

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

Report of the Directors and Audited Consolidated Financial Statements

31 December 2013

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries, joint ventures and associates are set out in notes 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 2013 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 4 to 118.

Dividends amounting to US\$215,698,000 (equivalent to HK\$1,672,413,000) were paid to the immediate parent on 23 October 2013.

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

Details of movements in the Company's share capital during the year are set out in note 38 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 Company during the year and as at the date of this report are as follows:

Liu Deshu
Li Xuehua
Luo Jian (resigned on 2 November 2013)
Li Lin (alternate director to Luo Jian, appointed on 2 November 2013)

In accordance with the Company's articles of association, all the remaining 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 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 Franshion. A summary of the share options granted to the director is as follows:

Name of director	Date of grant	Exercise price HK\$ per share	Number of share options				
			At 1.1.2013	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.2013
Li Xuehua	5.5.2008	3.37	194,980	-	-	-	194,980
	28.11.2012	2.44	1,050,000	-	-	-	1,050,000

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.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

REPORT OF THE DIRECTORS (continued)

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.

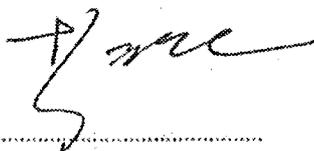
Events after the reporting period

Details of significant events of the Group after the reporting period are set out in note 49 to the consolidated financial statements.

Auditors

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

ON BEHALF OF THE BOARD



.....
Director

Hong Kong
17 April 2014



Ernst & Young
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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 118, which comprise the consolidated statement of financial position as at 31 December 2013, 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' judgement, 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 2013, 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
17 April 2014

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000 (Restated)
REVENUE	4	426,467,457	402,244,333
Cost of sales		<u>(411,412,086)</u>	<u>(388,076,590)</u>
Gross profit		15,055,371	14,167,743
Other income, gains and losses, net	5	884,087	1,226,064
Selling and distribution expenses		(1,933,907)	(1,630,249)
Administrative expenses		(2,720,742)	(2,419,103)
Fair value changes of investment properties	13	1,828,932	1,636,550
Finance costs:			
Interest expenses	6	(2,881,050)	(2,774,772)
Transaction costs	6	(37,611)	-
Share of results of:			
Joint ventures		(1,555)	95,783
Associates		<u>214,320</u>	<u>481,084</u>
PROFIT BEFORE TAX	7	10,407,845	10,783,100
Income tax expense	8	<u>(5,027,982)</u>	<u>(3,977,300)</u>
PROFIT FOR THE YEAR		<u>5,379,863</u>	<u>6,805,800</u>
Profit attributable to:			
Owners of the parent		3,471,048	4,422,267
Non-controlling interests		<u>1,908,815</u>	<u>2,383,533</u>
		<u>5,379,863</u>	<u>6,805,800</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

Year ended 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000 (Restated)
PROFIT FOR THE YEAR		<u>5,379,863</u>	<u>6,805,800</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value	21	(231,000)	843,835
Reclassification adjustments for gains/(losses) included in profit or loss:			
- disposal of investments		(110,961)	-
Exchange differences on translation of foreign operations		<u>2,032,908</u>	(<u>196,912</u>)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		1,690,947	646,923
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation, net of tax		<u>35,050</u>	<u>7,104</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>1,725,997</u>	<u>654,027</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>7,105,860</u>	<u>7,459,827</u>
Total comprehensive income attributable to:			
Owners of the parent		4,259,919	5,068,880
Non-controlling interests		<u>2,845,941</u>	<u>2,390,947</u>
		<u>7,105,860</u>	<u>7,459,827</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 HK\$'000	31 December 2012 HK\$'000 (Restated)	1 January 2012 HK\$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	10	15,372,273	11,125,615	12,750,159
Land under development	11	4,548,847	5,407,703	9,222,684
Properties under development	12	33,285,851	12,987,180	11,747,751
Investment properties	13	22,125,586	16,660,910	14,980,146
Prepaid land lease payments	14	2,748,589	2,401,345	2,557,836
Goodwill	15	4,096,952	4,076,494	3,421,490
Intangible assets	16	2,954,492	2,989,882	26,964
Oil and gas properties	17	47,981,449	48,399,082	45,558,049
Investments in joint ventures	19	2,494,354	3,081,966	3,933,953
Investments in associates	20	11,900,542	11,473,957	10,861,370
Available-for-sale investments	21	4,476,844	5,208,052	3,733,104
Amounts due from related parties	22	6,488,020	2,114,127	-
Amounts due from non-controlling interests	23	254,380	123,330	-
Deferred tax assets	36	1,570,933	1,634,905	1,111,148
Other non-current assets	24	<u>253,929</u>	<u>242,140</u>	<u>178,614</u>
Total non-current assets		<u>160,553,041</u>	<u>127,926,688</u>	<u>120,083,268</u>
CURRENT ASSETS				
Inventories	25	7,074,485	8,495,467	10,431,078
Land under development	11	5,162,762	6,695,959	2,623,209
Properties under development	12	10,713,573	10,383,932	7,030,281
Properties held for sale	26	5,915,469	3,078,117	839,806
Prepaid land lease payments	14	79,551	66,021	67,673
Trade and bills receivables	27	24,832,795	16,222,618	19,087,816
Prepayments, deposits and other receivables	28	8,377,439	6,070,289	4,776,063
Amounts due from related parties	22	25,642,687	22,342,590	22,230,007
Held-for-trading investments	29	11,701	104,208	112,908
Tax recoverable		479,604	22,767	159,674
Derivative financial instruments	30	158,131	160,634	97,224
Pledged bank deposits	31	303,400	575,985	381,089
Cash and cash equivalents	31	19,636,921	17,039,171	19,114,609
Other deposits	32	<u>877,038</u>	<u>1,181,748</u>	<u>2,034,150</u>
Total current assets		<u>109,265,556</u>	<u>92,439,506</u>	<u>88,985,587</u>

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

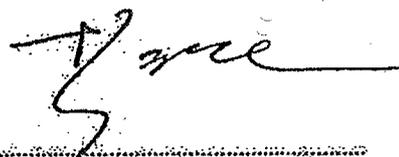
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2013

	Notes	31 December 2013 HK\$'000	31 December 2012 HK\$'000 (Restated)	1 January 2012 HK\$'000 (Restated)
CURRENT LIABILITIES				
Trade and bills payables		41,734,592	31,492,189	36,372,027
Other payables and accruals	33	27,460,368	18,151,236	14,757,894
Derivative financial instruments	30	102,588	67,232	17,193
Interest-bearing borrowings	34	12,623,157	13,689,603	10,167,341
Amounts due to related parties	22	18,372,853	14,061,795	11,986,355
Tax payable		1,844,261	1,591,358	1,080,547
Provision for land appreciation tax	35	2,193,118	1,045,194	483,717
Other current liability		-	-	236,230
Total current liabilities		<u>104,330,937</u>	<u>80,098,607</u>	<u>75,101,304</u>
NET CURRENT ASSETS		<u>4,934,619</u>	<u>12,340,899</u>	<u>13,884,283</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>165,487,660</u>	<u>140,267,587</u>	<u>133,967,551</u>
NON-CURRENT LIABILITIES				
Interest-bearing borrowings	34	58,628,380	52,869,583	53,201,553
Deferred tax liabilities	36	7,133,928	5,507,922	4,028,263
Deferred income		155,752	173,144	184,947
Other non-current liabilities	37	2,915,875	2,410,403	5,887,533
Total non-current liabilities		<u>68,833,935</u>	<u>60,961,052</u>	<u>63,302,296</u>
NET ASSETS		<u>96,653,725</u>	<u>79,306,535</u>	<u>70,665,255</u>
CAPITAL AND RESERVES				
Issued capital	38	21,872,000	19,359,700	18,129,500
Perpetual capital securities	39	4,619,260	-	-
Reserves		32,861,918	31,914,079	26,984,673
Equity attributable to owners of the parent		59,353,178	51,273,779	45,114,173
Non-controlling interests		37,300,547	28,032,756	25,551,082
TOTAL EQUITY		<u>96,653,725</u>	<u>79,306,535</u>	<u>70,665,255</u>

劉國村

Director



Director

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

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)	Assets revaluation reserve HK\$'000	Merger reserve HK\$'000 (Note b)	Statutory reserve HK\$'000 (Note c)	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Other contribution reserve HK\$'000 (Note d)	Retained profits HK\$'000	Total HK\$'000	Share of net assets of subsidiaries HK\$'000	Share option reserve of subsidiaries HK\$'000	
At 1 January 2012													
As previously reported	18,129,500	181,818	70,442	(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
Prior year adjustments	-	-	-	-	-	-	(187)	-	(187)	-	-	-	(187)
As restated	18,129,500	181,818	70,442	(3,836,771)	960,472	103,404	3,142,066	2,431,539	23,931,703	45,114,173	25,545,803	5,279	70,665,255
Profit for the year	-	-	-	-	-	-	-	-	4,422,267	4,422,267	2,383,533	-	6,805,800
Other comprehensive income for the year													
Available-for-sale investments:													
Change in fair value, net of tax	21	-	-	-	-	841,923	-	-	-	841,923	1,912	-	843,835
Gains on property revaluation, net of tax		-	4,466	-	-	-	-	-	-	4,466	2,638	-	7,104
Gain on de-registration of a subsidiary		-	-	-	(2)	-	-	-	4	2	(2)	-	-
Exchange differences on translation of foreign operations		-	-	-	-	-	(199,778)	-	-	(199,778)	2,866	-	(196,912)
Total comprehensive income for the year, net of tax		-	4,466	-	(2)	841,923	(199,778)	-	4,422,271	5,068,880	2,390,947	-	7,459,827
Issue of shares	38	1,230,200	-	-	-	-	-	-	-	1,230,200	-	-	1,230,200
Equity-settled share-based payment of subsidiaries		-	-	-	-	-	-	-	-	-	702	1,190	1,892
Exercise of share options of subsidiaries		-	-	-	-	-	-	-	-	-	3,399	(427)	2,972
Transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	-	-	-	-	5,115	5,115	-	(5,115)	-
Capital returned to non-controlling interests upon de-registration of subsidiaries		-	-	-	-	-	-	-	-	-	(9,102)	-	(9,102)
Transfer from retained profits		-	-	-	243,061	-	-	-	(243,061)	-	-	-	-
Dividends distributed	9	-	-	-	-	-	-	-	(1,623,440)	(1,623,440)	-	-	(1,623,440)
Dividend paid by subsidiaries to non-controlling interests		-	-	-	-	-	-	-	-	-	(368,219)	-	(368,219)
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	-	701,764	-	701,764
Perpetual convertible securities' distribution paid		-	-	-	-	-	-	-	-	-	(316,661)	-	(316,661)
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	150,374	-	150,374
Deemed disposal of interest in a subsidiary		-	-	-	(11,420)	-	-	-	(11,420)	(11,420)	(68,668)	-	(80,088)
Maintenance and production fund		-	-	-	-	-	-	47,710	(47,710)	-	-	-	-
Capital contribution for overseas oil and gas projects		-	-	-	-	-	-	1,488,614	-	1,488,614	-	-	1,488,614
Capital contribution for energy saving and emission reduction projects		-	-	-	-	-	-	1,657	-	1,657	1,490	-	3,147
At 31 December 2012		<u>19,359,700</u>	<u>181,818*</u>	<u>74,908*</u>	<u>(3,836,771)*</u>	<u>1,192,111*</u>	<u>2,942,288*</u>	<u>3,969,520*</u>	<u>26,444,878*</u>	<u>51,273,779</u>	<u>28,031,829</u>	<u>927</u>	<u>79,306,535</u>

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2013

Notes	Attributable to owners of the parent											Attributable to non-controlling interests			
	Issued capital HK\$'000	Capital reserve HK\$'000 (Note a)	Assets revaluation reserve HK\$'000	Merger reserve HK\$'000 (Note b)	Statutory reserve HK\$'000 (Note c)	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Other contribution reserve HK\$'000 (Note d)	Perpetual capital securities HK\$'000	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 2013															
As previously reported	19,359,700	181,818	74,908	(3,836,771)	1,192,111	945,327	2,942,579	3,969,520	-	26,444,878	51,274,070	28,031,829	927	79,306,826	
Prior year adjustments	-	-	-	-	-	-	(291)	-	-	(291)	-	-	-	(291)	
As restated	19,359,700	181,818	74,908	(3,836,771)	1,192,111	945,327	2,942,288	3,969,520	-	26,444,878	51,273,779	28,031,829	927	79,306,535	
Profit for the year	-	-	-	-	-	-	-	-	-	3,471,048	3,471,048	1,908,815	-	5,379,863	
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Available-for-sale investments:															
Change in fair value, net of tax	21	-	-	-	-	(238,798)	-	-	-	(238,798)	7,798	-	(231,000)	-	
Reclassification adjustment for gains and losses included in profit or loss:															
- Disposal of investments		-	-	-	-	(110,961)	-	-	-	(110,961)	-	-	(110,961)	-	
Gains on property revaluation, net of tax		-	30,660	-	-	-	-	-	-	30,660	4,390	-	35,050	-	
Exchange differences on translation of foreign operations		-	-	-	-	-	1,107,970	-	-	1,107,970	924,938	-	2,032,908	-	
Total comprehensive income for the year, net of tax		-	30,660	-	-	(349,759)	1,107,970	-	-	3,471,048	4,259,919	2,845,941	-	7,105,860	
Issue of shares	38	2,512,300	-	-	-	-	-	-	-	-	2,512,300	-	-	2,512,300	
Equity-settled share-based payment of subsidiaries		-	-	-	-	-	-	-	-	-	-	6,739	11,411	18,150	
Deemed disposal without loss of control		-	14,142	-	-	-	-	-	-	-	14,142	(14,142)	-	-	
Transfer of share option reserve upon the forfeiture or expiry of share options		-	-	-	-	-	(2,520)	-	-	675	(1,845)	-	1,845	-	
Capital injection to a subsidiary only by the Group to dilute the non-controlling interests		-	-	-	-	-	-	-	-	(5,455)	(5,455)	5,455	-	-	
Transfer from retained profits		-	-	-	442,998	-	-	-	-	(442,998)	-	-	-	-	
Dividends distributed	9	-	-	-	-	-	-	-	-	(1,672,413)	(1,672,413)	-	-	(1,672,413)	
Dividend paid by subsidiaries to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(1,156,673)	-	(1,156,673)	
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	-	-	6,619,945	-	6,619,945	
Perpetual capital securities' distribution paid		-	-	-	-	-	-	-	-	(155,128)	(155,128)	-	-	(155,128)	
Perpetual convertible securities' distribution paid		-	-	-	-	-	-	-	-	-	-	(317,424)	-	(317,424)	
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	1,267,412	-	1,267,412	
Acquisition of non-controlling interests		-	(6,140)	-	-	-	-	-	-	-	(6,140)	(5,753)	-	(11,893)	
Issue of perpetual capital securities	39	-	-	-	-	-	-	-	4,619,260	-	4,619,260	-	-	4,619,260	
Maintenance and production fund		-	-	-	-	-	(6,316)	-	-	6,316	-	-	-	-	
Capital contribution for overseas oil and gas projects		-	-	-	-	-	(1,488,614)	-	-	-	(1,488,614)	-	-	(1,488,614)	
Capital contribution for energy saving and emission reduction projects		-	-	-	-	-	-	3,373	-	-	3,373	3,035	-	6,408	
At 31 December 2013		<u>21,872,000</u>	<u>189,820*</u>	<u>105,568*</u>	<u>(3,836,771)*</u>	<u>1,635,109*</u>	<u>595,568*</u>	<u>4,047,738*</u>	<u>2,477,963*</u>	<u>4,619,260</u>	<u>27,646,923*</u>	<u>59,353,178</u>	<u>37,286,364</u>	<u>14,183</u>	<u>96,653,725</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2013

Notes:

- (a) The capital reserve of the Group mainly comprises of (i) contributions from owners in respect of settlement of doubtful receivables; (ii) contributions transfer of equity interest in a joint venture to the Group in previous years; and (iii) contribution made by the shareholders to the Company's subsidiaries.
 - (b) The merger reserve of the Group comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the holding companies of the acquiree as consideration for the group restructuring transactions.
 - (c) Statutory reserve comprises the 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, maintenance and production fund, capital contribution for energy saving and emission reduction projects, and deemed contributions from equity owners net of deemed distributions to equity owners. The maintenance and production fund is appropriated/utilised in accordance to relevant PRC regulations on certain enterprises. A non-wholly-owned PRC subsidiary of the Group has received funding of HK\$6,408,000 (2012: HK\$3,147,000) from the ultimate parent of the Group, which can only be used to energy saving and emission reduction projects. In 2012, the Company received HK\$1,488,614,000 from the ultimate parent of the Group, which can only be used for overseas oil and gas project development. On 27 May 2013, The Company issued and allotted a total of 1,491,100,000 ordinary shares of HK\$1 each in the Company at par to the immediate parent by a transfer from other reserve amounting to HK\$1,488,614,000 which was then credited into the share capital account of the Company and the exchange rate impact amounting to HK\$2,486,000.
- * These reserve accounts comprise the consolidated reserves of HK\$32,861,918,000 (2012: HK\$31,914,079,000) in the consolidated statement of financial position.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,407,845	10,783,100
Adjustments for:			
(Gains)/losses on disposal of:			
Property, plant and equipment	5	2,470	17,373
Associates	5	(527)	-
Available-for-sale investments	5	(1,311)	(2)
Held-for-trading investments	5	(49,234)	(15,945)
Investment property	5	(18,730)	-
Gain on bargain purchase	5	(142,912)	-
Gain on deemed disposal of interest in a subsidiary	5	-	(113,319)
Write-off of non-demand payables	5	(15,462)	(34,231)
Gain from acquisition of FPSO in advance	5	-	(726,018)
Impairment losses of:			
Oil and gas properties	5	124,102	456,386
Property, plant and equipment	5	2,108	-
Available-for-sale investments	5	10,014	-
Impairment losses, net of reversal, of trade and bills receivables, and other receivables		(57,581)	(146,050)
Write-down of inventories	7	117,256	117,563
Fair value gains on:			
Held-for-trading investments	5	(3,075)	(66,139)
Transfers from properties held for sale to investment properties	5	(5,932)	(9,646)
Finance costs	6	2,918,661	2,774,772
Share of results of joint ventures		1,555	(95,783)
Share of results of associates		(214,320)	(481,084)
Interest income		(494,755)	(338,324)
Fair value changes of investment properties		(1,828,932)	(1,636,550)
Waived consideration payable	5	(31,293)	-
Depreciation of:			
Oil and gas properties	7	3,424,259	2,572,228
Property, plant and equipment	7	666,985	751,927
Amortisation of:			
Other non-current assets	7	8,384	18,811
Intangible assets	7	90,387	50,830
Prepaid land lease payments	7	75,580	78,744
Dividend income from available-for-sale investments	5	(3,955)	(2,209)
Equity-settled share-based payment expense	7	18,150	1,892
		14,999,737	13,958,326
Decrease in inventories		1,305,449	2,041,172
Decrease/(increase) in land under development		3,198,233	(174,786)
Increase in properties under development		(27,725,517)	(10,640,148)
Decrease in properties held for sale		5,385,113	6,623,157
Decrease/(increase) in trade and bills receivables		(8,510,663)	3,010,610
Decrease/(increase) in prepayments, deposits and other receivables		(858,049)	366,122
Decrease/(increase) in amounts due from related parties		(7,168,795)	583,285
Decrease in held-for-trading investments		144,860	90,082
(Decrease)/increase in trade and bills payables		10,053,001	(4,845,370)
Increase in other payables and accruals		7,861,920	1,783,909

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES (continued)		
Increase/(decrease) in derivative financial instruments	146,607	(13,371)
Increase in amounts due to related parties	4,315,935	3,183,688
Decrease in deferred income	(17,392)	(11,803)
Increase in other non-current liabilities	<u>1,465</u>	<u>38,144</u>
Cash generated from operations	3,131,904	15,993,017
Income tax paid	(2,925,964)	(1,868,368)
Land appreciation tax paid	<u>(413,365)</u>	<u>(513,956)</u>
Net cash flows from/(used in) operating activities	<u>(207,425)</u>	<u>13,610,693</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	494,755	338,324
Dividends received from:		
Joint ventures	610,719	687,788
Associates	70,589	139,814
Available-for-sale investments	3,955	2,209
Purchases of items of property, plant and equipment	(1,406,607)	(807,619)
Proceeds from disposal of items of property, plant and equipment	5,718	24,461
Proceeds from disposal of available-for-sale investments	393,432	18
Purchase of investment properties	(27,368)	(20,627)
Purchase of oil and gas properties	(2,676,002)	(5,439,686)
Purchase of intangible assets	(20,815)	(3,759)
Additions to prepaid land lease payments	(12,751)	(4,203)
Increase in other non-current assets	(34,389)	(9,562)
Acquisition of subsidiaries	(672,221)	(2,976,220)
Acquisition of non-controlling interests	(11,893)	-
Proceeds from disposal of investment property	37,005	-
Decrease/(increase) in time deposits with original maturity of over three months when acquired without option to withdraw upon demand similar to demand deposits	266,691	(180,485)
Additional investments in joint ventures	-	3,205
Additional investment in an associate	-	(21,215)
Decrease in long-term receivables	15,929	12,439
Purchases of available-for-sale investments	-	(390,174)
Decrease in pledged bank deposits	220,763	25,010
Decrease/(increase) in restricted bank deposits	625,371	(219,906)
Placement of other deposits	(29,306,157)	(29,449,354)
Proceeds from withdrawal of other deposits	29,610,867	30,301,756
Increase in amounts due from related parties	(505,196)	(2,809,995)
Advances of loans to non-controlling interests	(1,267,193)	(431,655)
Decrease/(increase) in entrusted loans to third parties	<u>10,301</u>	<u>(247,129)</u>
Net cash flows used in investing activities	<u>(3,574,497)</u>	<u>(11,476,565)</u>

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for purchasing assets under finance leases		-	(4,057,497)
Issue of perpetual capital securities, net of expenses		4,619,260	-
Perpetual capital securities' distribution paid		(155,128)	-
Perpetual convertible securities' distribution paid		(317,424)	(316,661)
Issue of capital	38	1,021,200	1,230,200
Capital returned to non-controlling interests upon de-registration of subsidiaries		-	(9,102)
New bank loans and other loans		71,575,898	40,535,635
Repayment of bank loans and other loans		(69,864,003)	(37,125,932)
Capital contribution by non-controlling interests of subsidiaries		6,619,945	701,764
Dividends paid		(1,672,413)	(1,623,440)
Dividends paid to non-controlling interests of subsidiaries		(1,156,673)	(368,219)
Repayment of entrusted loans to non-controlling interests		-	(900,455)
Interest paid		(3,995,425)	(3,173,270)
Advance from non-controlling shareholders		240,677	-
Increase/(decrease) in amounts due to related parties		(4,877)	(1,108,248)
Contribution for energy saving and emission reduction projects		-	3,147
Capital contribution for overseas oil and gas projects		-	1,488,614
Proceeds from exercise of share options of subsidiaries		-	<u>2,972</u>
Net cash flows from/(used in) financing activities		<u>6,911,037</u>	<u>(4,720,492)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		16,772,480	19,028,403
Effect of foreign exchange rate changes, net		(264,674)	<u>330,441</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>19,636,921</u>	<u>16,772,480</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	31	19,636,921	17,039,171
Time deposits with original maturity of over three months		-	<u>(266,691)</u>
Cash and cash equivalents as stated in the statement of cash flows		<u>19,636,921</u>	<u>16,772,480</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

Sinochem Hong Kong (Group) Company Limited (the “Company”) is a limited company incorporated in Hong Kong. Its registered office is located at 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. Details of the principal activities of the Company’s principal subsidiaries, joint ventures 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 (“HKICPA”), 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.

In addition to these financial statements of the Group, there was a set of separate financial statements of the Company issued on 17 April 2014.

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

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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities Consolidated Financial Statements</i>
HKFRS 10	<i>Joint Arrangements</i>
HKFRS 11	<i>Disclosure of Interests in Other Entities</i>
HKFRS 12	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	<i>Fair Value Measurement</i>
HKFRS 13	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 1 Amendments	<i>Employee Benefits</i>
HKAS 19 (2011)	<i>Separate Financial Statements</i>
HKAS 27 (2011)	<i>Investments in Associates and Joint Ventures</i>
HKAS 28 (2011)	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i> (early adopted)
HKAS 36 Amendments	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
HK(IFRIC)-Int 20	Amendments to a number of HKFRSs issued in June 2012
<i>Annual Improvements 2009-2011 Cycle</i>	

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 19 (2011), amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1 and HKAS 36, and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

- (a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) 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. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011).

The directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of HKFRS 11, and concluded that the Group's investments in Qingdao Lanhai Xingang City Properties Co., Ltd. ("Lanhai") and South Atlantic Holding B.V. ("SAHBV"), which were previously classified as jointly-controlled entities under HKAS 31 and were accounted for using the equity method, should be classified as joint operations under HKFRS 11 and be accounted for on a line-by-line basis to the extent of the Group's rights and obligations. The assets and liabilities, revenue, income, expenses and cash flows between the joint operations (to the extent of the Group's interests in the joint operations) and the Group are eliminated in full on consolidation. The change in accounting for investments in joint operations has been applied retrospectively. The opening balances as at 1 January 2012 and comparative information for the year ended 31 December 2012 have been restated in the consolidated financial statements. The quantitative impact on the financial statements is summarised below:

Impact on profit or loss:

	Year ended 31 December 2012 HK\$'000
Decrease in revenue	(10,435)
Decrease in cost of sales	<u>803,777</u>
Increase in gross profit	793,342
Increase in other income, gains and losses	749,019
Increase in selling and distribution expenses	(31,227)
Increase in administrative expenses	(22,797)
Increase in finance costs	<u>(93,755)</u>
Increase in operating profit	1,394,582
Decrease in share of results of joint ventures	<u>(1,278,659)</u>
Increase in profit before tax	115,923
Increase in income tax expense	<u>(115,923)</u>
Net impact on profit after tax	<u><u>-</u></u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impact on the consolidated statement of financial position:

	As at 31 December 2012 HK\$'000	As at 1 January 2012 HK\$'000
Decrease in net investments in joint ventures	(9,487,493)	(5,064,687)
Increase in property, plant and equipment	4,210	3,988
Increase in properties under development (non-current)	1,860,484	2,760,656
Increase in oil and gas properties	7,898,325	8,136,783
Increase in deferred tax assets	10,492	-
Increase in other non-current assets	156,173	87,062
Decrease in inventories	(1,477)	-
Increase in properties under development (current)	1,401,225	-
Increase in trade and bills receivables	246,551	223,018
Increase in prepayments, deposits and other receivables	22,976	477
Decrease in amounts due from related parties	(1,782,618)	(1,033,936)
Increase in restricted bank balances	3,704	-
Increase in cash and cash equivalents	<u>322,732</u>	<u>114,823</u>
Impact on assets	<u>655,284</u>	<u>5,228,184</u>
Increase in trade and bills payables	209,689	38,837
Increase in other payables and accruals	496,505	642,598
Increase in tax payable	667	-
Increase in other current liabilities	-	236,230
Increase/(decrease) in other non-current liabilities	(51,286)	<u>4,310,706</u>
Impact on liabilities	<u>655,575</u>	<u>5,228,371</u>
Net impact on equity	<u>(291)</u>	<u>(187)</u>

Impact on the consolidated statement of cash flows:

	Year ended 31 December 2012 HK\$'000
Increase in net cash flows from operating activities	1,187,254
Increase in net cash flows from investing activities	3,082,431
Decrease in net cash flows used in financing activities	(4,057,497)
Effect of foreign exchange rate changes, net	<u>(4,279)</u>
Net increase in cash and cash equivalents	<u>207,909</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities 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. Details of the disclosures for subsidiaries, joint ventures and associates are included in notes 18, 19 and 20 to the financial statements.
- (d) 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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of investment properties and financial instruments are included in notes 13 and 47 to the financial statements.
- (e) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.
- (f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes.
- (g) HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group has adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.
- (h) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(i) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- *HKAS 32 Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with *HKAS 12 Income Taxes*. The amendment removes existing income tax requirements from *HKAS 32* and requires entities to apply the requirements in *HKAS 12* to any income tax arising from distributions to equity holders.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 9	<i>Financial Instruments</i> ³
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ³
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> ¹
HKFRS 14	Regulatory Deferral Account ⁴
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits</i> – <i>Defined Benefit Plans: Employee Contributions</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets and Financial Liabilities</i> ¹
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> – <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
HK(IFRIC)-Int 21	<i>Levies</i> ¹

Annual improvements 2010-2012 Amendments to a number of HKFRSs issued in January 2014²
Cycle

Annual improvements 2011-2013 Amendments to a number of HKFRSs issued in January 2014²
Cycle

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ No mandatory effective date yet determined but is available for adoption

⁴ Effective for annual periods beginning on or after 1 January 2016

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised 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. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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 principles 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 as 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 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.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

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

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

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

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

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

Interests in joint operations

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

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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 to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); 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 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

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

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

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

Construction costs incurred for investment properties under construction are capitalised 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 recognised in profit or loss in the year of the retirement or disposal.

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

Oil and gas properties

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

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

Operating leases

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

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and the 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 land lease payments" in the consolidated statement of financial position and is amortised over the lease term on the 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 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets and disposal groups held for sale

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

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

Land under development

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

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

Properties under development

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

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

Properties held for sale

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

As at 31 December 2013, the Group's financial assets included available-for-sale investments, amounts due from related parties, amounts due from non-controlling interests, financial assets included in other non-current assets, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, held-for-trading investments, derivative financial instruments, pledged bank deposits, cash and cash equivalents, and other deposits.

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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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 profit or loss.

Current versus non-current classification

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

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

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" 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 2013

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, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 realised or has been transferred to the Group.

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

Available-for-sale financial investments

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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.

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

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

Subsequent measurement

The 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 amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Equity instrument

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

De-recognition of financial liabilities

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

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

Offsetting of financial instruments

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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 fertiliser-related inventories using the moving weighted-average method. In the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

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

Dismantlement liability is recognised 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 recognised as part of the cost of the related property, plant and equipment or oil and gas properties. The amount recognised 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.

Income tax

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

Government grants

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) 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 land is sold, and the collectability of the proceeds from land sales is reasonably assured;
- (e) from the crude oil, natural gas, and other items are recognised when title passes to the customer, which is when the risk of ownership passes to the purchaser and physical delivery of goods occurs, either immediately or within a fixed delivery schedule that is reasonable and customary in the industry.
- (f) from the producing properties in which we have an interest with other producers are recognised based on the actual volumes we sold during the period. Any differences between volumes sold and entitlement volumes, based on our net working interest, which are deemed to be non-recoverable through remaining production, are recognised as accounts receivable or accounts payable, as appropriate. Cumulative differences between volumes sold and entitlement volumes are generally not significant.
- (g) rental income, on a time proportion basis over lease terms, except for contingent rental income which is recognised when it arises, where premiums received to terminate leases are recognised in profit or loss when they arise;
- (h) hotel, property management and other services income, in the period in which such services are rendered;
- (i) from the rendering of services on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;
- (j) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (k) dividend income, when the shareholders' right to receive payment has been established.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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

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

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

Share-based payments

Equity-settled share-based payments

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on the 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 recognised 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 options are exercised, the amount previously recognised 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 recognised in share option reserve will be transferred to retained profits.

Retirement benefit costs

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

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

Borrowing costs

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

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

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

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

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences 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 recognised in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

(a) Reserve base

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to proved reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the production sharing contracts. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas properties has been impaired.

(b) 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.

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

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

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

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

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

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation or both. Judgement is made by management in determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention 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.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(a) Carrying value of oil and gas properties

The calculation of the unit-of-production rate for oil and gas properties amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions and unforeseen operational issues.

(b) Recoverability of assets' carrying values

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

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

(c) Dismantlement costs

Dismantlement costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate dismantlement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(d) Carrying amount of land under development

The Group's land under development is stated at the lower of cost and net realisable 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 realisable value, i.e., the revenue to be derived from the land under development for sale by government authorities, less costs to completion and the costs to be incurred in realising the revenue from the sale of land under development based on prevailing market conditions.

If the cost is higher than the estimated net realisable value, provision for the excess of cost of land under development over its net realisable value should be made. Such a provision would require the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for land under development in the periods in which such estimate is changed will be adjusted accordingly. The carrying amount of land under development at 31 December 2013 was HK\$9,711,609,000 (2012: HK\$12,103,662,000).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS 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 recognised in 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 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 recognised in 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 that 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 profit or loss in future years. The carrying amount of properties under development at 31 December 2013 was HK\$43,999,424,000 (2012: HK\$23,371,112,000).

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

One subsidiary of the Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT tax returns and payments with the local tax authorities for its property development projects. The final outcome may be different from the amounts that were initially recorded, and the differences will affect the current income tax expense and LAT provision in the period when LAT is ascertained. The carrying amount of provision for LAT at 31 December 2013 was HK\$2,193,118,000 (2012: HK\$1,045,194,000).

(h) 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.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(h) Estimation of fair value of investment properties (continued)

The carrying amount of investment properties at 31 December 2013 was HK\$22,125,586,000 (2012: HK\$16,660,910,000). Further details, including the key assumptions used for the fair value measurement, are given in note 13 to the financial statements.

(i) Estimation of net realisable value for properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. The net realisable value is assessed with reference to market conditions and prices existing at the end of the reporting period and is determined by the Group having taken suitable external advice and in the light of recent market transactions. The carrying amount of properties held for sale at 31 December 2013 was HK\$5,915,469,000 (2012: HK\$3,078,117,000).

(j) Depreciation of property, plant and equipment

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

(k) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2013 was HK\$599,079,000 (2012: HK\$905,075,000).

(l) Deferred tax liabilities

Deferred tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future.

If these distributed earnings of the subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately HK\$740,470,000 (2012: HK\$389,726,000).

(m) PRC corporate income tax

Some subsidiaries of the Group are subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining in the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise. The carrying amount of income tax payable at 31 December 2013 was HK\$1,616,382,000 (2012: HK\$1,228,502,000).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(n) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at 31 December 2013 was HK\$4,096,952,000 (2012: HK\$4,076,494,000).

(o) Impairment of trade and bill receivables 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 judgement. A considerable amount of judgement 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 deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade and bills receivables and other receivables at 31 December 2013 were HK\$24,832,795,000 (2012: HK\$16,222,618,000) and HK\$1,480,232,000 (2012: HK\$959,327,000), respectively.

(p) 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.

(q) Impairment of inventories

Determining whether inventories are impaired requires an estimation of its net realisable value. Net realisable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. The Group reassesses these estimates at the end of each reporting period. As at 31 December 2013, the carrying amount of inventories was HK\$7,074,485,000 (2012: HK\$8,495,467,000).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

4. REVENUE AND BUSINESS ANALYSIS

Revenue

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

	2013 HK\$'000	2012 HK\$'000 (Restated)
Sales of crude oil and petroleum products	352,485,834	325,893,850
Sales of fertilisers	43,461,338	50,639,154
Sales of chemical products	9,249,225	8,021,756
Sales of properties	9,708,112	10,796,423
Hotel operation	2,061,232	2,010,179
Gross rental income	1,224,157	1,079,491
Land development	7,159,582	2,649,015
Property management	538,144	613,632
Others	<u>579,833</u>	<u>540,833</u>
	<u>426,467,457</u>	<u>402,244,333</u>

Business analysis

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

	Oil and gas HK\$'000	Fertilisers HK\$'000	Real estate HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<u>Year ended 31 December 2013</u>						
REVENUE						
External sales	352,485,834	43,461,338	20,691,227	9,829,058	-	426,467,457
Inter-segment sales	<u>501,019</u>	-	<u>27,686</u>	<u>4,062,905</u>	<u>(4,591,610)</u>	-
Total	<u>352,986,853</u>	<u>43,461,338</u>	<u>20,718,913</u>	<u>13,891,963</u>	<u>(4,591,610)</u>	<u>426,467,457</u>
Segment profit/(loss)	3,348,222	(283,674)	9,513,727	2,063,991	(2,023,280)	12,618,986
Interest income						494,755
Finance costs						(2,918,661)
Share of results of:						
Joint ventures						(1,555)
Associates						<u>214,320</u>
Profit before tax						<u>10,407,845</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

4. REVENUE AND BUSINESS ANALYSIS (continued)

Business analysis (continued)

	Oil and gas HK\$'000 (Restated)	Fertilisers HK\$'000	Real estate HK\$'000 (Restated)	Others HK\$'000	Eliminations HK\$'000 (Restated)	Consolidated HK\$'000 (Restated)
<u>Year ended 31 December 2012</u>						
REVENUE						
External sales	325,893,850	50,639,154	17,148,740	8,562,589	-	402,244,333
Inter-segment sales	<u>789,897</u>	<u>-</u>	<u>26,926</u>	<u>4,650,053</u>	<u>(5,466,876)</u>	<u>-</u>
Total	<u>326,683,747</u>	<u>50,639,154</u>	<u>17,175,666</u>	<u>13,212,642</u>	<u>(5,466,876)</u>	<u>402,244,333</u>
Segment profit/(loss)	3,931,579	1,145,805	7,546,679	2,256,787	(2,351,488)	12,529,362
Interest income						338,324
Gain on deemed disposal of interest in a subsidiary						113,319
Finance costs						(2,774,772)
Share of results of:						
Joint ventures						95,783
Associates						<u>481,084</u>
Profit before tax						<u>10,783,100</u>

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

4. REVENUE AND BUSINESS ANALYSIS (continued)

	Oil and gas HK\$'000	Fertilisers HK\$'000	Real estate HK\$'000	Others HK\$'000	Consolidated HK\$'000
<u>Year ended 31 December 2013</u>					
Amounts included in the measure of segment profit or loss:					
(Losses)/gains on disposal of:					
Property, plant and equipment	(261)	(811)	(1,398)	-	(2,470)
Available-for-sale investments	-	1,311	-	-	1,311
Held-for-trading investments	-	-	-	49,234	49,234
Investment property	-	18,730	-	-	18,730
Write-off of non-demand payables	-	15,462	-	-	15,462
Waived consideration payable	-	31,293	-	-	31,293
Impairment losses of:					
Oil and gas properties	124,102	-	-	-	124,102
Property, plant and equipment	-	-	2,108	-	2,108
Available-for-sale investments	-	10,014	-	-	10,014
Impairment of trade and bills receivables	-	19,893	16,794	-	36,687
Impairment of other receivables	-	26,975	41	-	27,016
Reversal of impairment losses of:					
Trade receivables	121,284	-	-	-	121,284
Fair value gains, net:					
Held-for-trading investments	-	-	-	3,075	3,075
Transfers from properties held for sale to investment properties	-	-	5,932	-	5,932
Fair value changes of investment properties	-	-	1,831,346	(2,414)	1,828,932
Depreciation of oil and gas properties	3,424,259	-	-	-	3,424,259
Depreciation of property, plant and equipment	24,427	365,488	268,842	8,228	666,985
Amortisation of other non-current assets	-	8,384	-	-	8,384
Amortisation of intangible assets	38,192	41,767	10,428	-	90,387
Amortisation of prepaid land lease payments	-	15,024	60,312	244	75,580
Write-down of inventories	-	117,256	-	-	117,256
	Oil and gas HK\$'000 (Restated)	Fertilisers HK\$'000	Real estate HK\$'000 (Restated)	Others HK\$'000	Consolidated HK\$'000 (Restated)
<u>Year ended 31 December 2012</u>					
Amounts included in the measure of segment profit or loss:					
(Losses)/gains on disposal of:					
Property, plant and equipment	-	(1,813)	(15,540)	(20)	(17,373)
Available-for-sale investments	-	-	-	2	2
Held-for-trading investments	-	-	-	15,945	15,945
Write-off of non-demand payables	-	34,231	-	-	34,231
Impairment losses of:					
Oil and gas properties	456,386	-	-	-	456,386
Impairment of trade and bills receivables	-	-	319	-	319
Impairment of other receivables	-	738	-	-	738
Reversal of impairment losses of:					
Trade receivables	147,107	-	-	-	147,107
Fair value gains, net:					
Held-for-trading investments	-	-	-	66,139	66,139
Transfers from properties held for sale to investment properties	-	-	9,646	-	9,646
Fair value changes of investment properties	-	-	1,625,855	10,695	1,636,550
Depreciation of oil and gas properties	2,572,228	-	-	-	2,572,228
Depreciation of property, plant and equipment	20,224	504,197	222,806	4,700	751,927
Amortisation of other non-current assets	-	18,811	-	-	18,811
Amortisation of intangible assets	14,802	28,032	7,985	11	50,830
Amortisation of prepaid land lease payments	-	27,526	50,974	244	78,744
Write-down of inventories	5,281	106,295	-	5,987	117,563

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

5. OTHER INCOME, GAINS AND LOSSES, NET

	2013 HK\$'000	2012 HK\$'000 (Restated)
<u>Other income</u>		
Bank interest income	262,701	221,778
Interest on other advances	62,164	15,161
Interest on other deposits	51,660	50,706
Interest on other financial assets	94,024	28,628
Interest on a finance lease contract	24,206	22,051
Dividend income from available-for-sale investments	3,955	2,209
Government grants (Note i)	87,892	88,932
Compensation received	77,776	17,508
Sales of scrapped materials	20,543	21,297
Sundry income, net	<u>103,200</u>	<u>87,421</u>
	<u>788,121</u>	<u>555,691</u>
<u>Gains and losses</u>		
Gains/(losses) on disposal of:		
Property, plant and equipment	(2,470)	(17,373)
Investment property	18,730	-
Gain from acquisition of FPSO in advance (Note ii)	-	726,018
Associates	527	-
Available-for-sale investments	1,311	2
Held-for-trading investments	49,234	15,945
Gain on deemed disposal of interest in a subsidiary	-	113,319
Write-off of non-demand payables	15,462	34,231
Waived consideration payable	31,293	-
Impairment losses of:		
Oil and gas properties (Note 17)	(124,102)	(456,386)
Property, plant and equipment (Note 10)	(2,108)	-
Available-for-sale investments	(10,014)	-
Impairment of trade and bills receivables (Note 27)	(36,687)	(319)
Impairment of other receivables	(27,016)	(738)
Reversal of impairment losses of:		
Trade receivables (Note 27)	121,284	147,107
Foreign exchange differences, net	(56,980)	119,346
Fair value gains, net:		
Held-for-trading investments	3,075	66,139
Transfers from properties held for sale to investment properties	5,932	9,646
Gain on bargain purchase (Note 40(2))	142,912	-
Other expenses	<u>(34,417)</u>	<u>(86,564)</u>
	<u>95,966</u>	<u>670,373</u>
Other income, gains and losses, net	<u>884,087</u>	<u>1,226,064</u>

Notes:

- (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. There are no unfulfilled conditions or contingencies relating to these grants.
- (ii) The gain amounted to HK\$726,018,000 is related to the gain on the acquisition of the Floating Production Storage and Offloading Unit (the "FPSO"). On 31 July 2012, SAHBV, a joint operation of the Company acquired the FPSO which was previously financial leased from Maersk Peregrino Ltd. by signing the Sale and Purchase Agreement for an amount of US\$1,221 million. The finance lease obligation on 31 July 2012 amounted to US\$1,455 million. This transaction resulted in a gross gain of US\$234 million and the Company shared 40% of the gross gain.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2013 HK\$'000	2012 HK\$'000 (Restated)
Interest on bank and other borrowings wholly repayable		
- within five years	1,914,593	1,864,756
- after five years	648,322	570,857
Interest on advances from fellow subsidiaries	18,413	19,287
Effective interest expenses on guaranteed senior notes	779,525	779,090
Effective interest expenses on guaranteed notes	81,466	80,618
Effective interest expenses on commercial papers	4,967	-
Discount interest for provision for dismantlement costs	107,774	102,882
Interest on a finance lease contract	-	<u>93,755</u>
Total borrowing costs	3,555,060	3,511,245
Less: Interest capitalised in properties under development and other qualifying assets	<u>(674,010)</u>	<u>(736,473)</u>
Interest expenses	<u>2,881,050</u>	<u>2,774,772</u>
Transaction costs on arranging commercial papers	<u>37,611</u>	<u>-</u>
	<u>2,918,661</u>	<u>2,774,772</u>

7. PROFIT BEFORE TAX

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

	Notes	2013 HK\$'000	2012 HK\$'000 (Restated)
Depreciation of oil and gas properties	17	3,424,259	2,572,228
Depreciation of property, plant and equipment	10	666,985	751,927
Amortisation of other non-current assets		8,384	18,811
Amortisation of intangible assets	16	90,387	50,830
Amortisation of prepaid land lease payments		75,580	78,744
Minimum lease payments under operating leases of land and buildings		105,102	84,175
Auditors' remuneration		17,456	16,944
Direct operating expenses arising from investment properties that generated rental income		156,716	111,491
Write-down of inventories		117,256	117,563
Staff costs:			
Directors' fees		-	-
Directors' other emoluments		3,375	3,446
Other staff costs		1,992,773	1,786,328
Share-based payment expense		18,150	1,892
Contributions to retirement benefit schemes		<u>198,825</u>	<u>178,561</u>
		<u>2,213,123</u>	<u>1,970,227</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

8. INCOME TAX

	2013 HK\$'000	2012 HK\$'000 (Restated)
Hong Kong profits tax:		
Current tax	<u>8,916</u>	<u>15,490</u>
PRC tax:		
Enterprise income tax ("EIT")	2,279,958	1,587,623
Land appreciation tax ("LAT") (Note 35)	1,285,905	1,145,318
Overprovision in prior years	<u>-</u>	<u>(2,663)</u>
	3,565,863	2,730,278
Other jurisdictions:		
Current tax	664,181	853,704
Overprovision in prior years	<u>(6,531)</u>	<u>(3,180)</u>
	<u>657,650</u>	<u>850,524</u>
Deferred taxation:	<u>795,553</u>	<u>381,008</u>
	<u><u>5,027,982</u></u>	<u><u>3,977,300</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate for certain PRC subsidiaries is 25% (2012: 25%).

PRC corporate income tax has been provided at the rate of 25% (2012: 25%) on the taxable profits of the Group's PRC subsidiaries.

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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:

	2013 HK\$'000	2012 HK\$'000 (Restated)
Profit before tax	<u>10,407,845</u>	<u>10,783,100</u>
Tax at the statutory income tax rate	2,601,961	2,695,775
LAT (Note 35)	1,285,905	1,145,318
Tax effect of LAT	(321,476)	(286,329)
Effect of lower or higher tax rates enacted by local authorities of other jurisdictions	10,848	144,351
Withholding tax at 5% on the profit of subsidiaries established in the PRC distributed to the parent	78,057	95,149
Adjustments in respect of current tax of previous periods	(6,531)	(5,843)
Income not subject to tax	(363,010)	(518,360)
Expenses not deductible for tax	560,979	396,988
Tax effect of share of results of associates	(27,427)	(71,926)
Tax effect of share of results of joint ventures	389	(21,650)
Tax effect of gain on deemed disposal of interest in a subsidiary	-	(28,330)
Utilisation of tax losses previously not recognised	(51,603)	(291,309)
Tax effect of tax losses and deductible temporary differences not recognised	309,220	210,584
Translation adjustment (Note i)	404,670	472,714
Write-down of deferred tax assets recognised in previous years (Note 36)	439,851	-
Adjustment in respect of current tax of previous periods	55,613	-
Others	<u>50,536</u>	<u>40,168</u>
Income tax expense	<u>5,027,982</u>	<u>3,977,300</u>

Note:

- (i) Taxable translation adjustment mainly represents the tax effect of differences arising from foreign exchange effects to Brazilian Real ("BRL"), which is the basis for taxation for a subsidiary of the Group in Brazil. The translation adjustment mainly relates to the difference between the assets and liabilities determined on the tax basis in BRL and that determined on the accounting basis in US\$, the functional currency of the subsidiary.

9. DIVIDENDS

	2013 HK\$'000	2012 HK\$'000
Dividends distributed during the year	<u>1,672,413</u>	<u>1,623,440</u>

According to the board of directors' meeting on 18 October 2013, dividends amounting to US\$215,698,000 (equivalent to HK\$1,672,413,000) were paid to the immediate parent on 23 October 2013.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

10. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office and machinery equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 31 December 2012 and at 1 January 2013:								
Cost	6,289,043	2,823,447	74,713	1,945,626	2,691,999	200,973	550,438	14,576,239
Accumulated depreciation and impairment	(845,322)	(516,148)	(72,214)	(927,989)	(988,403)	(100,548)	-	(3,450,624)
Net carrying amount	<u>5,443,721</u>	<u>2,307,299</u>	<u>2,499</u>	<u>1,017,637</u>	<u>1,703,596</u>	<u>100,425</u>	<u>550,438</u>	<u>11,125,615</u>
At 1 January 2013, net of accumulated depreciation and impairment								
depreciation and impairment	5,443,721	2,307,299	2,499	1,017,637	1,703,596	100,425	550,438	11,125,615
Additions	3,403	52,193	7,491	41,795	29,385	22,951	1,637,435	1,794,653
Acquisition of a subsidiary (Note 40(2))	473,253	20,775	17,579	45,629	-	2,895	1,659,477	2,219,608
Transfers	(52,862)	78,024	-	3,470	75,178	-	(103,810)	-
Transfer from investment properties (Note 13)	-	71,285	-	-	-	-	-	71,285
Transfer to investment properties (Note 13)	-	(78,594)	-	-	-	-	-	(78,594)
Transfer from properties under development (Note 12)	-	-	-	-	-	-	498,570	498,570
Transfer to properties under development (Note 12)	-	-	-	-	-	-	(50,753)	(50,753)
Disposal	(1,120)	(1,748)	-	(3,559)	(381)	(1,380)	-	(8,188)
Depreciation provided during the year	(126,394)	(114,324)	(13,160)	(135,514)	(251,865)	(25,728)	-	(666,985)
Gains on property revaluation in relation to the transfers to investment properties	-	43,748	-	-	-	-	-	43,748
Impairment loss recognised in profit or loss	-	-	-	(2,108)	-	-	-	(2,108)
Exchange realignment	<u>181,465</u>	<u>68,365</u>	<u>428</u>	<u>30,991</u>	<u>48,501</u>	<u>2,820</u>	<u>92,852</u>	<u>425,422</u>
At 31 December 2013, net of accumulated depreciation and impairment	<u>5,921,466</u>	<u>2,447,023</u>	<u>14,837</u>	<u>998,341</u>	<u>1,604,414</u>	<u>101,983</u>	<u>4,284,209</u>	<u>15,372,273</u>
At 31 December 2013:								
Cost	6,913,993	3,090,261	39,781	2,077,099	2,879,997	220,052	4,286,068	19,507,251
Accumulated depreciation and impairment	(992,527)	(643,238)	(24,944)	(1,078,758)	(1,275,583)	(118,069)	(1,859)	(4,134,978)
Net carrying amount	<u>5,921,466</u>	<u>2,447,023</u>	<u>14,837</u>	<u>998,341</u>	<u>1,604,414</u>	<u>101,983</u>	<u>4,284,209</u>	<u>15,372,273</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Hotel properties HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office and machinery equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 31 December 2011 and at 1 January 2012:								
Cost	6,582,204	3,151,721	74,342	1,908,528	4,349,639	174,777	189,718	16,430,929
Accumulated depreciation and impairment	(1,023,828)	(454,082)	(70,378)	(920,679)	(1,128,145)	(83,658)	-	(3,680,770)
Net carrying amount	<u>5,558,376</u>	<u>2,697,639</u>	<u>3,964</u>	<u>987,849</u>	<u>3,221,494</u>	<u>91,119</u>	<u>189,718</u>	<u>12,750,159</u>
At 1 January 2012, net of accumulated depreciation and impairment								
depreciation and impairment	5,558,376	2,697,639	3,964	987,849	3,221,494	91,119	189,718	12,750,159
Additions	7,829	27,530	461	37,744	33,459	36,130	664,466	807,619
Acquisition of a subsidiary	-	219,374	-	112,202	320,052	4,580	17,377	673,585
Transfers	8,528	91,220	(57)	29,060	108,332	162	(237,245)	-
Transfer from investment properties (Note 13)	-	29,863	-	-	-	-	-	29,863
Transfer to investment properties (Note 13)	-	(23,704)	-	-	-	-	-	(23,704)
Transfer from properties held for sale	-	2,837	-	-	-	-	-	2,837
Disposal	(17,046)	(10,271)	-	(1,071)	(12,287)	(815)	(344)	(41,834)
Deemed disposal of interest in a subsidiary	-	(611,183)	-	(22,513)	(1,605,723)	(5,714)	(84,269)	(2,329,402)
Depreciation provided during the year	(112,706)	(127,246)	(1,866)	(125,126)	(360,020)	(24,963)	-	(751,927)
Gains on property revaluation in relation to the transfers to investment properties	-	9,466	-	-	-	-	-	9,466
Exchange realignment	(1,260)	1,774	(3)	(508)	(1,711)	(74)	735	(1,047)
At 31 December 2012, net of accumulated depreciation and impairment	<u>5,443,721</u>	<u>2,307,299</u>	<u>2,499</u>	<u>1,017,637</u>	<u>1,703,596</u>	<u>100,425</u>	<u>550,438</u>	<u>11,125,615</u>
At 31 December 2012:								
Cost	6,289,043	2,823,447	74,713	1,945,626	2,691,999	200,973	550,438	14,576,239
Accumulated depreciation and impairment	(845,322)	(516,148)	(72,214)	(927,989)	(988,403)	(100,548)	-	(3,450,624)
Net carrying amount	<u>5,443,721</u>	<u>2,307,299</u>	<u>2,499</u>	<u>1,017,637</u>	<u>1,703,596</u>	<u>100,425</u>	<u>550,438</u>	<u>11,125,615</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.

For the year ended 31 December 2013, a full provision for impairment of HK\$2,108,000 (2012: Nil) was made against the carrying value of furniture and fixtures attributable to the Renaissance Beijing Wangfujing Hotel.

At the end of the reporting period, certain of the Group's hotel properties and buildings with an aggregate carrying amount of approximately HK\$5,038,487,000 (2012: HK\$3,605,037,000) were pledged to secure bank loans granted to the Group (Note 34).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

11. LAND UNDER DEVELOPMENT

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

	2013 HK\$'000	2012 HK\$'000
Carrying amount:		
At 1 January	12,103,662	11,845,893
Additions	2,544,228	2,413,015
Acquisition of a subsidiary	-	84,358
Recognised in profit or loss during the year	(5,271,569)	(2,238,229)
Exchange realignment	<u>335,288</u>	<u>(1,375)</u>
At 31 December	9,711,609	12,103,662
Current portion	<u>(5,162,762)</u>	<u>(6,695,959)</u>
Non-current portion	<u>4,548,847</u>	<u>5,407,703</u>

12. PROPERTIES UNDER DEVELOPMENT

	2013 HK\$'000	2012 HK\$'000 (Restated)
Carrying amount:		
At 1 January	23,371,112	18,778,032
Additions	27,927,943	12,793,598
Acquisition of a subsidiary	-	629,869
Transfer to property, plant and equipment (Note 10)	(498,570)	-
Transfer from property, plant and equipment (Note 10)	50,753	-
Transfer to prepaid lease payments	(106,487)	-
Transfer to properties held for sale	(7,788,671)	(8,843,608)
Exchange realignment	<u>1,043,344</u>	<u>13,221</u>
At 31 December	43,999,424	23,371,112
Current portion	<u>(10,713,573)</u>	<u>(10,383,932)</u>
Non-current portion	<u>33,285,851</u>	<u>12,987,180</u>

At 31 December 2013, certain of the Group's properties included in properties under development with a net carrying amounts of approximately HK\$12,065,182,000 (2012: HK\$4,928,638,000) were pledged to secure bank loans granted to the Group (Note 34).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

13. INVESTMENT PROPERTIES

	2013 HK\$'000	2012 HK\$'000
Fair value:		
At 1 January	16,660,910	14,980,146
Additions	27,368	20,627
Fair value changes recognised in profit or loss	1,828,932	1,636,550
Acquisition of a subsidiary (Note 40(2))	2,789,903	-
Transfer from owner-occupied properties (Note 10)	78,594	23,704
Transfer to owner-occupied properties (Note 10)	(71,285)	(29,863)
Transfer from properties held for sale	195,203	32,087
Disposal	(18,275)	-
Exchange realignment	<u>634,236</u>	<u>(2,341)</u>
At 31 December	<u>22,125,586</u>	<u>16,660,910</u>

The Group's investment properties are situated in Mainland China and are held under medium-term leases.

The Group's investment properties mainly consist of six commercial properties in Mainland China held by Franshion Properties (China) Limited ("Franshion"). The directors of the Company have determined that the investment properties consist of one class of asset, i.e., commercial, based on the nature, characteristics and risks of each property. Franshion's investment properties were revalued individually on 31 December 2013 based on valuations performed by Knight Frank Petty Limited, CB Richard Ellis Limited, and Beijing Renda Real Estate Appraisal Co., Ltd, independent professionally qualified valuers, at HK\$22,018,464,000 (2012: HK\$16,574,733,000). Each year, Franshion's management decides to appoint the external valuer to be responsible for the external valuations of Franshion's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Franshion's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

At 31 December 2013, certain of the Group's investment properties with a carrying value of HK\$14,770,708,000 (2012: HK\$10,406,408,000) were pledged to secure bank loans granted to the Group (Note 34).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

13. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

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

	Fair value measurement as at 31 December 2013 using		
	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurement for:			
Commercial properties	163,849	21,961,737	22,125,586

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

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

	Commercial properties HK\$'000
Carrying amount at 1 January 2013	16,519,728
Additions	27,368
Acquisition of a subsidiary	2,789,903
Net gain from a fair value adjustment	1,831,346
Transfer from properties held for sale	195,203
Transfer from owner-occupied properties	37,096
Transfer to owner-occupied properties	(71,285)
Exchange realignment	<u>632,378</u>
Carrying amount at 31 December 2013	<u>21,961,737</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

13. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Property 1(a)-Chemsunny World Trade Centre-Office	Term and reversion method	Term yield	8.10%
		Reversionary yield	8.10%
		Market rent (per square metre ("sqm") per annum ("p.a.))	HK\$1,169 - HK\$7,414 (HK\$5,961)
Property 1(b)-Chemsunny World Trade Centre-Retail	Term and reversion method	Term yield	7.50%
		Reversionary yield	7.50%
		Market rent (per sqm p.a.)	HK\$7,360 - HK\$7,510 (HK\$7,440)
Property 2(a)-Sinochem Tower-Office	Term and reversion method	Term yield	8.00%
		Reversionary yield	8.00%
		Market rent (per sqm p.a.)	HK\$3,062 - HK\$3,624 (HK\$3,338)
Property 2(b)-Sinochem Tower-Retail	Term and reversion method	Term yield	7.00%
		Reversionary yield	7.00%
		Market rent (per sqm p.a.)	HK\$1,366 - HK\$2,899 (HK\$1,981)
Property 2(c)-Sinochem Tower-Warehouse	Term and reversion method	Term yield	10.00%
		Reversionary yield	10.00%
		Market rent (per sqm p.a.)	HK\$1,502
Property 3(a)-Jinmao Tower-Office	Term and reversion method and market comparable method	Term yield	5.75%
		Reversionary yield	5.75%
		Market rent (per sqm p.a.)	HK\$1,856 - HK\$4,640 (HK\$4,482)
Property 3(b)-Jinmao Tower-Retail	Term and reversion method and market comparable method	Price per sqm	HK\$67,432
		Term yield	9.00%
		Reversionary yield	9.00%
Property 3(c)-Jinmao Tower-Car parks	Term and reversion method	Market rent (per sqm p.a.)	HK\$7,270
		Price per sqm	HK\$77,662
		Term yield	5.00%
		Reversionary yield	5.00%
		Market rent (per sqm p.a.)	HK\$7,542

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

13. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Property 4(a)-Zhuhai Every Garden-Club house	Term and reversion method	Term yield	6.25%
		Reversionary yield	6.50%
		Market rent (per sqm p.a.)	HK\$496 - HK\$976 (HK\$537)
Property 4(b)-Zhuhai Huanyuan Building-2nd Floor	Term and reversion method	Term yield	5.75%
		Reversionary yield	6.25%
		Market rent (per sqm p.a.)	HK\$616
Property 5(a)-Nanjing International Plaza-Retail	Discounted cash flow method	Estimated rental value (per sqm p.a.)	HK\$712 - HK\$2,781 (HK\$1,579)
		Rental growth p.a.	0.00%-13.00% (6.50%)
		Long-term vacancy rate	5.00%
		Discount rate	5.00%-7.00% (6.10%)
Property 5(b)-Nanjing International Plaza-Office	Discounted cash flow method	Estimated rental value (per sqm p.a.)	HK\$1,909 - HK\$2,057 (HK\$1,964)
		Rental growth p.a.	0.00%-5.00% (2.50%)
		Long-term vacancy rate	5.00%
		Discount rate	5.50%-7.00% (5.90%)
Property 5(c)-Nanjing International Plaza-Car parks	Discounted cash flow method	Estimated rental value (per sqm p.a.)	HK\$4,506 - HK\$10,815 (HK\$6,793)
		Rental growth p.a.	2.80%-6.30% (5.00%)
		Long-term vacancy rate	10.00%- 15.00% (13.20%)
		Discount rate	1.50%
Property 6-Changsha Meixi Lake International R&D Centre	Discounted cash flow method	Estimated rental value (per sqm p.a.)	HK\$914 - HK\$960 (HK\$924)
		Rental growth p.a.	0.00%-3.00% (2.90%)
		Long-term vacancy rate	4.10%
		Discount rate	5.00%-6.50% (5.10%)

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

13. INVESTMENT PROPERTIES (continued)

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

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

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

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

14. PREPAID LAND LEASE PAYMENTS

	2013 HK\$'000	2012 HK\$'000
Leasehold land in Hong Kong under long-term leases	<u>95,405</u>	<u>95,650</u>
Leasehold land in the PRC:		
Long-term leases	883,175	876,836
Medium-term leases	<u>1,849,560</u>	<u>1,494,880</u>
	<u>2,732,735</u>	<u>2,371,716</u>
	2,828,140	2,467,366
Current portion	(<u>79,551</u>)	(<u>66,021</u>)
Non-current portion	<u>2,748,589</u>	<u>2,401,345</u>

At 31 December 2013, certain of the Group's prepaid land lease payments with an aggregate carrying amount of approximately HK\$349,393,000 (2012: HK\$132,669,000) were pledged to secure certain of the Group's bank loans (Note 34).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

15. GOODWILL

	2013 HK\$'000	2012 HK\$'000
At 1 January:		
Cost	4,076,494	3,741,325
Accumulated impairment	<u>-</u>	<u>(319,835)</u>
Net carrying amount	<u>4,076,494</u>	<u>3,421,490</u>
Cost at 1 January, net of accumulated impairment	4,076,494	3,421,490
Acquisition of a subsidiary	-	654,974
Deemed disposal of interest in a subsidiary – cost	-	(319,835)
Deemed disposal of interest in a subsidiary – accumulated impairment	-	319,835
Exchange realignment	<u>20,458</u>	<u>30</u>
Net carrying amount at 31 December	<u>4,096,952</u>	<u>4,076,494</u>
At 31 December:		
Cost	4,096,952	4,076,494
Accumulated impairment	<u>-</u>	<u>-</u>
Net carrying amount	<u>4,096,952</u>	<u>4,076,494</u>

For the purposes of impairment testing, goodwill has been allocated to two groups of cash-generating units relating to the fertilisers division and real estate division. The carrying amounts of goodwill as at 31 December 2013 and 2012 allocated to these divisions are as follows:

	2013 HK\$'000	2012 HK\$'000
Fertilisers division	2,097,381	2,076,923
Real estate division	<u>1,999,571</u>	<u>1,999,571</u>
	<u>4,096,952</u>	<u>4,076,494</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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. 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 Gross Domestic Product ("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.

Fertilisers division

At the end of the reporting period, the recoverable amount of the fertilisers division was determined on a value in use cash flow projection based on financial budgets covering a certain period approved by directors of the Group. The cash flow projection was divided into the marketing division and the production division, and the production division includes the goodwill derived from Sinofert's acquisition of its subsidiary, Sinochem Yunlong Co., Ltd. The pre-tax discount rate was 8.03% for the marketing division and 13% for the production division. Cash flows of the marketing division were extrapolated using an average growth rate of 9.33% for the first three years and a steady growth rate of 6.8% for the following years. Cash flows of the production division were extrapolated using an average growth rate of 26.58% for the first three years and a steady growth rate of 3% for the following years. The value in use calculated by using the discount rate is higher than the carrying amount of this group of cash-generating unit, and therefore, there is no impairment of the fertilisers division.

Real estate division

At the end of the reporting period, the recoverable amount of the real estate division was determined on a value in use cash flow projection based on financial budgets covering a certain period approved by directors. The discount rate applied to the cash flow projection was 12%. Cash flows were extrapolated using a growth rate of 22.5% for the first two years and a steady growth rate of 5% for the following years. The value in use calculated by using the discount rate is higher than the carrying amount of this group of cash-generation unit, and therefore, there is no impairment of the real estate division.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

16. INTANGIBLE ASSETS

	Pipeline usage rights HK\$'000	Computer software HK\$'000	Mining rights HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2012 and at 1 January 2013:					
Cost	2,076,255	50,435	938,074	9,588	3,074,352
Accumulated depreciation	(14,789)	(35,556)	(32,267)	(1,858)	(84,470)
Net carrying amount	<u>2,061,466</u>	<u>14,879</u>	<u>905,807</u>	<u>7,730</u>	<u>2,989,882</u>
At 1 January 2013, net of accumulated depreciation	2,061,466	14,879	905,807	7,730	2,989,882
Acquisition of subsidiaries (Note 40(2))	-	4,561	-	-	4,561
Additions	-	12,440	7,609	766	20,815
Amortisation provided during the year	(38,192)	(10,175)	(41,767)	(253)	(90,387)
Exchange realignment	1,024	636	27,800	161	29,621
At 31 December 2013, net of accumulated depreciation	<u>2,024,298</u>	<u>22,341</u>	<u>899,449</u>	<u>8,404</u>	<u>2,954,492</u>
At 31 December 2013:					
Cost	2,077,273	70,760	975,166	10,578	3,133,777
Accumulated depreciation	(52,975)	(48,419)	(75,717)	(2,174)	(179,285)
Net carrying amount	<u>2,024,298</u>	<u>22,341</u>	<u>899,449</u>	<u>8,404</u>	<u>2,954,492</u>
	Pipeline usage rights HK\$'000	Computer software HK\$'000	Mining rights HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2011 and at 1 January 2012:					
Cost	-	44,605	-	9,004	53,609
Accumulated depreciation	-	(25,599)	-	(1,046)	(26,645)
Net carrying amount	<u>-</u>	<u>19,006</u>	<u>-</u>	<u>7,958</u>	<u>26,964</u>
At 1 January 2012, net of accumulated depreciation	-	19,006	-	7,958	26,964
Acquisition of subsidiaries	2,076,255	-	933,928	-	3,010,183
Additions	-	3,626	-	133	3,759
Amortisation provided during the year	(14,802)	(7,737)	(28,032)	(259)	(50,830)
Exchange realignment	13	(16)	(89)	(102)	(194)
At 31 December 2012, net of accumulated depreciation	<u>2,061,466</u>	<u>14,879</u>	<u>905,807</u>	<u>7,730</u>	<u>2,989,882</u>
At 31 December 2012:					
Cost	2,076,255	50,435	938,074	9,588	3,074,352
Accumulated depreciation	(14,789)	(35,556)	(32,267)	(1,858)	(84,470)
Net carrying amount	<u>2,061,466</u>	<u>14,879</u>	<u>905,807</u>	<u>7,730</u>	<u>2,989,882</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

17. OIL AND GAS PROPERTIES

	HK\$'000
Cost	
At 1 January 2012	53,156,574
Additions	5,052,982
Acquisition of a subsidiary (Note 40(1))	1,115,787
Disposal and write-offs	(112,660)
Exchange realignment	(326,140)
At 31 December 2012 and at 1 January 2013	58,886,543
Additions	3,022,887
Disposal and write-offs	(257,964)
Exchange realignment	111,261
At 31 December 2013	<u>61,762,727</u>
Accumulated depreciation and impairment	
At 1 January 2012	7,598,525
Depreciation provided during the year	2,572,228
Impairment loss recognised in profit or loss	456,386
Disposal and write-offs	(95,575)
Exchange realignment	(44,103)
At 31 December 2012	10,487,461
Depreciation provided during the year	3,424,259
Impairment loss recognised in profit or loss	124,102
Disposal and write-offs	(257,964)
Exchange realignment	3,420
At 31 December 2013	<u>13,781,278</u>
Carrying amount	
At 31 December 2013	<u>47,981,449</u>
At 31 December 2012	<u>48,399,082</u>

Oil and gas properties in Syria

Emerald Energy Plc. ("EEP"), a wholly-owned subsidiary of the Company, owns a 50% working interest and is a contractor in Block 26 in North East Syria. There are approximately HK\$3,046 million oil and gas properties in EEP Syria.

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 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 organisations. 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 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.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

17. OIL AND GAS PROPERTIES (continued)

The recoverable amount for Block 26 has been calculated based upon estimated future cash flows for impairment testing purpose. The estimated discounted future net cash flow is based on management's best estimate by taking into account the current exceptional circumstances in Syria. According to the result of the discounted future net cash flow, in the opinion of the directors, no impairment charge was considered necessary as at 31 December 2013.

There is a high degree of subjectivity inherent in the discounted future cash flow due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly, the estimated discounted future net cash flow may change materially in future periods depending on a wide range of factors. The directors will keep monitoring the changes and assess the potential impairment on a timely basis.

Impairment of exploration and evaluation asset

Sinochem Petroleum Netherlands Cooperatief U.A., a wholly-owned subsidiary of the Company, purchased five blocks of Brazilian deep water oil and gas properties from Perenco Assets in 2012. Impairment amounted to HK\$124 million, mainly of the purchase consideration allocated to Block 39, was recognised in 2013 because the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

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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 and business</u>	<u>Nominal value of issued Ordinary/ capital registered share capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Direct	Indirect	
Franshion Properties (China) Limited ("Franshion")	Hong Kong	HK\$9,161,489,000	62.87%	-	Investment holding
Sinochem International Chemicals (Hong Kong) Limited	Hong Kong	HK\$27,233,500	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	52.65%	-	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(开曼)有限公司	Cayman Islands	US\$572,600,000	100.00%	-	Trading and production of crude oil
Sinochem Resources UK Limited	United Kingdom	US\$435,370,161	100.00%	-	Investment holding
Sinochem (United Kingdom) Limited	United Kingdom	US\$4,805,642	100.00%	-	Trading of chemicals
Sinochem Agro Hong Kong Limited	Hong Kong	US\$2,150,000	100.00%	-	Trading of chemicals
Sinochem Overseas Capital Company Limited	BVI	US\$1	100.00%	-	Financing vehicle for issuance of notes
Sinochem Offshore Capital Company Limited	BVI	US\$1	100.00%	-	Financing vehicle for issuance of notes
Sinochem Overseas Trading Co., Ltd.	BVI	US\$1	100.00%	-	Investment holding
Sinochem CP Co., Ltd.	BVI	US\$1	100.00%	-	Financing vehicle for issuance of notes

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of Incorporation/ registration and business</u>	<u>Nominal value of issued Ordinary/ capital registered share capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Direct	Indirect	
Sinochem International Oil (London) Co., Ltd.	United Kingdom	RMB200,992,143	100.00%	-	Trading of petroleum products
Sinochem Global Capital Co., Ltd. (Note i)	BVI	US\$1	100.00%	-	Financing vehicle for issuance of capital securities
Sinochem Japan Co., Ltd.	Japan	RMB4,613,894	-	100.00%	General trading and commission agency
Sinochem Kingsway Capital Inc.	Cayman Islands	HK\$10,000	-	100.00%	Investment holding
世盈（厦门）创业投资有限公司	PRC	RMB705,643,000	-	100.00%	Investment holding
Emerald Energy Plc.	Isle of Man	British Pound 6,821,565	-	100.00%	Exploration and production of hydrocarbons
Statoil Petroleo Brazil Limited (SPBL)	Brazil	US\$950,590,000	-	100.00%	Exploration and production of hydrocarbons
Sinochem Argo Do Brasil Ltd. (Note i)	Brazil	BRL351,335	-	100.00%	Trading of chemical products
Shanghai Pudong Jinxin Real Estate Development Co., Ltd. (Note iii) ("Pudong Jinxin")	PRC	US\$5,600,000	-	31.44%	Investment holding
Shanghai Port International Cruise Terminal Development Co., Ltd. (Note iii) 上海港国际客运中心开发有限公司	PRC	RMB61,490,000	-	31.44%	Property development
Shanghai International Shipping Service Center Co., Ltd. ("SISSC") 上海国际航运服务中心有限公司 (Note iii)	PRC	RMB3,150,000,000	-	31.44%	Property development
Sinochem Franshion Real Estate (Zhuhai) Co., Ltd.	PRC	RMB490,000,000	-	62.87%	Property development
Sinochem Franshion Property (Beijing) Co., Ltd.	PRC	US\$635,000,000	-	62.87%	Property development
Shanghai Yin Hui Real Estate Development Co., Ltd. ("Shanghai Yin Hui") (Note iii)	PRC	RMB1,355,000,000	-	31.44%	Property development
Qingdao Franshion Development Co., Ltd.	PRC	RMB100,000,000	-	62.87%	Investment holding
Chongqing Xingtuo development Co., Ltd.	PRC	US\$200,000,000	-	62.87%	Property development

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of Incorporation/ registration and business</u>	<u>Nominal value of issued Ordinary/ capital registered share capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Direct	Indirect	
Beijing Chemsunny Property Company Limited 北京凯晨置业有限公司	PRC	RMB102,400,000	-	62.87%	Property investment
Sinochem Jin Mao Property Management (Beijing) Co., Ltd.	PRC	RMB5,000,000	-	62.87%	Property management
Sinochem International Property & Hotels Management Co., Ltd.	PRC	RMB387,600,000	-	62.87%	Property 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%	Property management
China Jin Mao (Group) Company Limited	PRC	RMB2,635,000,000	-	62.87%	Hotel operation and property investment
Shanghai Jin Mao Construction & Decoration Company Limited	PRC	RMB10,000,000	-	62.87%	Provision of building decoration services
Jin Mao (Beijing) Real Estate Company Limited	PRC	RMB1,600,000,000	-	62.87%	Hotel operation
Jin Mao Sanya Resort Hotel Company Limited	PRC	RMB300,000,000	-	62.87%	Hotel operation
Beijing Franshion Rongchuang Properties Limited ("Franshion Rongchuang") (Note ii)	PRC	RMB100,000,000	-	32.06%	Property development
Changsha Jin Mao Meixi Lake International Plaza Properties Limited	PRC	US\$352,000,000	-	62.87%	Property development
Changsha Meixi Lake International Research and Development Limited	PRC	RMB10,000,000	-	50.30%	Property development
Changsha Xing Mao Development Limited	PRC	RMB10,000,000	-	62.87%	Property development
Sanya Yazhouwan Economic Development Company Limited (Note ii)	PRC	RMB160,000,000	-	32.06%	Land development
Jin Mao Sanya Tourism Company Limited	PRC	RMB500,000,000	-	62.87%	Hotel operation
Jin Mao Shenzhen Hotel Investment Company Limited	PRC	RMB700,000,000	-	62.87%	Hotel operation

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of Incorporation/ registration and business</u>	<u>Nominal value of issued Ordinary/ capital registered share capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Direct	Indirect	
Jin Mao (Li Jiang) Zhi Ye Co., Ltd.	PRC	RMB100,000,000	-	62.87%	Property development
Jin Mao (Li Jiang) Hotel Investment Co., Ltd.	PRC	RMB100,000,000	-	62.87%	Property development
Jin Mao Investment (Chang Sha) Co., Ltd. ("Jin Mao Changsha")	PRC	RMB3,750,000,000	-	50.30%	Land development
Franshion Capital Limited	BVI	US\$1	-	62.87%	Investment holding
Franshion Development Limited	BVI	US\$1	-	62.87%	Investment holding
Franshion Investment Limited	BVI	US\$1	-	62.87%	Investment holding
Franshion Brilliant Limited (Note i)	BVI	US\$1	-	62.87%	Investment holding
Premier Action International Ltd.	BVI	US\$100	-	50.30%	Investment holding
Enhanced Experience Limited	BVI	US\$100	-	32.06%	Investment holding
Changsha Franshion Shengrong Properties Limited	PRC	RMB50,000,000	-	62.87%	Property development
Shanghai Yingtan Investment Limited	PRC	RMB21,000,000	-	62.87%	Investment holding
Changsha Jin Yue Development Limited ("Changsha Jinyue") (Note ii)	PRC	RMB150,000,000	-	44.01%	Property development
Leading Holdings Limited (Note i, Note ii)	BVI	US\$40,000	-	32.06%	Investment holding
Franshion Properties (Ningbo) Limited (Note i, Note ii)	PRC	US\$146,300,000	-	37.72%	Property development
Shanghai Xingwaitan Development and Construction Limited (Note i, Note ii, Note iii)	PRC	RMB6,000,000,000	-	31.44%	Property development
Beijing Franshion Yicheng Properties Limited ("Franshion Yicheng")(Note i, Note ii)	PRC	RMB1,742,800,000	-	32.06%	Property development
Nanjing International Group Limited (Note i, Note ii)	PRC	RMB1,246,237,500	-	30.08%	Property development, hotel operation and property investment
China Fertilizer (Holdings) Co., Ltd.	BVI	US\$10,002	-	52.65%	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US\$1,000,000	-	52.65%	Investment holding
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US\$10,002	-	52.65%	Investment holding

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES (continued)

<u>Name of entity</u>	<u>Place of Incorporation/ registration and business</u>	<u>Nominal value of issued Ordinary/ capital registered share capital</u>	<u>Proportion of nominal value of issued capital/registered capital held by the Group</u>		<u>Principal activities</u>
			Direct	Indirect	
Dohigh Trading Limited	Hong Kong	HK\$15,000,000	-	52.65%	Fertiliser trading
Sinochem Fertilizer Co., Ltd.	PRC	RMB7,600,000,000	-	52.65%	Fertiliser trading
Sinochem Fertilizer Macao Commercial Offshore Limited	Macao	MOP100,000	-	52.65%	Fertiliser trading
Suifenhe Xinkaiyuan Trading Co., Ltd.	PRC	RMB5,000,000	-	52.65%	Fertiliser trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. (Note iv)	PRC	RMB47,000,000	-	28.00%	Sale and manufacture of fertilisers
Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. (Note iv)	PRC	RMB148,000,000	-	31.59%	Sale and manufacture of fertilisers
Sinochem Yunlong Co., Ltd.	PRC	RMB500,000,000	-	52.65%	Sale and manufacture of fertilisers
Sinochem Yantai Crop Nutrition Co., Ltd.	PRC	US\$1,493,000	-	52.65%	Sale and manufacture of fertilisers
Manzhouli Kaiming Fertilizer Co., Ltd.	PRC	RMB5,000,000	-	52.65%	Fertiliser trading
Sinochem Jilin Changshan Chemical Co., Ltd. (Note iv)	PRC	RMB1,018,650,000	-	49.90% (2012: 47.81%)	Sale and manufacture of fertilisers
Hubei Sinochem Orient Fertilizer Co., Ltd. (Note iv)	PRC	RMB30,000,000	-	42.12%	Sale and manufacture of fertilisers
Sinochem Shandong Fertilizer Co., Ltd. (Note iv)	PRC	RMB100,000,000	-	26.85%	Sale and manufacture of fertilisers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd.	PRC	RMB100,000,000	-	52.65%	Fertiliser retailing
Sinochem Ningxia Chemical Co., Ltd	PRC	RMB160,000,000	-	52.65%	Sale and manufacture of fertilisers
Sinochem Hainan Crop Science and Technology Co., Ltd.	PRC	RMB200,000,000	-	52.65%	Sale and manufacture of fertilisers
Pingyuan County Xinglong Textile Co., Ltd. (Note iv)	PRC	RMB15,000,000	-	39.49%	Sale and manufacture of fertilisers
Jin Mao (Shanghai) Real Estate Co., Ltd.	PRC	RMB1,010,000,000	-	62.87%	Property development

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

- (i) The companies were incorporated/established/acquired during the year ended 31 December 2013.
- (ii) The Company holds 62.87% of the shares of Franshion, and Franshion holds more than 50% of the registered capital of the entity or the parent company of the entity. Therefore, the entity is accounted for as a subsidiary by virtue of the Company's control over it.
- (iii) Franshion holds 50% of registered capital of the entity, but Franshion 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. Since Franshion is a subsidiary of the Company, therefore the entity is accounted for as a subsidiary by virtue of the Company's control over it.
- (iv) The Company holds 52.65% of the shares of Sinofert, and Sinofert holds more than 50% of the registered capital of the entity. Therefore, the entity is accounted for as a subsidiary by virtue of the Company's control over it.

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.

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

2013	Franshion	Sinofert	Shanghai Yin Hui	Franshion Rongchuang	Jin Mao Changsha	SISSC	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Percentage of equity interest held by non-controlling interests	37.13%	47.35%	68.56%	67.94%	49.70%	68.56%	
Profit/(loss) for the year allocated to non-controlling interests	1,569,541	(282,097)	666,093	(28,311)	470,381	(2,226)	
Dividends declared to non-controlling interests	238,116	77,459	544,843	-	272,076	-	
Accumulated balances of non-controlling interests at the reporting date	15,620,784	7,810,342	1,599,963	8,538	1,235,332	1,981,387	
2012	Franshion	Sinofert	Pudong Jinxin(*)	Shanghai Yin Hui	Franshion Rongchuang	Jin Mao Changsha	SISSC
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Percentage of equity interest held by non-controlling interests	37.13%	47.35%	68.56%	68.56%	67.94%	49.70%	68.56%
Profit/(loss) for the year allocated to non-controlling interests	1,254,150	511,100	202,325	609,614	(24,181)	83,637	(5,572)
Dividends declared to non-controlling interests	136,067	55,036	-	-	-	162,118	-
Accumulated balances of non-controlling interests at the reporting date	14,081,159	7,983,648	702,766	1,431,940	36,173	1,002,451	1,923,448

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

18. INVESTMENTS IN SUBSIDIARIES (continued)

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

2013	Franshion HK\$'000	Sinofert HK\$'000	Shanghai Yin Hui HK\$'000	Franshion Rongchuang HK\$'000	Jin Mao Changsha HK\$'000	SISSC HK\$'000	
Revenue	20,718,913	43,461,338	3,799,024	-	8,382,622	-	
Total expenses	(15,684,557)	(44,242,942)	(2,466,838)	(57,778)	(6,030,715)	(4,451)	
Profit/(loss) for the year	5,034,356	(781,604)	1,332,186	(57,778)	2,351,907	(4,451)	
Total comprehensive income for the year	6,641,968	(371,969)	1,425,733	(56,400)	2,524,782	(115,878)	
Current assets	46,720,431	11,389,845	3,453,711	7,602,538	14,630,871	5,350,090	
Non-current assets	74,122,845	18,918,620	1,921,328	37,206	1,673,579	1,536	
Current liabilities	39,603,915	9,705,494	2,175,113	7,378,747	3,933,636	1,134,471	
Non-current liabilities	34,019,905	3,695,634	-	243,573	6,194,153	254,380	
Net cash flows from/(used in) operating activities	(4,996,704)	850,773	1,342,749	916,039	4,797,084	(517,355)	
Net cash flows used in investing activities	(1,004,353)	(84,569)	(645,927)	(1,193,133)	(1,388,368)	(383)	
Net cash flows from/(used in) financing activities	<u>7,564,222</u>	<u>(729,353)</u>	<u>(1,239,374)</u>	<u>132,440</u>	<u>(1,748,475)</u>	<u>522,387</u>	
Net increase/(decrease) in cash and cash equivalents	<u>1,563,165</u>	<u>36,851</u>	<u>(542,552)</u>	<u>(144,654)</u>	<u>1,660,241</u>	<u>4,649</u>	
2012	Franshion HK\$'000	Sinofert HK\$'000	Pudong Jinxin (*) HK\$'000	Shanghai Yin Hui HK\$'000	Franshion Rongchuang HK\$'000	Jin Mao Changsha HK\$'000	SISSC HK\$'000
Revenue	17,175,666	50,639,154	1,539,234	2,973,768	-	2,810,303	-
Total expenses	(13,235,330)	(49,504,071)	(1,134,584)	(1,754,540)	(49,350)	(2,392,120)	(11,145)
Profit/(loss) for the year	3,940,336	1,135,083	404,650	1,219,228	(49,350)	418,183	(11,145)
Total comprehensive income for the year	3,955,931	1,131,875	405,771	1,223,627	(49,086)	450,460	(4,206)
Current assets	38,199,079	13,950,258	4,027,178	3,340,159	5,064,452	13,524,297	4,080,944
Non-current assets	44,303,165	18,620,506	371,141	999,414	17,911	267,197	1,589
Current liabilities	25,726,043	11,040,239	2,992,787	1,324,117	4,638,550	2,372,243	235,637
Non-current liabilities	22,273,371	4,113,486	-	151,576	369,990	6,406,994	-
Net cash flows from/(used in) operating activities	869,904	2,535,232	587,784	1,640,695	(61,558)	(689,090)	(91,744)
Net cash flows used in investing activities	(1,469,039)	(251,690)	(362,064)	(850,977)	(1,636)	(263,158)	(534)
Net cash flows from/(used in) financing activities	<u>1,093,560</u>	<u>(2,243,760)</u>	<u>(407,171)</u>	<u>(13,894)</u>	<u>740,451</u>	<u>350,438</u>	<u>152,717</u>
Net increase/(decrease) in cash and cash equivalents	<u>494,425</u>	<u>39,782</u>	<u>(181,451)</u>	<u>775,824</u>	<u>677,257</u>	<u>(601,810)</u>	<u>60,439</u>

*The construction and sales works were fully completed before 2013, and the Group considered its non-controlling interest would not be material since 2013.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

19. INVESTMENTS IN JOINT VENTURES

	2013 HK\$'000	2012 HK\$'000 (Restated)
Unlisted investments		
Share of net assets	<u>2,494,354</u>	<u>3,081,966</u>

The amounts due from and to joint ventures are disclosed in note 22 to the financial statements.

Particulars of the principal joint ventures which are indirectly held by the Group are as follows:

Name of entity	Place of registration and business	Nominal value of issued capital/ registered capital	Effective interest in issued capital/ registered capital/ profit sharing ratio held by the Group		Principal activities
			2013	2012	
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited 天津北方化肥物流配送有限公司 (Note i)	PRC	RMB3,000,000	31.59%	31.59%	Fertiliser logistics
Yunnan Three Circles-Sinochem -Mosaic Fertilizer Company Limited 云南三环中化美盛化肥有限公司 (Note i)	PRC	US\$29,800,000	13.16%	13.16%	Sale and manufacture of fertilisers
Yunnan Three Circles-Sinochem Fertilizer Company Limited 云南三环中化化肥有限公司 (Note i)	PRC	RMB1,400,000,000	21.07%	21.07%	Sale and manufacture of fertilisers
Gansu Wengfu Chemical Co., Ltd. 甘肃甯福化工有限责任公司 (Note i)	PRC	RMB181,000,000	15.80%	15.80%	Sale and manufacture of fertilisers
Shanghai Jin Mao Jin Jiang Automobile Service Company Limited 上海金茂锦江汽车服务有限公司 (Note ii)	PRC	RMB22,000,000	31.44%	31.44%	Lease of commercial vehicles
Shanghai Jin Mao Auto Hire Company Limited 上海金茂汽车租赁有限公司 (Note ii)	PRC	RMB2,000,000	31.44%	31.44%	Lease of commercial vehicles
Comeco Petroleum Inc. (Note iii)	PRC	US\$1	58.75%	58.75%	Sale of crude oil

Notes:

- (i) The entity is a joint venture of Sinofert, a non-wholly-owned subsidiary of the Group. In accordance with the agreements between the investors of the entity, the investors exercise joint control over the entity.
- (ii) The entity is a joint venture of Franshion, a non-wholly-owned subsidiary of the Group. In accordance with the agreements between the investors of the entity, the investors exercise joint control over the entity.
- (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 the other shareholder. Therefore, Comeco Petroleum Inc. is classified as a joint venture of the Group.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

19. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information of Comeco Petroleum Inc., a material joint venture of the Group, adjusted for any difference in accounting policies, and reconciled to the carrying amount in the financial statements:

	2013 HK\$'000	2012 HK\$'000
Cash and cash equivalents	85,622	126,500
Other current assets	<u>167,156</u>	<u>214,864</u>
Current assets	252,778	341,364
Non-current assets	5,571,830	6,780,423
Other current liabilities	(2,413)	(57,113)
Current liabilities	(2,413)	(57,113)
Non-current liabilities	(2,837,023)	(3,115,108)
Net assets	2,985,172	3,949,566
Net assets, excluding goodwill	2,985,172	3,949,566
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	58.75%	58.75%
Group's share of net assets of the joint venture, excluding goodwill	1,753,665	2,320,207
Carrying amount of the investment	1,753,665	2,320,207
Revenue	2,479,702	2,902,608
Interest income	4	53
Depreciation and amortisation	(1,641,197)	(2,156,169)
Interest expenses	-	(13,530)
Tax	(146,464)	(148,004)
Profit and total comprehensive income for the year	25,825	15,633
Share of profit	15,172	9,184
Dividend received	(582,794)	(681,506)

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

	2013 HK\$'000	2012 HK\$'000
Share of the joint ventures' profit or loss for the year	(16,727)	86,599
Share of the joint ventures' total comprehensive income	(16,727)	86,599
Aggregate carrying amount of the Group's investments in the joint ventures	740,689	761,759

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

20. INVESTMENTS IN ASSOCIATES

	2013 HK\$'000	2012 HK\$'000
Listed investments, at cost	1,147,308	1,147,308
Unlisted investments, at cost	1,866,184	1,864,046
Goodwill	6,572,296	6,572,296
Share of post-acquisition profits and other comprehensive income, net of dividend received	<u>2,314,754</u>	<u>1,890,307</u>
	<u>11,900,542</u>	<u>11,473,957</u>
Fair value of listed investments	<u>3,027,142</u>	<u>4,702,052</u>

The fair value of the listed investment has been determined by multiplying the closing share price on 31 December 2013 by the total number of shares held by Sinofer. As the fair value is lower than the carrying amount as at 31 December 2013, an impairment review had been performed by Sinofer. The directors of Sinofer are of the opinion that no impairment allowance is necessary in respect of the listed investments as at 31 December 2013.

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

<u>Name of entity</u>	<u>Place of incorporation/ registration and business</u>	<u>Class of shares held</u>	<u>Effective interest in registered capital/ profit sharing ratio held by the Group</u>		<u>Principal activities</u>
			<u>2013</u>	<u>2012</u>	
Dongguan Zhonghua Mei Plastics Co., Ltd.	PRC	Ordinary shares	35.00%	35.00%	Production and sale of chemical fiber
Nantong Jiamin Terminal & Storage Co., Ltd. 南通嘉民港储有限公司	PRC	Ordinary shares	33.33%	33.33%	Storage of crude oil and related products
Sinochem-Xingyuan Oil Staging (Zhoushan) Co., Limited 中化兴源石油储运（舟山）有限公司 ("Sinochem Xingyuan") (Note iii)	PRC	Ordinary shares	-	25.00%	Godown business
West Pacific Petrochemical Co., Ltd. 大连西太平洋石油化工有限公司	PRC	Ordinary shares	25.20%	25.20%	Production and sale of crude oil and related products
Shanghai Orient Terminal Company Limited 上海东方储罐有限公司	PRC	Ordinary Shares	25.00%	25.00%	Godown business

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

20. INVESTMENTS IN ASSOCIATES (continued)

<u>Name of entity</u>	<u>Place of incorporation/ registration and business</u>	<u>Class of shares held</u>	<u>Effective interest in registered capital/ profit sharing ratio held by the Group</u>		<u>Principal activities</u>
			<u>2013</u>	<u>2012</u>	
Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") 青海盐湖工业股份有限公司 (Note i)	PRC	Ordinary shares	8.94%	8.94%	Production and sale of fertilisers
Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. 贵州鑫新工农贸易有限公司	PRC	Ordinary shares	30.00%	30.00%	Production and sale of phosphate rocks
Guizhou Xinxin Coal Chemical Co., Ltd. ("Xinxin Industrial") 贵州鑫新煤化工有限公司	PRC	Ordinary shares	30.00%	-	Production and sale of coal
TPFZ Kenhua International Trading & Industry Co., Ltd. 天津港保税区垦化国际贸易实业有限公司	PRC	Ordinary shares	30.00%	30.00%	Trading
北京中孚石油有限公司	PRC	Ordinary shares	60.00%	60.00%	Vehicle oil supply and maintenance
中化国际太仓兴诺实业有限公司 ("Taicang Xingnuo") (Note ii)	PRC	Ordinary shares	-	25.00%	Production and sale of chemical products
中化国际(苏州工业园)新材料研发有限公司 ("Suzhou Yanfa") (Note ii)	PRC	Ordinary shares	25.00%	25.00%	Production and sale of chemical products
太仓中化环保有限公司	PRC	Ordinary shares	35.00%	35.00%	Production and sale of chemical products
舟山中威石油储运有限公司	PRC	Ordinary shares	50.00%	50.00%	Godown business
中化珠海石化储运有限公司	PRC	Ordinary shares	25.00%	25.00%	Godown business

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

20. INVESTMENTS IN ASSOCIATES (continued)

<u>Name of entity</u>	<u>Place of incorporation/ registration and business</u>	<u>Class of shares held</u>	<u>Effective interest in registered capital/ profit sharing ratio held by the Group</u>		<u>Principal activities</u>
			<u>2013</u>	<u>2012</u>	
中化扬州石化码头仓储有限公司	PRC	Ordinary shares	25.00%	25.00%	Godown business
中化天津港石化仓储有限公司	PRC	Ordinary shares	25.00%	25.00%	Godown business
中化兴中石油转运（舟山）有限公司 ("Sinochem Xingzhong") (Note iii)	PRC	Ordinary shares	25.00%	25.00%	Godown business
Qinghai Ganghua Logistics Company Limited 青岛港华物流有限公司	PRC	Ordinary shares	25.00%	25.00%	Logistics services
Tianjin Beihai Industrial Company Limited 天津北海实业有限公司	PRC	Ordinary shares	30.90%	30.90%	Logistics services
Yara Sinochem Environment Protection (Qingdao) Co., Ltd. 雅苒中化环保（青岛）有限公司	PRC	Ordinary shares	-	40.00%	Sale of fertilisers
天津港中化石化码头有限公司	PRC	Ordinary shares	25.00%	25.00%	Godown business
Yangmei Pingyuan Chemical Co., Ltd. 阳煤平原化工有限公司	PRC	Ordinary shares	36.75%	36.75%	Production and sale of fertilisers

Notes:

- (i) Sinochem Corporation Co., Ltd ("Sinochem Corporation"), an immediate holding company of the Group, has 15.01% equity interests in Qinghai Salt Lake. As Sinochem Corporation has authorised the Group to exercise its voting rights in Qinghai Salt Lake on behalf of itself, the directors are of the opinion that the Group has significant influence on Qinghai Salt Lake.

SINOCEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

20. INVESTMENTS IN ASSOCIATES (continued)

Notes: (continued)

- (ii) During the year 2013, Taicang Xingnuo, an associate of the Group, has been merged with and into Suzhou Yanfa, another associate of the Group, by way of absorption.

After completion of the merger, all the assets of Taicang Xingnuo has been merged into Suzhou Yanfa, and the liabilities of Taicang Xingnuo has been assumed by Suzhou Yanfa. Taicang Xingnuo has been de-registered and Suzhou Yanfa has been the continuing entity to manage and operate the original assets and business of Taicang Xingnuo.

On 30 August 2013, Taicang Xingnuo has completed the filing of de-registration formalities, and Suzhou Yanfa has completed the filing of modifications of registration items with Administration for Industry & Commerce.

- (iii) During the year 2013, Sinochem Xingyuan, an associate of the Group, has been merged with and into Sinochem Xingzhong, another associate of the Group, by way of absorption.

After completion of the merger, all the assets of Sinochem Xingyuan has been merged into Sinochem Xingzhong, and the liabilities of Sinochem Xingyuan has been assumed by Sinochem Xingzhong. Sinochem Xingyuan has been de-registered and Sinochem Xingzhong has been the continuing entity to manage and operate the original assets and business of Sinochem Xingyuan.

On 28 January 2013, Sinochem Xingyuan has completed the filing of de-registration formalities, and Sinochem Xingzhong has completed the filing of modifications of registration items with Administration for Industry and Commerce.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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 or 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 summarised financial information of Qinghai Salt Lake, a material associate of the Group, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2013 HK\$'000	2012 HK\$'000
Gross amount of the associate		
Current assets	14,381,169	15,265,248
Non-current assets	62,695,971	45,873,727
Current liabilities	(12,052,355)	(12,557,034)
Non-current liabilities	(34,748,124)	(19,288,634)
Equity	30,276,661	29,293,307
Attributable to shareholders of the associate	28,248,009	27,124,829
Attributable to non-controlling interests	2,028,652	2,168,478
Revenue	10,131,977	10,168,130
Profit attributable to shareholders of the associate	907,247	2,695,506
Other comprehensive income	-	-
Dividend received from the associate	56,981	27,982
Reconciled to the Group's interest in the associate		
Gross amounts of the net assets of the associate	28,248,009	27,124,829
Group's effective interest	8.94%	8.94%
Group's share of the net assets of the associate	2,525,372	2,424,960
Goodwill	6,572,296	6,572,296
Exchange realignment	<u>792,730</u>	<u>569,213</u>
Carrying amount in the consolidated financial statements	<u>9,890,398</u>	<u>9,566,469</u>

Aggregate information of associates that are not individually material:

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

	2013 HK\$'000	2012 HK\$'000
Share of the associates' profit for the year	133,212	240,106
Share of the associates' total comprehensive income	133,212	240,106
Aggregate carrying amount of the Group's investments in the associates	<u>2,010,144</u>	<u>1,907,488</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

21. AVAILABLE-FOR-SALE INVESTMENTS

	2013 HK\$'000	2012 HK\$'000
Listed equity investments, at fair value	4,067,393	4,799,272
Unlisted equity investments:		
At cost	421,267	410,371
Impairment	(11,816)	(1,591)
	<u>4,476,844</u>	<u>5,208,052</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 recognised in other comprehensive income amounted to HK\$231,000,000 (2012: fair value gains amounted to HK\$843,835,000).

The above unlisted available-for-sale investments mainly represent Sinofert's investments in private entities. They are stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of Sinofert 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 2013

22. AMOUNTS DUE FROM/TO RELATED PARTIES

	2013 HK\$'000	2012 HK\$'000 (Restated)
<u>Amounts due from related parties</u>		
Amounts due from associates (Note i)	1,278,609	2,031,488
Amounts due from joint ventures (Note ii)	64,268	68,035
Amounts due from fellow subsidiaries (Note iii)	30,780,321	22,350,318
Amount due from the ultimate parent (Note ii)	84	55
Amount due from the immediate parent (Note ii)	<u>7,425</u>	<u>6,821</u>
	32,130,707	24,456,717
Current	<u>(25,642,687)</u>	<u>(22,342,590)</u>
Non-current	<u>6,488,020</u>	<u>2,114,127</u>
<u>Amounts due to related parties</u>		
Amounts due to joint ventures (Note ii)	305,277	364,194
Amount due to the ultimate parent (Note ii)	4,173,634	3,948,764
Amounts due to associates (Note ii)	87,340	600,718
Amount due to the immediate parent (Note ii)	8,036,559	8,034,359
Amounts due to fellow subsidiaries (Note ii)	<u>5,770,043</u>	<u>1,113,760</u>
	18,372,853	14,061,795
Current	<u>(18,372,853)</u>	<u>(14,061,795)</u>
Non-current	<u>=</u>	<u>=</u>

Notes:

- (i) The loans to an associate, Yangmei Pingyuan, amounted to HK\$1,128,175,000 (2012: HK\$1,599,940,000). The loans are unsecured, entrusted loans bearing annual interest rates from 5.60% to 6.10%, and are repayable within one year.
- (ii) The amounts are interest-free, unsecured and repayable on demand.
- (iii) The amounts due from fellow subsidiaries are unsecured, interest-free and repayable, except for the amount of HK\$1,030,199,000 (2012: HK\$2,114,127,000) which is interest-bearing at 1 months Libor plus 100 bps per annum to Silver Malus Spectabilis Ltd. The Group has entered into transactions covering the sale of goods and rendering of services with fellow subsidiaries.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

23. DUE FROM NON-CONTROLLING INTERESTS

The amounts due from non-controlling interests are secured, interest-bearing at a rate of 8.54% (2012: 8.54%) and are not repayable within one year.

24. OTHER NON-CURRENT ASSETS

	2013 HK\$'000	2012 HK\$'000 (Restated)
Other financial assets (Note i)	42,629	41,335
Advance payments for acquisition of items of property, plant and equipment	38,500	29,260
Other non-current assets (Note ii)	13,291	13,935
Finance lease receivables (Note iii)	140,244	156,173
Dismantlement fund	17,828	-
Others	<u>1,437</u>	<u>1,437</u>
	<u>253,929</u>	<u>242,140</u>

Notes:

(i) Other financial assets

The other financial assets represented the amounts recoverable from non-controlling interests within two years (2012: within three years) as estimated by the Group in relation to the acquisition of Sanya Yazhouwan in 2012.

(ii) Other non-current assets

Other non-current assets are activators that have estimated useful lives ranging from 3 years to 10 years. The costs are amortised on the straight-line basis over their respective estimated useful lives.

(iii) The finance lease receivables of HK\$140,244,000 (2012: HK\$156,173,000) represent the finance lease receivables of Sinochem Petroleum Netherlands Cooperatief U.A. ("SAHBV") as a lessor. SAHBV records finance lease receivable as the expected present value of minimum lease payments. The underlying assets of the finance lease are Electric Submersible Pumps and Drill Pipes which are used in the development and production of Peregrino Phase I oilfield. The finance lease asset is expected to be repaid over the lifetime of the oilfield.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

25. INVENTORIES

	2013 HK\$'000	2012 HK\$'000 (Restated)
Raw materials	1,079,344	1,033,697
Work in progress	86,254	96,856
Fertiliser merchandise and finished goods	5,843,309	7,296,160
Consumables	<u>65,578</u>	<u>68,754</u>
	<u>7,074,485</u>	<u>8,495,467</u>

During the year 2013, the Group recognised an amount of HK\$117,256,000 (2012: HK\$117,563,000) as write-down of inventories.

26. 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:

	2013 HK\$'000	2012 HK\$'000
Long-term leases	2,970,327	2,132,543
Medium-term leases	<u>2,945,142</u>	<u>945,574</u>
	<u>5,915,469</u>	<u>3,078,117</u>

At 31 December 2013, certain of the Group's properties included in properties held for sale with a net carrying amount of approximately HK\$275,662,000 (2012: HK\$1,427,161,000) were pledged to secure bank loans granted to the Group (Note 34).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

27. TRADE AND BILLS RECEIVABLES

	2013 HK\$'000	2012 HK\$'000 (Restated)
Trade receivables	23,563,747	15,525,311
Impairment and reversal of impairment losses	<u>(35,451)</u>	<u>(123,672)</u>
	23,528,296	15,401,639
Bills receivable	<u>1,304,499</u>	<u>820,979</u>
Total trade and bills receivables	<u>24,832,795</u>	<u>16,222,618</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 minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. They are stated net of provisions.

The Group has pledged trade receivables of approximately HK\$40,894,000 (2012: Nil) to secure a bank loan granted to the Group (Note 34).

At 31 December 2013, trade debtors of HK\$35,451,000 (2012: HK\$123,672,000) 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:

	2013 HK\$'000	2012 HK\$'000
At 1 January	123,672	272,165
Impairment losses recognised	36,687	319
Impairment losses reversed	<u>(121,284)</u>	<u>(147,107)</u>
Deemed disposal of interest in a subsidiary	-	<u>(75)</u>
Amounts written off as uncollectible	<u>(4,324)</u>	<u>(25)</u>
Exchange realignment	<u>700</u>	<u>(1,605)</u>
	<u>35,451</u>	<u>123,672</u>

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

	2013 HK\$'000	2012 HK\$'000
Neither past due nor impaired	23,651,544	15,736,571
Past due but not impaired:		
Less than 90 days	860,253	333,936
91 to 360 days	238,485	145,937
Over 360 days	<u>82,513</u>	<u>6,174</u>
	<u>24,832,795</u>	<u>16,222,618</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

27. TRADE AND BILLS RECEIVABLES (continued)

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.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2013 HK\$'000	2012 HK\$'000 (Restated)
Prepayments	3,539,721	3,029,770
Deposits	1,456,127	1,312,354
Other receivables	1,480,232	959,327
Due from non-controlling interests	1,664,531	521,709
Entrusted loans to third parties	<u>236,828</u>	<u>247,129</u>
	<u>8,377,439</u>	<u>6,070,289</u>

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The amounts due from non-controlling shareholders are unsecured, interest-free and repayable within one year, except for the amounts of HK\$747,877,000, HK\$508,760,000, HK\$127,190,000 and HK\$60,641,000 which bear interest at 3.08%, 3.5%, 3% and 6.6% respectively, per annum (2012: an amount of HK\$308,325,000 which was interest-bearing at 3.5% per annum).

The entrusted loans to third parties are unsecured, interest-bearing at 6% per annum and repayable within one year.

29. HELD-FOR-TRADING INVESTMENTS

	2013 HK\$'000	2012 HK\$'000
Equity securities listed in Hong Kong at fair value	<u>11,701</u>	<u>104,208</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2013 HK\$'000	2012 HK\$'000
Financial assets:		
Crude oil derivative financial instruments	49,383	160,634
Other derivative financial instruments	<u>108,748</u>	<u>-</u>
	<u>158,131</u>	<u>160,634</u>
Financial liabilities:		
Crude oil derivative financial instruments	<u>102,588</u>	<u>67,232</u>

The fair values of the crude oil 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. The prevailing future prices or published oil indexes are derived from the relevant futures exchanges or oil price publications as specified in the contracts. Other derivative financial instrument was a right to acquire the non-controlling interests of 49% interests in Franshion Yicheng, which was measured at fair value of HK\$108,748,000 (2012: Nil) as at 31 December 2013.

31. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2013 HK\$'000	2012 HK\$'000 (Restated)
Cash and bank balances	16,554,845	12,412,409
Time deposits	<u>3,385,476</u>	<u>5,202,747</u>
	19,940,321	17,615,156
Less: Pledged for short-term bank loans	-	220,763
Restricted bank balances	<u>303,400</u>	<u>355,222</u>
Pledged bank deposits (Note i)	<u>303,400</u>	<u>575,985</u>
Cash and cash equivalents (Note ii)	<u>19,636,921</u>	<u>17,039,171</u>

Notes:

(i) Pledged bank deposits

No bank deposits have been pledged to secure short-term bank borrowings (Note 34) as at 31 December 2013 (2012: HK\$220,763,000).

(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.

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

32. OTHER DEPOSITS

Other deposits amounting to HK\$854,462,000 (2012: HK\$1,058,418,000) represent principal-protected financial products issued by financial institutions in the PRC, which carried fixed interest rates from 2.25% to 6% (2012: from 2.25% to 4.88%) per annum. In addition, other deposits amounting to HK\$22,576,000 (2012: HK\$123,330,000) represent financial products with original maturity within three months when acquired from banks.

Included in other deposits as at 31 December 2013 were balances of approximately HK\$435,944,000 (2012: HK\$986,763,000) which were restricted and can only be withdrawn at 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.

33. OTHER PAYABLES AND ACCRUALS

	2013 HK\$'000	2012 HK\$'000 (Restated)
Other payables	4,247,560	2,565,343
Receipt in advances	20,338,192	12,058,252
Accruals	699,244	739,499
Due to non-controlling interests	1,860,748	1,823,865
Consideration payable for acquisition of Sinochem Yunlong	292,537	801,645
Dividend payable to non-controlling interests	<u>22,087</u>	<u>162,632</u>
	<u>27,460,368</u>	<u>18,151,236</u>

The amounts due to non-controlling shareholders are unsecured, interest-free and repayable on demand. The amounts due to non-controlling shareholders at 31 December 2012 were unsecured, interest-free and repayable within one year, except for the amount of HK\$1,088,320,000 which bore interest at 6% per annum and was repayable on demand.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

34. INTEREST-BEARING BORROWINGS

Current	2013 HK\$'000	2012 HK\$'000
Bank loans, secured (Note i)	2,737,129	2,989,276
Bank loans, guaranteed (Note ii)	103,395	103,356
Bank loans, unsecured	4,142,464	9,962,811
Guaranteed notes, unsecured (Note iii)	4,113,889	-
Short term financial bonds (Note iv)	1,271,900	-
Other loans, unsecured (Note v)	<u>254,380</u>	<u>634,160</u>
	<u>12,623,157</u>	<u>13,689,603</u>
Non-current	2013 HK\$'000	2012 HK\$'000
Bank loans, secured (Note i)	12,986,739	11,616,950
Bank loans, guaranteed (Note ii)	10,442,589	10,541,775
Bank loans, unsecured	4,936,383	494,923
Guaranteed senior notes, unsecured (Note vi)	26,935,207	23,043,863
Guaranteed notes, unsecured (Note iii)	-	4,108,820
Bonds, guaranteed (Note vii)	3,162,115	3,063,252
Other loans, unsecured (Note v)	<u>165,347</u>	<u>-</u>
	<u>58,628,380</u>	<u>52,869,583</u>
Carrying amounts repayable:	2013 HK\$'000	2012 HK\$'000
Within one year	12,623,157	13,689,603
More than one year, but not exceeding two years	9,582,301	2,573,040
More than two years, but not more than five years	18,140,908	21,140,134
More than five years	<u>30,905,171</u>	<u>29,156,409</u>
	<u>71,251,537</u>	<u>66,559,186</u>

Notes:

- (i) The Group's bank and other borrowings are secured by:
- mortgages over certain of the Group's hotel properties and buildings which had an aggregate net carrying value at the end of the reporting period of approximately HK\$5,038,487,000 (2012: HK\$3,605,037,000) (Note 10);
 - mortgages over certain of the Group's investment properties, which had an aggregate carrying value at the end of the reporting period of approximately HK\$14,770,708,000 (2012: HK\$10,406,408,000) (Note 13);
 - mortgages over certain of the Group's prepaid land lease payments, which had an aggregate carrying amount at the end of the reporting period of HK\$349,393,000 (2012: HK\$132,669,000) (Note 14);
 - mortgages over certain of the Group's properties under development, which had an aggregate carrying amount at the end of the reporting period of approximately HK\$12,065,182,000 (2012: HK\$4,928,638,000) (Note 12);
 - mortgages over certain of the Group's properties held for sale, which had an aggregate carrying amount at the end of the reporting period of HK\$275,662,000 (2012: HK\$1,427,161,000) (Note 26);

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

34. INTEREST-BEARING BORROWINGS (continued)

Notes: (continued)

(i) (continued)

- (f) mortgages over certain of the Group's trade receivables, which had an aggregate carrying amount at the end of the reporting period of HK\$40,894,000 (2012: Nil) (Note 27);
 - (g) pledged bank deposits of approximately HK\$220,763,000 as at 31 December 2012 (Note 31).
- (ii) The Group's bank and other borrowings are guaranteed by the ultimate parent or the immediate parent or the third parties.
- (iii) 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 have been repaid on 10 January 2014, at a price equal to 100% of the principal amount thereof.
- (iv) One of the Sinofer's subsidiaries issued a one-year commercial paper of RMB1 billion in the PRC debenture market on 25 April 2013. This commercial paper bears a fixed interest rate of 4.08% per annum and interests are paid annually.
- (v) The balances represent amounts due to Sinochem Finance Co., Ltd., a fellow subsidiary of the Group.
- (vi) On 4 November 2010, Sinochem Overseas Capital Company Limited, a wholly-owned subsidiary of the Group, issued US\$1,500,000,000 4.5% guaranteed senior notes due 2020 (the "2020 Notes") and US\$500,000,000 6.3% guaranteed senior notes due 2040 (the "2040 Notes"). The 2020 Notes and the 2040 Notes are unsecured and guaranteed by the Group.

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 mature on 15 April 2021.

On 26 October 2012, Franshion Investment Limited, a wholly-owned subsidiary of Franshion, issued US\$500,000,000 4.70% guaranteed senior notes due 2017 (the "2017 Notes"). The 2017 Notes are unsecured and guaranteed by Franshion. The 2017 Notes bear interest at a rate of 4.70% per annum and will mature on 26 October 2017.

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

On 9 October 2013, Franshion Brilliant Limited, a wholly-owned subsidiary of Franshion, issued US\$300,000,000 5.375% guaranteed senior notes due 2018 (the "2018 Notes"). The 2018 Notes are unsecured and guaranteed by Franshion. The 2018 Notes bear interest at a rate of 5.375% per annum and will mature on 17 October 2018.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

34. INTEREST-BEARING BORROWINGS (continued)

Notes: (continued)

(vii) On 25 November 2009, a subsidiary of Sinofer 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 the 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.

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

	2013	2012
Effective interest rate:		
Fixed rate borrowings	1.30% to 6.63%	0.67% to 7.87%
Variable rate borrowings	<u>0.97% to 7.76%</u>	<u>1.01% to 7.76%</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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

	HK\$'000
At 1 January 2012	483,717
Charged to profit or loss during the year (Note 8)	1,145,318
Payment	(513,956)
Transfer from prepaid tax	(71,583)
Exchange realignment	<u>1,698</u>
At 31 December 2012 and at 1 January 2013	1,045,194
Charged to profit or loss during the year (Note 8)	1,285,905
Acquisition of a subsidiary (Note 40(2))	35,216
Payment	(206,342)
Transfer from prepaid tax	(17,479)
Exchange realignment	<u>50,624</u>
At 31 December 2013	<u>2,193,118</u>

According to the requirements of the Provisional Regulations of the PRC on LAT (中华人民共和国土地增值税暂行条例) effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (中华人民共和国土地增值税暂行条例实施细则) effective from 27 January 1995, all income arising from the sale or transfer of state-owned land use rights, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption for the sale of ordinary residential properties (普通标准住宅) if their appreciation values do not exceed 20% of the sum of the total deductible items.

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

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 2013

36. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax liabilities

2013

	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	Foreign exchange differences HK\$'000	Withholding taxes HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2013	284,350	2,095,275	-	2,594,605	472,312	85,348	(23,968)	5,507,922
Deferred tax charged/ (credited) to profit or loss during the year	(225,155)	(32,013)	-	465,384	493,852	(11,982)	(15,569)	674,517
Deferred tax recognised in other comprehensive income during the year	-	-	-	3,941	-	-	4,757	8,698
Acquisition of subsidiaries (Note 40(2))	-	804,561	-	-	-	-	2,227	806,788
Exchange realignment	<u>13,187</u>	<u>34,532</u>	<u>-</u>	<u>87,485</u>	<u>66</u>	<u>655</u>	<u>78</u>	<u>136,003</u>
Gross deferred tax liabilities at 31 December 2013	<u>72,382</u>	<u>2,902,355</u>	<u>-</u>	<u>3,151,415</u>	<u>966,230</u>	<u>74,021</u>	<u>(32,475)</u>	<u>7,133,928</u>

2012

	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	Foreign exchange differences HK\$'000	Withholding taxes HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2012	360,319	1,545,143	(60,995)	2,183,759	-	20,937	(20,900)	4,028,263
Deferred tax charged/ (credited) to profit or loss during the year	(72,684)	(8,210)	60,995	407,527	472,714	64,414	(3,057)	921,699
Deferred tax recognised in other comprehensive income during the year	-	-	-	2,362	-	-	-	2,362
Acquisition of subsidiaries	-	602,556	-	-	-	-	-	602,556
Exchange realignment	<u>(3,285)</u>	<u>(44,214)</u>	<u>-</u>	<u>957</u>	<u>(402)</u>	<u>(3)</u>	<u>(11)</u>	<u>(46,958)</u>
Gross deferred tax liabilities at 31 December 2012	<u>284,350</u>	<u>2,095,275</u>	<u>-</u>	<u>2,594,605</u>	<u>472,312</u>	<u>85,348</u>	<u>(23,968)</u>	<u>5,507,922</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

36. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets

2013

	Accelerated tax <u>depreciation</u> HK\$'000	Other <u>provision</u> HK\$'000	Provision for LAT HK\$'000	Unrealised profits in <u>inventories</u> HK\$'000	Losses available for offsetting <u>taxable profits</u> HK\$'000	<u>Others</u> HK\$'000	<u>Total</u> HK\$'000
At 1 January 2013	219,617	50,127	261,295	7,878	905,075	190,913	1,634,905
Deferred tax credited/ (charged) to profit or loss during the year	(181,345)	31,798	265,459	(5,633)	(331,642)	100,327	(121,036)
Acquisition of a subsidiary (Note 40(2))	-	-	8,804	-	4,223	-	13,027
Exchange realignment	<u>172</u>	<u>1,151</u>	<u>12,722</u>	<u>156</u>	<u>21,423</u>	<u>8,413</u>	<u>44,037</u>
Gross deferred tax assets at 31 December 2013	<u>38,444</u>	<u>83,076</u>	<u>548,280</u>	<u>2,401</u>	<u>599,079</u>	<u>299,653</u>	<u>1,570,933</u>

2012

	Accelerated tax <u>depreciation</u> HK\$'000	Other <u>provision</u> HK\$'000	Provision for LAT HK\$'000	Unrealised profits in <u>inventories</u> HK\$'000	Losses available for offsetting <u>taxable profits</u> HK\$'000	<u>Others</u> HK\$'000	<u>Total</u> HK\$'000
At 1 January 2012	289	58,174	57,789	15,809	847,988	131,099	1,111,148
Deferred tax credited/ (charged) to profit or loss during the year	219,770	24,741	203,075	(7,903)	44,558	56,450	540,691
Acquisition of a subsidiary	(255)	2,722	-	-	12,767	6,134	21,368
Deemed disposal of interest in a subsidiary	-	(35,515)	-	-	-	(2,867)	(38,382)
Exchange realignment	<u>(187)</u>	<u>5</u>	<u>431</u>	<u>(28)</u>	<u>(238)</u>	<u>97</u>	<u>80</u>
Gross deferred tax assets at 31 December 2012	<u>219,617</u>	<u>50,127</u>	<u>261,295</u>	<u>7,878</u>	<u>905,075</u>	<u>190,913</u>	<u>1,634,905</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

36. DEFERRED TAX ASSETS AND LIABILITIES (continued)

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

The Group has recognised deferred tax assets in respect of tax losses amounting to approximately HK\$2,198,703,000 (2012: HK\$3,337,484,000) that can be carried forward against taxable income in the coming five years in Mainland China. A subsidiary of the Group incorporated in Brazil has recognised deferred tax assets in respect of tax losses amounting to approximately HK\$145,308,000 (2012: HK\$177,096,000) that were available indefinitely for offsetting against future taxable profits of the company in which the losses arose.

No deferred tax assets were recognised on the remaining tax losses of approximately HK\$1,761,323,000 (2012: HK\$1,159,126,000) that will expire in one to five years as the Group determines that the realisation of the related tax benefit through future taxable profits is not considered probable that taxable profits will be available against which the tax losses can be utilised.

During the year ended 31 December 2013, Sinofert has written down the carrying amount of deferred tax assets for HK\$439,851,000 because management assesses that it is no longer probable for Sinofert to make sufficient taxable profit to cover tax losses of HK\$1,759,405,000 (2012: Nil).

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Franshion and Sinofert are therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China to foreign investors in respect of earnings generated from 1 January 2008. At 31 December 2013, Franshion recognised deferred tax liabilities of approximately HK\$74,021,000 (2012: HK\$85,348,000) for withholding taxes that would be payable on the unremitted earnings in the PRC. As Franshion and Sinofert control 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. Furthermore, Franshion and Sinofert have determined that certain profits earned by the PRC subsidiaries will not be distributed to foreign investors in the foreseeable future. As such, deferred taxation has not been provided for in respect of temporary differences attributable to retained earnings of those PRC subsidiaries of approximately HK\$7,250,306,000 and RMB121,390,000 (equivalent to HK\$154,396,000), respectively, at 31 December 2013 (2012: HK\$3,655,689,000 and RMB195,870,000 (equivalent to HK\$241,566,000), respectively).

37. OTHER NON-CURRENT LIABILITIES

	2013 HK\$'000	2012 HK\$'000
Provision for dismantlement costs (Note i)	2,867,634	2,309,573
Special oil gain levy	-	54,054
Others	<u>48,241</u>	<u>46,776</u>
	<u>2,915,875</u>	<u>2,410,403</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

37. OTHER NON-CURRENT LIABILITIES (continued)

Note:

(i) Provision for dismantlement costs:

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

	2013 HK\$'000	2012 HK\$'000
Carrying amount		
At 1 January	2,309,573	1,576,827
Additional provisions recognised	476,213	682,207
Acquisition of a subsidiary (Note 40(1))	-	96,991
Accretion	97,116	102,882
Payment	(16,239)	(138,577)
Exchange realignment	<u>971</u>	<u>(10,757)</u>
At 31 December	<u><u>2,867,634</u></u>	<u><u>2,309,573</u></u>

38. ISSUED CAPITAL

	Number of shares		Nominal value	
	2013 '000	2012 '000	2013 HK\$'000	2012 HK\$'000
Ordinary shares of HK\$1 each				
Authorised, issued and fully paid:				
At the beginning of the year	19,359,700	18,129,500	19,359,700	18,129,500
Issue of shares	<u>2,512,300</u>	<u>1,230,200</u>	<u>2,512,300</u>	<u>1,230,200</u>
At the end of the year	<u><u>21,872,000</u></u>	<u><u>19,359,700</u></u>	<u><u>21,872,000</u></u>	<u><u>19,359,700</u></u>

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

On 28 December 2013, the Company increased its authorised share capital from HK\$20,850,800,000 to HK\$21,872,000,000 by the creation of 1,021,200,000 ordinary shares of HK\$1 each. At the same time, the Company issued and allotted a total of 1,021,200,000 ordinary shares of HK\$1 each 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 2013

39. PERPETUAL CAPITAL SECURITIES

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

40. ACQUISITION OF SUBSIDIARIES

- (1) In January 2012, the Group acquired from subsidiaries of TOTAL SA a 100% equity interest in TEPMA B.V. for a consideration of US\$437,000,000 (equivalent to approximately HK\$3,386,750,000) 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 10 October 2012.

TEPMA B.V. owns a 9.55% equity interest in ODC (Oleoducto de Colombia S.A.), an 11.65% non-operating interest in the Cusiana unified field, a 0.93% participation interest in the OAM pipeline, and a 15.2% participation interest in the exploitation of: (i) the gas processing plants LT01 and LT02 and (ii) the construction and exploitation of liquefied petroleum gas-GLP plant.

According to HKFRS 3 *Business Combinations*, the Group initially allocated the above consideration to the fair values of the identifiable assets and liabilities of TEPMA B.V. on the date of acquisition on 10 October 2012 and recognised the initial allocation results in its fiscal 2012 consolidated financial statements. During 2013, the Group finalised the valuation for the identifiable assets and liabilities. The fair values were restated based on the final purchase price allocation completed in 2013 and were summarised as follows:

	Preliminary fair value recognised HK\$'000	Adjustment of valuation fair values HK\$'000	Finalised fair value recognised HK\$'000 (Restated)
Oil and gas properties (Note 17)	1,039,723	76,064	1,115,787
Intangible assets (Note 16)	2,374,821	(298,566)	2,076,255
Prepayments and other receivables	1,191,246	(142,489)	1,048,757
Cash and bank balances	503,010	-	503,010
Accruals and other payables	(1,129,742)	483,216	(646,526)
Deferred tax liabilities	(213,990)	(118,225)	(332,215)
Provision for dismantlement costs (Note 37)	(96,991)	-	(96,991)
Total identifiable net assets at fair value	<u>3,668,077</u>	<u>-</u>	<u>3,668,077</u>
Goodwill on acquisition	<u>-</u>	<u>-</u>	<u>-</u>
Satisfied by cash	<u>3,668,077</u>	<u>-</u>	<u>3,668,077</u>

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

Cash consideration	3,668,077
Cash and bank balances acquired	(503,010)
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u>3,165,067</u>

The comparative figures of the consolidated financial statements were restated based on the finalised purchase price allocation.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

40. ACQUISITION OF SUBSIDIARIES (continued)

- (2) On 4 February 2013, Franshion acquired a 51% interest in Leading Holdings Limited from Bateson Investment Limited. Leading Holdings Limited and its subsidiaries (the "Leading Group") are engaged in the development, construction and operation of a real estate project in Nanjing, the PRC. The purchase consideration for the acquisition was in the form of cash, with RMB181,000,000 paid at the acquisition date and the remaining RMB635,000,000 to be paid upon the fulfilment of certain conditions as agreed between the Group and Bateson Investment Limited.

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

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

	Notes	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	10	2,219,608
Investment properties	13	2,789,903
Prepaid land lease payments		235,249
Intangible assets	16	4,561
Properties held for sale		482,794
Inventories		1,723
Trade receivables		15,617
Prepayments, deposits and other receivables		343,867
Prepaid tax		35,162
Restricted bank balances		573,549
Cash and cash equivalents		45,827
Trade payables		(204,864)
Other payables and accruals		(1,002,711)
Interest-bearing bank and other borrowings		(2,292,604)
Provision for land appreciation tax	35	(35,216)
Tax payable		(212)
Deferred tax assets		13,027
Deferred tax liabilities	36	(<u>806,788</u>)
Total identifiable net assets at fair value		<u>2,418,492</u>
Non-controlling interests		(1,267,412)
Gain on bargain purchase recognised in other income and gains in profit or loss		(<u>142,912</u>)
		<u>1,008,168</u>
Satisfied by:		
Cash		223,626
Other payables		<u>784,542</u>
		<u>1,008,168</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

40. ACQUISITION OF SUBSIDIARIES (continued)

(2) (continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK\$15,617,000 and HK\$46,948,000, respectively, which are equal to their gross contractual amounts. There was no estimated uncollectable amount of the contractual cash flows at the date of acquisition.

Franshion incurred transaction costs of HK\$1,479,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of comprehensive income.

Franshion recognised a gain on bargain purchase of approximately HK\$142,912,000 in the consolidated statement of comprehensive income for the year ended 31 December 2013, which was, in the opinion of the directors, primarily attributable to Franshion's ability in negotiating the agreed terms of the transaction with Bateson Investment Limited, as Franshion has good reputation and rich experience in the property development and management of residential properties, commercial buildings and hotel properties, and has sufficient available funds for the ongoing development of the project.

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

	HK\$'000
Cash consideration	(223,626)
Cash and cash equivalents acquired	<u>45,827</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(177,799)
Transaction costs of the acquisition included in cash flows from operating activities	<u>(1,479)</u>
	<u>(179,278)</u>

Since the acquisition, the Leading Group contributed HK\$404,030,000 to the Group's turnover and HK\$40,987,000 to the consolidated profit for the year ended 31 December 2013.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK\$426,596,401,000 and HK\$5,402,473,000, respectively.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

41. SHARE OPTION SCHEME

- (1) Franshion operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of Franshion's operations. Eligible participants of the scheme include Franshion's executive and non-executive directors and Franshion's senior management, key technical and professional personnel, managers and employees, but do not include Franshion's independent non-executive directors. The scheme became effective on 22 November 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

41. SHARE OPTION SCHEME (continued)

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

	2013		2012	
	Weighted average exercise price HK\$ per share	Number of options	Weighted average exercise price HK\$ per share	Number of options
At 1 January	2.46	59,530,077	3.37	2,764,688
Granted during the year	-	-	2.44	58,267,500
Forfeited during the year	2.47	(<u>2,930,807</u>)	3.37	(<u>1,502,111</u>)
At 31 December	2.46	<u>56,599,270</u>	2.46	<u>59,530,077</u>

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

2013

Number of options	Exercise price* HK\$ per share	Exercise period
1,180,270	3.37	5 May 2010 to 4 May 2015
16,625,700	2.44	28 November 2014 to 27 November 2019
16,625,700	2.44	28 November 2015 to 27 November 2019
<u>22,167,600</u>	2.44	28 November 2016 to 27 November 2019
<u>56,599,270</u>		

2012

Number of options	Exercise price* HK\$ per share	Exercise period
1,262,577	3.37	5 May 2010 to 4 May 2015
17,480,250	2.44	28 November 2014 to 27 November 2019
17,480,250	2.44	28 November 2015 to 27 November 2019
<u>23,307,000</u>	2.44	28 November 2016 to 27 November 2019
<u>59,530,077</u>		

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

41. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year ended 31 December 2012 was HK\$51,858,000 (HK\$0.89 each), of which Franshion recognised a share option expense of HK\$18,150,000 (2012: HK\$1,513,000) during the year ended 31 December 2013.

The fair value of the share options granted during the year ended 31 December 2008 was HK\$7,604,000, of which Franshion recognised no share option expense (2012: HK\$379,000) during the year ended 31 December 2013.

At the end of the reporting period, Franshion had 56,599,270 share options outstanding under the scheme. The exercise in full of the outstanding share options would, under the present capital structure of Franshion, result in the issue of 56,599,270 additional ordinary shares of Franshion and additional share capital of HK\$56,599,000 and share premium of approximately HK\$82,601,000 (before issue expenses).

- (2) The Company does not have its own share option scheme during the year ended 31 December 2013 and as at 31 December 2013.

42. CONTINGENT LIABILITIES

Financial guarantee contract liabilities

At the end of the reporting period, Franshion provided guarantees in respect of mortgage facilities amounting to approximately HK\$5,158,048,000 (2012: HK\$1,638,383,000) for certain purchasers of Franshion's properties.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	1,088,383	1,132,800
In the second to fifth years, inclusive	742,196	1,194,655
After five years	<u>29,112</u>	<u>6,887</u>
	<u>1,859,691</u>	<u>2,334,342</u>

(b) As lessee

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	91,171	75,576
In the second to fifth years, inclusive	55,249	63,971
After five years	<u>2,069</u>	<u>3,341</u>
	<u>148,489</u>	<u>142,888</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

44. COMMITMENTS

In addition to the operating lease commitments detailed in Note 43(b) above, the Group had the following capital commitments at the end of the reporting period:

	2013 HK\$'000	2012 HK\$'000
Contracted, but not provided for:		
Property, plant and equipment	1,320,476	194,356
Properties under development	7,885,169	8,869,629
Land under development	<u>307,546</u>	<u>397,599</u>
	<u>9,513,191</u>	<u>9,461,584</u>
Authorised, but not contracted for:		
Property, plant and equipment	1,540,164	2,268,577
Oil and gas properties	<u>4,908,682</u>	<u>5,415,772</u>
	<u>6,448,846</u>	<u>7,684,349</u>
	<u>15,962,037</u>	<u>17,145,933</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

45. 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:

	2013 HK\$'000	2012 HK\$'000
The ultimate parent:		
Management fee income	484	527
Sale of fertilisers	55,928	96,888
Purchase of fertilisers	528,698	563,235
Other operating expenses	3,557	2,904
Rental income	9,631	8,997
The immediate parent:		
Rental income	79,083	76,578
Property management fee income	14,564	14,287
Fellow subsidiaries:		
Sale of crude oil and petroleum products	18,431	832,863
Sale of chemical products	1,664,168	2,062,674
Purchase of chemical products	247,371	1,083,987
Interest expense	18,479	11,307
Rental income	205,576	179,427
Property management fee income	18,764	15,079
Interest income	44,859	73,010
Other operating expenses	170,711	-
Construction contract revenue	-	2,389
Management fee expenses	117,940	43,038
Storage fee expenses	2,401	6,039
Purchase of crude oil and petroleum products	650,467	-
Associates:		
Sale of crude oil and petroleum products	15,663,346	20,204,969
Purchase of fertilisers	1,771,545	726,226
Sale of chemical products	45,312	11,584
Dividend income	2,562	-
Storage fee expenses	18,968	12,106
Rental expense	-	39,983
Other income	93,275	181,381
Joint ventures:		
Sale of fertilisers	380,523	431,146
Purchase of fertilisers	1,618,870	1,632,376
Purchase of crude oil and petroleum products	<u>1,202,069</u>	<u>1,342,833</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 2013

45. RELATED PARTY TRANSACTIONS (continued)

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

	2013 HK\$'000	2012 HK\$'000
Short-term employee benefits	48,332	30,338
Performance-related incentive payments	-	7,203
Post-employment benefits	3,139	2,357
Share-based payments	<u>4,984</u>	<u>534</u>
Total compensation paid to key management personnel	<u>56,455</u>	<u>40,432</u>

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

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

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

46. 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:

2013

Financial assets

	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available-for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments	-	-	4,476,844	4,476,844
Amounts due from related parties	-	32,130,707	-	32,130,707
Amounts due from non-controlling interests	-	254,380	-	254,380
Financial assets included in other non-current assets	42,629	140,244	-	182,873
Trade and bills receivables	-	24,832,795	-	24,832,795
Financial assets included in prepayments, deposits and other receivables	-	4,837,718	-	4,837,718
Held-for-trading investments	11,701	-	-	11,701
Derivative financial instruments	158,131	-	-	158,131
Pledged bank deposits	-	303,400	-	303,400
Cash and cash equivalents	-	19,636,921	-	19,636,921
Other deposits	<u>877,038</u>	<u>-</u>	<u>-</u>	<u>877,038</u>
	<u>1,089,499</u>	<u>82,136,165</u>	<u>4,476,844</u>	<u>87,702,508</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Trade and bills payables	-	41,734,592	41,734,592
Financial liabilities included in other payables and accruals	-	7,122,176	7,122,176
Derivative financial instruments	102,588	-	102,588
Interest-bearing borrowings	-	71,251,537	71,251,537
Amounts due to related parties	<u>-</u>	<u>18,372,853</u>	<u>18,372,853</u>
	<u>102,588</u>	<u>138,481,158</u>	<u>138,583,746</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

46. FINANCIAL INSTRUMENTS BY CATEGORIES (continued)

2012

Financial assets

	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available-for-sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments	-	-	5,208,052	5,208,052
Amounts due from related parties	-	24,456,717	-	24,456,717
Amounts due from non-controlling interests	-	123,330	-	123,330
Financial assets included in other non-current assets	41,335	156,173	-	197,508
Trade and bills receivables	-	16,222,618	-	16,222,618
Financial assets included in prepayments, deposits and other receivables	-	3,040,519	-	3,040,519
Held-for-trading investments	104,208	-	-	104,208
Derivative financial instruments	160,634	-	-	160,634
Pledged bank deposits	-	575,985	-	575,985
Cash and cash equivalents	-	17,039,171	-	17,039,171
Other deposits	<u>1,181,748</u>	<u>-</u>	<u>-</u>	<u>1,181,748</u>
	<u>1,487,925</u>	<u>61,614,513</u>	<u>5,208,052</u>	<u>68,310,490</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Trade and bills payables	-	31,492,189	31,492,189
Financial liabilities included in other payables and accruals	-	6,092,984	6,092,984
Derivative financial instruments	67,232	-	67,232
Interest-bearing borrowings	-	66,559,186	66,559,186
Amounts due to related parties	<u>-</u>	<u>14,061,795</u>	<u>14,061,795</u>
	<u>67,232</u>	<u>118,206,154</u>	<u>118,273,386</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	2013		2012	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Financial liabilities:				
Interest-bearing borrowings	<u>71,251,537</u>	<u>72,274,404</u>	<u>66,559,186</u>	<u>68,893,896</u>
	<u>71,251,537</u>	<u>72,274,404</u>	<u>66,559,186</u>	<u>68,893,896</u>

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, available-for-sale investments, amounts due from/to related parties, amounts due from non-controlling interests, financial assets included in other non-current assets, financial assets included in prepayments, deposits and other receivables, held-for-trading investments, derivative financial instruments, other deposits, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's corporate finance is responsible for determining the policies and procedures for the fair value measurement of financial instruments.

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

The fair values of interest-bearing bank and other borrowings except for notes have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of notes is based on quoted market prices. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2013 was assessed to be insignificant.

The fair value of available-for-sale securities is determined by reference to their quoted bid price at the end of the reporting period. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation techniques	Significant observable inputs	Sensitivity of the input to fair value
Financial assets included in other non-current assets	Discounted cash flow method	Discount rate for cash flows	5% increase (decrease) in discount rate would result in decrease (increase) in fair value by HK\$2,754,000
Derivative financial instruments	Residual method	Average selling price per sqm for the property, taking into account of location and properties' quality	5% increase (decrease) in average selling price would result in increase (decrease) in fair value by HK\$9,359,000
		Construction cost, taking into account of management's experience and estimated budget	5% increase (decrease) in construction cost would result in decrease (increase) in fair value by HK\$3,484,000

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2013

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Listed available-for-sale investments	4,067,393	-	-	4,067,393
Held-for-trading investments	11,701	-	-	11,701
Derivative financial instruments	-	49,383	108,748	158,131
Financial assets included in other non-current assets	-	-	42,629	42,629
	<u>4,079,094</u>	<u>49,383</u>	<u>151,377</u>	<u>4,279,854</u>

As at 31 December 2012

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Available-for-sale investments	4,799,272	-	-	4,799,272
Held-for-trading investments	104,208	-	-	104,208
Derivative financial instruments	47,696	112,938	-	160,634
Financial assets included in other non-current assets	-	-	41,335	41,335
	<u>4,951,176</u>	<u>112,938</u>	<u>41,335</u>	<u>5,105,449</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2013

	Fair value measurement using			Total HK\$'000	
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000		
	Derivative financial instruments	<u>9,072</u>	<u>93,516</u>		-
		<u>9,072</u>	<u>93,516</u>		<u>102,588</u>

As at 31 December 2012

	Fair value measurement using			Total HK\$'000	
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000		
	Derivative financial instruments	-	<u>67,232</u>		-
		<u>-</u>	<u>67,232</u>		<u>67,232</u>

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

	2013 HK\$'000	2012 HK\$'000
Other financial assets:		
At 1 January	41,335	-
Purchase	108,748	41,335
Disposals	-	-
Exchange realignment	<u>1,294</u>	-
At 31 December	<u>151,377</u>	<u>41,335</u>

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

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

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

The Group did not have any financial assets that were not measured at fair value in the statement of financial position but for which the fair value is disclosed as at 31 December 2013 (2012: Nil).

Liabilities for which fair values are disclosed:

As at 31 December 2013

	<u>Fair value measurement using</u>			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing borrowings	<u>35,234,078</u>	<u>37,040,326</u>	-	<u>72,274,404</u>
	<u>35,234,078</u>	<u>37,040,326</u>	-	<u>72,274,404</u>

As at 31 December 2012

	<u>Fair value measurement using</u>			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing borrowings	<u>29,487,393</u>	<u>39,406,503</u>	-	<u>68,893,896</u>
	<u>29,487,393</u>	<u>39,406,503</u>	-	<u>68,893,896</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group's exposure to business risk, market risk (foreign currency risk, interest rate risk and other price risk), credit risk, and liquidity risk. The policies on how to mitigate these risks are set out below. The Management manages and monitors these exposure to ensure appropriate measures are implemented in 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 is 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 the respective group entities. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the rates of US\$, HK\$ and RMB. The following table illustrates the sensitivity to profit or loss where the relevant functional currencies strengthen 2% against the 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 the respective foreign currencies, there would be an equal and opposite impact on the profit for the year.

	Increase/(decrease) in profit	
	2013 HK\$'000	2012 HK\$'000
US\$	573,028	264,432
HK\$	(34)	5,413
RMB	(21,077)	78,717

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate borrowings (see Notes 34 and 22 for details of borrowings and amounts due from related parties, respectively). The Group is also exposed to cash flow interest rate risk in relation to variable rate bank balances and borrowings, of which details are disclosed in notes 31 and 34, respectively.

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

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

Sensitivity analysis

The sensitivity analyses 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 used a change of 50 basis points (2012: 50 basis points) to assess interest rate risk on the borrowings. The directors used a change of 10 basis points (2012: 10 basis points) to assess interest rate risk on bank balances because they considered that the fluctuations of the interest rate on bank balances would be less significant. If interest rates had been 50 basis points (2012: 50 basis points) higher/lower for borrowings and 10 basis points (2012: 10 basis points) higher/ lower for bank balances, with all other variables held constant, the Group's post-tax profit for the year would have decreased/increased by approximately HK\$153,658,000 (2012: decreased/increased by approximately HK\$81,836,000).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

The Group is exposed to equity price risk through its available-for-sale investments in respect of equity securities listed on the respective stock exchanges.

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

Sensitivity analysis

The sensitivity analyses 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% (2012: 5%) higher/lower, the investment revaluation reserve of the Group would have increased/decreased by approximately HK\$203,370,000 (2012: HK\$239,964,000) 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, arises from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management has delegated a team responsible for 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 reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the credit risk of the Group is significantly reduced.

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

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

Liquidity risk

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

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

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NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2013

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Year ended	1 year or	Less than	Over 5	Total
31 December 2013	on demand	1 to 5	years	HK\$'000
	HK\$'000	years	years	HK\$'000
		HK\$'000	HK\$'000	HK\$'000
Trade and bills payables	41,734,592	-	-	41,734,592
Financial liabilities included in other payables and accruals	7,122,176	-	-	7,122,176
Derivative financial instruments	102,588	-	-	102,588
Interest-bearing borrowings	15,405,803	36,580,058	39,080,986	91,066,847
Amounts due to related parties	<u>18,372,853</u>	<u>-</u>	<u>-</u>	<u>18,372,853</u>
	<u>82,738,012</u>	<u>36,580,058</u>	<u>39,080,986</u>	<u>158,399,056</u>
Year ended	1 year or	Less than	Over 5	Total
31 December 2012	on demand	1 to 5	years	HK\$'000
	HK\$'000	years	years	HK\$'000
		HK\$'000	HK\$'000	HK\$'000
Trade and bills payables	31,492,189	-	-	31,492,189
Financial liabilities included in other payables and accruals	6,092,984	-	-	6,092,984
Derivative financial instruments	67,232	-	-	67,232
Interest-bearing borrowings	16,328,777	31,841,928	37,899,564	86,070,269
Amounts due to related parties	<u>14,061,795</u>	<u>-</u>	<u>-</u>	<u>14,061,795</u>
	<u>68,042,977</u>	<u>31,841,928</u>	<u>37,899,564</u>	<u>137,784,469</u>

Capital management

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

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

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NOTES TO FINANCIAL STATEMENTS (continued)

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49. EVENTS AFTER THE REPORTING PERIOD

- (1) On 10 March 2014, the board of Franshion, a subsidiary of the Company, announces that Franshion proposes to spin-off and separately list Franshion's interests in Jin Mao Tower and eight hotels in the PRC.

The proposed spin-off will be effected by way of a listing of share stapled (combination of related securities or interests in securities) units to be jointly issued by Jinmao Investments (a fixed single investment trust which will be constituted pursuant to the trust deed) and Jinmao (China) Investment Holding Limited ("JCIHL") on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Jinmao Investments will be a fixed single investment trust with an initial focus on the hospitality industry in the PRC. The Jinmao Investments Group will primarily own and invest in a portfolio of hotels, comprising both completed hotels and hotels under development, with the hotels under development expected to commence operations within one year from the date of investment, and will also own Jin Mao Tower, which is a mixed-use development. Upon listing, the Jinmao Investments Group will own the properties.

On 31 March 2014, Jinmao (China) Investments Manager Limited (the "Trustee-Manager"), as a trustee-manager of Jinmao Investments, and JCIHL submitted a listing application (Form A1) to the Stock Exchange for the listing of, and permission to deal in, the share stapled units on the Stock Exchange.

- (2) On 12 March 2014, Franshion Brilliant Limited, a wholly-owned subsidiary of Franshion, issued US\$500 million 5.75% notes due 2019. The notes are unsecured and guaranteed on an unsubordinated basis by Franshion.
- (3) On 17 April 2014, Sinochem Offshore Capital Company Limited, a wholly-owned subsidiary of the Company, proposed to establish a US\$3,000 million Medium Term Note Programme. According to the proposed programme, the notes to be issued under the programme are unsecured and guaranteed on an unsubordinated basis by the Company.

50. COMPARATIVE AMOUNTS

As further explained in note 2.2(b) and note 40(1) to the financial statements, due to the adoption of the new and revised HKFRSs during the current year and the finalisation of the purchase price allocation of a business combination, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third statement of financial position as at 1 January 2012 has been presented.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 17 April 2014.