taxes that would be payable on the unremitted earnings in PRC. In the opinion of directors, it is not probable that the remaining subsidiaries, joint ventures and jointly operations will distribute such earnings in the foreseeable future.

### 36. PROVISION FOR DISMANTLEMENT COSTS

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

	2011 HK\$'000	2010 HK\$'000
Carrying amount		
At 1 January	308,549	269,769
Additional provisions recognized	1,268,278	38,789
Exchange realignment	-	(9)
At 31 December	<u>1,576,827</u>	<u>308,549</u>

### 37. ISSUED CAPITAL

	Number of shares		Nominal value	
	2011 '000	2010 '000	2011 HK\$'000	2010 HK\$'000
Ordinary shares of HK\$1 each				
Authorized, issued and fully paid:				
At the beginning of the year	7,580,200	7,580,200	7,580,200	7,580,200
Issue of shares	<u>10,549,300</u>	<u>-</u>	<u>10,549,300</u>	<u>-</u>
At the end of the year	<u>18,129,500</u>	<u>7,580,200</u>	<u>18,129,500</u>	<u>7,580,200</u>

On 31 December 2011, the Company increased its authorized share capital from HK\$7,580,200,000 to HK\$18,129,500,000 by creation of 10,549,300,000 ordinary shares of HK\$1 each. At the same time, the Company issued and allotted a total of 10,549,300,000 ordinary shares in the group of HK\$1 each in the Company at par to the immediate parent. These shares rank pari passu in all respects with other shares in issue.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 38. NOTES TO THE STATEMENT OF CASH FLOWS

#### Major non-cash transactions

During the year ended 31 December 2011, the Company issued share capital of HK\$10,549,300,000 to its immediate parent, which was settled by amounts due to the immediate parent.

During the year ended 31 December 2010, a non-wholly owned subsidiary of the Company declared dividends of HK\$293,800,000 (equivalent to RMB250,000,000) to its non-controlling shareholder. The amount was settled in year 2011.

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

During the year ended 31 December 2010, the Company declared a dividend of HK\$1,821,600,000 and the amount had not paid and was included in amounts due to the immediate parent as at 31 December 2010. The amount was settled in year 2011.

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

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 39. BUSINESS COMBINATIONS

- (1) On 21 May 2010, the Group acquired from subsidiaries of Statoil ASA a 100% equity interest in SPBL and a 40% equity interest in SAHBV at a consideration of US\$3,070,000,000 (equivalent to approximately HK\$23,930,400,000) plus adjustments. The acquisition is aligned with the Group's strategy to expand its reach to South America and seek further growth in the region. The transaction was completed on 14 April 2011.

SPBL owns 40% undivided working interest in two blocks in Brazil, namely, Block BM-C-7 and Block BM-C-47. Block BM-C-7 commenced production in April 2011.

SAHBV is registered in the Netherlands and leases out floating production storage and offloading units, platforms and drilling rigs to SPBL in return of rental income. After the transaction, SAHBV is assessed as a jointly-controlled entity and stated in the consolidated statement of financial position at the Group's share 40% net assets under the equity method of accounting.

Assets acquired and liabilities assumed:

The fair values of the identifiable assets and liabilities of SPBL and the Group's investment in SAHBV as at the date of acquisition were:

	Fair value recognized on acquisition HK\$'000
Oil and gas properties	24,902,248
Investment in a jointly-controlled entity	3,700,073
Prepayments and other receivables	111,119
Cash and bank balances	61,979
Accruals and other payables	( 134,207)
Provision for decommissioning	( 641,495)
Total identifiable net assets at fair value	<u>27,999,717</u>
Goodwill on acquisition	<u>-</u>
Satisfied by cash	<u>27,999,717</u>

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

	HK\$'000
Cash consideration	27,999,717
Cash and bank balances acquired	( 61,979)
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u>27,937,738</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 39. BUSINESS COMBINATIONS (continued)

Since the acquisition, SPBL and SAHBV contributed HK\$2,443,407,000 to the Group's turnover and HK\$273,265,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK\$412,670,877,000 and HK\$4,538,983,000, as the Block BM-C-7 only commenced production upon the completion of the acquisition.

- (2) In July 2011, Sinofer acquired 100% of issued equity of Yinhe Sanjiang Gas Station of Jilin Songyuan Yinhe Economic and Technological Development Company Limited ("Yinhe Gas Station") at no consideration. This acquisition has been accounted for using the acquisition method. No goodwill was recognized in the acquisition. Yinhe Gas Station is engaged in the manufacture and sale of refined oil.

The fair values of the identifiable assets and liabilities of Yinhe Gas Station as at the date of acquisition were:

	Fair value recognized on acquisition HK\$'000
Property, plant and equipment	1,149
Inventories	695
Cash and cash equivalents	432
Trade and bills receivables	400
Prepayments, deposits and other receivables	117
Trade and bills payables	( 321)
Other payables and accruals	(2,472)
Total identifiable net assets at fair value	<u>—</u>
Satisfied by cash	<u>—</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK\$'000
Cash and bank balances acquired	<u>432</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 40. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2011, Franshion disposed of a 100% equity of Shanghai Chentuo Investment Consultancy Company Limited:

	HK\$'000
Net assets disposed of:	
Properties under development	689,107
Cash and cash equivalents	<u>2,303</u>
	691,410
Gain on disposal of a subsidiary	1,137,510
Release of exchange differences on translation of foreign operations	<u>4,634</u>
	<u>1,833,554</u>
Satisfied by:	
Cash	<u>1,833,554</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	HK\$'000
Cash consideration	1,833,554
Cash and bank balances disposed of	<u>( 2,303)</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>1,831,251</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 40. DISPOSAL OF SUBSIDIARIES (continued)

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

The net assets of Xianglong disposed of were:

	HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	241,663
Current assets	10,538
Deferred tax assets	2,182
Current liabilities	(355,708)
	(101,325)
Gain on disposal of a subsidiary	<u>58,849</u>
	<u>42,476</u>
Satisfied by:	
Cash	-
Amounts due to related parties	<u>42,476</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	HK\$'000
Cash consideration	-
Cash and bank balances disposed of	<u>-</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>-</u>

### 41. CONTINGENT LIABILITIES

#### Financial guarantee contract liabilities

At the end of year, Franshion provided guarantees in respect of mortgage facilities amounting to approximately HK\$639,788,000 (2010: HK\$45,531,000) for certain purchasers of Franshion's properties.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 42. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties (Note 13) under operating lease arrangements. The leases are negotiated for terms ranging from one to ten years.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	837,879	645,465
In the second to fifth years, inclusive	781,448	447,653
After five years	<u>1,035</u>	<u>34</u>
	<u>1,620,362</u>	<u>1,093,152</u>

#### (b) As lessee

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 HK\$'000	2010 HK\$'000
Within one year	119,109	140,262
In the second to fifth years, inclusive	24,464	25,095
After five years	<u>7,216</u>	<u>8,156</u>
	<u>150,789</u>	<u>173,513</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 43. COMMITMENTS

In addition to the operating lease commitments detailed in Note 42(b) above, the Group had the following commitments at the end of the reporting period:

#### Capital commitments

	2011 HK\$'000	2010 HK\$'000
Contracted, but not provided for:		
Property, plant and equipment	23,522	30,740
Properties under development	4,573,608	1,759,770
Oil and gas properties	<u>306,540</u>	<u>22,499,279</u>
	<u>4,903,670</u>	<u>24,289,789</u>
Authorized, but not contracted for:		
Property, plant and equipment	2,583,086	2,175,735
Properties under development	2,621,492	-
Oil and gas properties	<u>6,290,406</u>	<u>-</u>
	<u>11,494,984</u>	<u>2,175,735</u>
Contracted, but not provided for, Capital expenditure in respect of the acquisition of an investment as set out in Note 17	<u>-</u>	<u>1,075,285</u>
	<u>16,398,654</u>	<u>27,540,809</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 44. RELATED PARTY TRANSACTIONS

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

	2011 HK\$'000	2010 HK\$'000
The ultimate parent:		
Management fee income	826	397
Sale of fertilizers	168,977	177
Purchase of fertilizers	256,784	262,435
Other operating expense	4,564	219
Rental income	8,288	8,482
Other income	13	-
The immediate parent:		
Rental income	73,360	-
Property management fee income	14,151	-
Fellow subsidiaries:		
Sale of crude oil and petroleum products	130,546,136	1,835,074
Sale of chemical products	1,934,724	1,395,035
Purchase of chemical products	834,775	538,301
Rental expense	-	19,499
Interest expense	14,909	65,000
Rental income	168,191	155,858
Property management fee income	16,445	17,865
Other income	214	-
Interest income	43,844	10,858
Other operating expense	427	55
Property management fee expense	-	65,331
Disposals of subsidiaries	-	-
Associates:		
Sale of crude oil and petroleum products	-	17,235,253
Purchase of fertilizers	721,500	278,457
Dividend income	-	82,210
Sale of chemical products	-	11,041
Sale of fertilizers	2,544	-
Management fee income	-	2,350
Management fee expenses	-	601
Storage fee expenses	43,326	29,999
Rental expense	3,054	-
Jointly-controlled entities:		
Sale of fertilizers	356,091	-
Purchase of fertilizers	1,343,865	1,721,486
Leasing	<u>520,183</u>	<u>-</u>

- (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.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 44. RELATED PARTY TRANSACTIONS (continued)

#### (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:

	2011 HK\$'000	2010 HK\$'000
Sale of fertilizers	4,723,172	3,139,779
Purchase of fertilizers	9,578,485	4,992,554
Sale of properties	1,304,843	2,786,824
Land development	<u>1,673,128</u>	<u>-</u>

In addition, the Group has entered into various transactions, including deposit 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.

#### (d) Compensation of key management personnel of the Group:

	2011 HK\$'000	2010 HK\$'000
Short-term employee benefits	25,930	19,237
Performance related incentive payments	3,175	458
Post-employment benefits	1,979	282
Share-based payments	<u>639</u>	<u>484</u>
Total compensation paid to key management personnel	<u>31,723</u>	<u>20,461</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 45. FINANCIAL INSTRUMENTS BY CATEGORIES

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

2011

#### Financial assets

	Financial assets at fair value through profit and loss	Loans and receivables	Available-for- sale financial assets	Total
	Held-for-trading HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale investments	-	-	3,733,104	3,733,104
Trade and bills receivables	-	18,864,798	-	18,864,798
Financial assets included in prepayments, deposits and other receivables	-	1,725,748	-	1,725,748
Amounts due from related parties	-	23,263,943	-	23,263,943
Held-for-trading investments	112,908	-	-	112,908
Derivative financial instruments	97,224	-	-	97,224
Pledged bank deposits	-	381,089	-	381,089
Other deposits	-	2,034,150	-	2,034,150
Cash and cash equivalents	-	18,999,786	-	18,999,786
	<u>210,132</u>	<u>65,269,514</u>	<u>3,733,104</u>	<u>69,212,750</u>

#### Financial liabilities

	Financial liabilities at fair value through profit and loss	Financial liabilities at amortized cost	Total
	Held-for-trading HK\$'000	HK\$'000	HK\$'000
Trade and bills payables	-	36,333,190	36,333,190
Financial liabilities included in other payables and accruals	-	4,571,330	4,571,330
Amounts due to related parties	-	11,986,355	11,986,355
Derivative financial instruments	17,193	-	17,193
Interest-bearing borrowings	-	63,368,894	63,368,894
	<u>17,193</u>	<u>116,259,769</u>	<u>116,276,962</u>



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 45. FINANCIAL INSTRUMENTS BY CATEGORIES (continued)

2010

#### Financial assets

	Financial assets at fair value through profit and loss		Available-for- sale financial assets	Total
	Held-for-trading HK\$'000	Loans and receivables HK\$'000	assets HK\$'000	HK\$'000
Available-for-sale investments	-		4,901,876	4,901,876
Trade and bills receivables	-	27,331,990	-	27,331,990
Financial assets included in prepayments, deposits and other receivables	-	809,403	-	809,403
Amounts due from related parties	-	16,141,390	-	16,141,390
Held-for-trading investments	248,794	-	-	248,794
Derivative financial instruments	13,854	-	-	13,854
Pledged bank deposits	-	2,121,556	-	2,121,556
Other deposits	-	57,515	-	57,515
Cash and cash equivalents	-	17,220,247	-	17,220,247
	<u>262,648</u>	<u>63,682,101</u>	<u>4,901,876</u>	<u>68,846,625</u>

#### Financial liabilities

	Financial liabilities at fair value through profit and loss	Financial liabilities at amortized cost	Total
	Held-for-trading HK\$'000	HK\$'000	HK\$'000
Trade and bills payables	-	30,379,124	30,379,124
Financial liabilities included in other payables and accruals	-	4,563,125	4,563,125
Amounts due to related parties	-	13,506,868	13,506,868
Derivative financial instruments	180,916	-	180,916
Convertible loan notes	-	760,914	760,914
Interest-bearing borrowings	-	42,108,776	42,108,776
	<u>180,916</u>	<u>91,318,807</u>	<u>91,499,723</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 46. FAIR VALUE AND FAIR VALUE HIERARCHY

#### Fair value

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

- (i) the fair value of the financial assets and financial liabilities (excluding derivative financial instruments on convertible loan notes) 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 values of other financial assets and financial liabilities (including derivative financial instruments on convertible loan notes) 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 an option pricing model (for example, the Black Scholes-Merton Model).

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

	<u>2011</u>		<u>2010</u>	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Financial liabilities				
Convertible loan notes (liability component)	<u>-</u>	<u>-</u>	<u>760,914</u>	<u>762,089</u>
Borrowings	<u>8,152,251</u>	<u>6,941,448</u>	<u>4,093,083</u>	<u>3,854,658</u>

#### Fair value hierarchy

The Group's listed available-for-sale investments and held-for-trading investments as set out in Note 21 and Note 27, respectively, are measured subsequent to initial recognition at fair value group 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 28 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 28 is measured subsequent to initial recognition at fair value grouped in level 3, which are those derived from valuation techniques that are based on inputs, having a significant effect on the recorded fair value, that are not based on observable market data (unobservable inputs). The reconciliations from the beginning balances to the end balances of the level 3 financial instruments are disclosed in Note 33.



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's exposure to business risk, market risk (foreign currency risk, interest risk and other price risk), credit risk, liquidity risk. The policies on how to mitigate these risks are set out below. The management manage and monitor these exposure to ensure appropriate measures are implemented on a timely and effective manner.

#### *Business risk*

The major operations of the Group are conducted in the PRC and other countries and accordingly the Group are subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the oil and gas industry, the political, economic and legal environments, influence of the national authorities over price setting and competition in the industry.

#### *Foreign currency risk*

Certain bank balances, trade and bills receivables, other receivables, trade and bills payables, other payables, amounts due from and to related companies, bank balances and borrowings are denominated in currencies other than the functional currencies of 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:

	Liabilities		Assets	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
US\$	15,544,999	14,755,381	5,981,624	5,652,236
HK\$	-	7,705	86,997	13,507
RMB	4,327,169	-	399,451	118,364
Colombian Peso	320	251,339	231,176	153,683
Euro	-	1,635	39,514	-
Others	3,417	1,349	73,895	46,792

#### *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 strengthens 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.

	Increase/(decrease) in profit	
	2011 HK\$'000	2010 HK\$'000
US\$	191,268	182,063
HK\$	( 1,740)	( 116)
RMB	78,554	( 2,367)
Colombian Peso	( 4,617)	1,953

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *Interest rate risk*

The Group is exposure to fair value interest rate risk in relation to its fixed-rate borrowings (see notes 33, 32 and 22 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 29 and 32 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 due to the fluctuation of prevailing interest rate announced by the People's Bank of China and the fluctuation of LIBOR.

#### Sensitivity analysis

The sensitivity analyzes 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, with all other variables held constant throughout the year. Management based on a change of 50 basis points (2010: 50 basis points) to assess interest rate risk on the borrowings. The directors based on a change of 10 basis points (2010: 10 basis points) to assess 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 (2010: 50 basis points) higher/lower for borrowings and 10 basis points (2010: 10 basis points) higher/ lower for bank balances, with all other variables were held constant, the Group's post-tax profit for the year would have decreased/increased by approximately HK\$140,491,000 (2010: decreased/increased by approximately HK\$98,710,000).



# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *Other price risk*

The Group are exposed to equity price risk through its available-for-sale 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 recognized 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 market price of Sinofer's share and respective share price volatility. Details of the derivative financial instruments are set out in notes 28 and 33.

#### Sensitivity analysis

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

If the prices of the respective listed equity securities, which are available-for-sale investments, had been 5% (2010: 5%) higher/lower, investment revaluation reserve of the Group would have increased/decreased by approximately HK\$178,262,000 (2010: HK\$237,323,000) as a result of the changes in fair value of available-for-sale investments.

#### *Credit risk*

The Group's maximum exposure to credit risk, which represents the risk of financial losses to the Group due to the default of counterparties, is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize 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 related parties are with strong financial background. Accordingly, in the opinion of directors, the credit risk on amounts due from related parties 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 and due from a large number of customers.

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *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.

Year ended	Less than 1 year or on demand HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
31 December 2011				
Trade and bills payables	36,333,190	-	-	36,333,190
Financial liabilities included in other payables and accruals	4,571,330	-	-	4,571,330
Amounts due to related parties	11,986,355	-	-	11,986,355
Interest-bearing borrowings	12,528,647	29,762,635	41,373,261	83,664,543
Derivative financial instruments	<u>17,193</u>	<u>-</u>	<u>-</u>	<u>17,193</u>
	<u>65,436,715</u>	<u>29,762,635</u>	<u>41,373,261</u>	<u>136,572,611</u>
Year ended	Less than 1 year or on demand HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
31 December 2010				
Trade and bills payables	30,379,124	-	-	30,379,124
Financial liabilities included in other payables and accruals	4,563,125	-	-	4,563,125
Amounts due to related parties	13,506,868	-	-	13,506,868
Interest-bearing borrowings	13,108,029	14,574,490	31,052,308	58,734,827
Derivative financial instruments	180,916	-	-	180,916
Convertible loan notes	<u>760,914</u>	<u>-</u>	<u>-</u>	<u>760,914</u>
	<u>62,498,976</u>	<u>14,574,490</u>	<u>31,052,308</u>	<u>108,125,774</u>

# SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

### 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *Capital management*

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

The capital structure of the Group consists of debt, which includes the convertible loan notes and borrowing disclosed in notes, equity instruments and equity attributable to owners of the parent, 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, the issue of new debts or the redemption of existing debts.

### 48. EVENT AFTER THE REPORTING PERIOD

On 8 January 2012, Sinofert entered into a share purchase agreement (the "Agreement") to acquire a 100% of interest in Xundian Lomon Phosphorus Chemical Co., Ltd. 尋甸龍磷化工有限公司 ("Xundian Lomon") at a consideration of HK\$1,702,230,000. The details of the Agreement were included in the announcement of the Company dated 9 January 2012. According to the Agreement, the consideration should be settled in installments. The first installment of HK\$308,375,000 and the second installment of HK\$308,375,000 have been paid up to the date of issuance of these consolidated financial statements. With the industrial and commercial registration of Xundian Lomon updated, Xundian Lomon had become a subsidiary of Sinofert and changed its name to Sinochem Yunlong Chemical Co., Ltd. 中化雲龍化工有限公司 on 19 March 2012.

### 49. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, the presentation of certain items in the consolidated financial statements has been revised or added to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

### 50. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the board of directors on 28 April 2012.