

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

Interim Condensed Consolidated Financial Statements

30 June 2017

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Sinochem Hong Kong (Group) Company Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 2 to 26, which comprise the condensed consolidated statement of financial position of Sinochem Hong Kong (Group) Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and explanatory notes. The directors of the Company are responsible for the preparation and presentation of interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Ernst & Young
Certified Public Accountants
Hong Kong
31 August 2017

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 (Unaudited) HK\$ million	2016 (Unaudited) HK\$ million
REVENUE	3	243,001	141,755
Cost of sales		(232,719)	(137,089)
Gross profit		10,282	4,666
Other income, gains and losses, net	4	552	520
Selling and distribution expenses		(832)	(863)
Administrative expenses		(1,386)	(1,445)
Fair value changes of investment properties		494	449
Finance costs:			
Interest expenses		(1,649)	(1,124)
Transaction costs		(27)	(34)
Share of profits and losses of:			
Joint ventures		(39)	(33)
Associates		(33)	24
PROFIT BEFORE TAX	5	7,362	2,160
Income tax expense	6	(2,081)	(827)
PROFIT FOR THE PERIOD		<u>5,281</u>	<u>1,333</u>
Attributable to:			
Owners of the parent		2,977	429
Non-controlling interests		<u>2,304</u>	<u>904</u>
		<u>5,281</u>	<u>1,333</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$ million	HK\$ million
PROFIT FOR THE PERIOD	<u>5,281</u>	<u>1,333</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	89	(238)
Cash flow hedges, net of tax	(43)	(53)
Net investment hedge, net of tax	(30)	-
Exchange differences on translation of foreign operations	3,316	(1,847)
Reclassification adjustments of exchange reserve to profit or loss:		
Disposal of subsidiaries	<u>25</u>	<u>-</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>3,357</u>	<u>(2,138)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>3,357</u>	<u>(2,138)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>8,638</u>	<u>(805)</u>
Total comprehensive income/(loss) attributable to:		
Owners of the parent	4,808	(649)
Non-controlling interests	<u>3,830</u>	<u>(156)</u>
	<u>8,638</u>	<u>(805)</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 (Unaudited) HK\$ million	31 December 2016 (Audited) HK\$ million
NON-CURRENT ASSETS			
Property, plant and equipment		16,809	16,085
Land under development	7	13,101	13,085
Properties under development		36,446	30,097
Investment properties		26,646	25,017
Prepaid land lease payments		2,424	2,390
Goodwill	8	4,033	4,015
Intangible assets		717	2,591
Oil and gas properties		-	38,371
Investments in joint ventures		3,466	3,400
Investments in associates		15,239	13,748
Available-for-sale investments		2,356	2,229
Amounts due from related parties		37,071	9,028
Deferred tax assets		1,763	2,492
Amounts due from non-controlling shareholders		1,355	346
Other non-current assets		1,227	765
Total non-current assets		<u>162,653</u>	<u>163,659</u>
CURRENT ASSETS			
Inventories		7,450	9,233
Land under development	7	4,034	6,172
Properties under development		32,668	17,876
Properties held for sale		7,771	12,468
Prepaid land lease payments		77	75
Trade and bills receivables		28,758	24,397
Prepayments, deposits and other receivables		15,305	11,523
Amounts due from related parties		57,951	38,509
Tax recoverable		2,008	1,755
Derivative financial instruments		1,059	511
Restricted bank balances		3,960	2,603
Cash and cash equivalents		23,410	23,669
Other financial assets		41	80
Total current assets		<u>184,492</u>	<u>148,871</u>

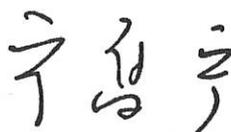
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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

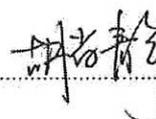
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 (Unaudited) HK\$ million	31 December 2016 (Audited) HK\$ million
CURRENT LIABILITIES			
Trade and bills payables		51,939	46,891
Other payables and accruals		53,818	45,863
Derivative financial instruments		610	1,153
Interest-bearing borrowings	9	27,936	20,103
Amounts due to related parties		13,554	15,055
Tax payable		1,713	2,621
Provision for land appreciation tax		3,481	3,627
Total current liabilities		<u>153,051</u>	<u>135,313</u>
NET CURRENT ASSETS		<u>31,441</u>	<u>13,558</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>194,094</u>	<u>177,217</u>
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	9	82,175	68,357
Deferred tax liabilities		6,032	8,439
Deferred income		109	118
Derivative financial instruments		23	-
Other non-current liabilities		54	2,082
Total non-current liabilities		<u>88,393</u>	<u>78,996</u>
NET ASSETS		<u>105,701</u>	<u>98,221</u>
CAPITAL AND RESERVES			
Issued capital	10	24,468	24,468
Perpetual capital securities	11	4,619	4,619
Reserves		23,058	18,854
Equity attributable to owners of the parent		<u>52,145</u>	<u>47,941</u>
Non-controlling interests		<u>53,556</u>	<u>50,280</u>
TOTAL EQUITY		<u>105,701</u>	<u>98,221</u>



Director



Director

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent											Attributable to non-controlling interests		Total equity HK\$ million	
	Issued capital HK\$ million	Capital reserve HK\$ million (Note a)	Asset revaluation reserve HK\$ million	Merger reserve HK\$ million (Note b)	Statutory reserve HK\$ million (Note c)	Investment revaluation reserve HK\$ million	Translation reserve HK\$ million	Other contribution reserve HK\$ million (Note d)	Perpetual capital securities HK\$ million	Hedging reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Share of net assets of subsidiaries HK\$ million		Share option reserve of subsidiaries HK\$ million
(Unaudited)															
At 1 January 2017	24,468	(1,627)	393	(3,837)	3,017	308	(2,168)	2,433	4,619	33	20,302	47,941	50,264	16	98,221
Profit for the period	-	-	-	-	-	-	-	-	-	-	2,977	2,977	2,304	-	5,281
Other comprehensive income for the period															
Change in fair value of available-for-sale investments	-	-	-	-	-	100	-	-	-	-	-	100	(11)	-	89
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	(43)	-	(43)	-	-	(43)
Net investment hedge, net of tax	-	-	-	-	-	-	-	-	-	(15)	-	(15)	(15)	-	(30)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,764	-	-	-	-	1,764	1,552	-	3,316
Reclassification adjustments of exchange reserve to profit or loss:															
Disposal of subsidiaries	-	-	-	-	-	-	25	-	-	-	-	25	-	-	25
Total comprehensive income for the period, net of tax	-	-	-	-	-	100	1,789	-	-	(58)	2,977	4,808	3,830	-	8,638
Exercise of share options	-	(6)	-	-	-	-	-	-	-	-	-	(6)	15	(1)	8
Dividends distributed (Note e)	-	-	-	-	-	-	-	-	-	-	(616)	(616)	-	-	(616)
Dividends declared to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(3,284)	-	(3,284)
Transfer from retained profits	-	-	-	-	102	-	-	-	-	-	(102)	-	-	-	-
Repurchase of perpetual convertible securities of Jinmao (Note f)	-	-	-	-	-	-	-	-	-	-	(202)	(202)	(3,230)	-	(3,432)
Distribution paid on issued perpetual convertible securities of Jinmao	-	-	-	-	-	-	-	-	-	-	-	-	(106)	-	(106)
Equity-settled share-based payment of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	6	7	13
Distribution paid on perpetual capital securities	-	-	-	-	-	-	-	-	-	-	(117)	(117)	-	-	(117)
Issuance of Jinmao's perpetual capital securities, net of issue expenses (Note g)	-	-	-	-	-	-	-	-	-	-	-	-	3,829	-	3,829
Capital contribution from non-controlling shareholders	-	337	-	-	-	-	-	-	-	-	-	337	2,210	-	2,547
Maintenance and production fund	-	-	-	-	-	-	-	4	-	-	(4)	-	-	-	-
At 30 June 2017	24,468	(1,296)*	393*	(3,837)*	3,119*	408*	(379)*	2,437*	4,619	(25)*	22,238*	52,145	53,534	22	105,701

* These reserve accounts comprise the consolidated reserves of HK\$23,058 million in the consolidated statement of financial position

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SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2017

	Attributable to owners of the parent											Attributable to non-controlling interests		Total equity HK\$ million	
	Issued capital HK\$ million	Capital reserve HK\$ million (Note a)	Asset revaluation reserve HK\$ million	Merger reserve HK\$ million (Note b)	Statutory reserve HK\$ million (Note c)	Investment revaluation reserve HK\$ million	Translation reserve HK\$ million	Other contribution reserve HK\$ million (Note d)	Perpetual capital securities HK\$ million	Hedging reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Share of net assets of subsidiaries HK\$ million		Share option reserve of subsidiaries HK\$ million
(Unaudited)															
At 1 January 2016	23,753	(1,205)	393	(3,837)	2,603	557	1,205	2,430	4,619	27	24,045	54,590	47,558	19	102,167
Profit for the period	-	-	-	-	-	-	-	-	-	-	429	429	904	-	1,333
Other comprehensive income for the period															
Change in fair value of available-for-sale investments	-	-	-	-	-	(225)	-	-	-	-	(225)	(225)	(13)	-	(238)
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	(53)	-	(53)	(53)	-	-	(53)
Exchange differences on translation of foreign operations	-	-	-	-	-	(800)	-	-	-	-	(800)	(800)	(1,047)	-	(1,847)
Total comprehensive income for the period, net of tax	-	-	-	-	(225)	(800)	-	-	(53)	429	(649)	(649)	(156)	-	(805)
Issue of shares	715	-	-	-	-	-	-	-	-	-	715	715	-	-	715
Dividends declared to non-controlling shareholders	(20)	-	-	-	-	-	-	-	-	(20)	(20)	(20)	(654)	-	(674)
Transfer from retained profits	-	-	-	-	28	-	-	-	(28)	-	-	-	-	-	-
Acquisition of non-controlling interests	(396)	-	-	-	-	-	-	-	-	(396)	(396)	(396)	(3,011)	-	(3,407)
Repurchase of Jinmao's perpetual convertible securities	-	-	-	-	-	-	-	-	(80)	(80)	(80)	(80)	(1,616)	-	(1,696)
Distribution paid on Jinmao's issued perpetual convertible securities	-	-	-	-	-	-	-	-	-	-	-	-	(159)	-	(159)
Equity-settled share-based payment of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	1	1	2
Distribution paid on perpetual capital securities	-	-	-	-	-	-	-	-	(117)	(117)	(117)	(117)	-	-	(117)
Issuance of Jinmao's perpetual capital securities, net of issue expenses	-	-	-	-	-	-	-	-	-	-	-	-	6,237	-	6,237
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	59	-	59
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	-	-	-	-	-	2	2	2	(2)	(2)	-
Share of an associate's net assets changes	(11)	-	-	-	-	-	-	-	-	(11)	(11)	(11)	(9)	-	(20)
Maintenance and production fund	-	-	-	-	-	-	-	1	-	(1)	-	-	-	-	-
At 30 June 2016	24,468	(1,632)	393	(3,837)	2,631	332	405	2,431	4,619	(26)	24,250	54,034	48,250	18	102,302

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2017

Notes:

- (a) The capital reserve of the Group mainly comprises (i) contributions from owners in respect of settlement of doubtful receivables which have been written off and the transfer of an equity interest in a joint venture to the Group in previous years; and (ii) contributions made by the shareholders to the Company's subsidiaries.
- (b) The merger reserve of the Group comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the holding companies of the acquirees as consideration for the group restructuring transactions.
- (c) Statutory reserve comprises the statutory reserve fund, reserve fund and enterprise expansion fund. In accordance with the relevant PRC rules and regulations, each of the Group's PRC subsidiaries is required to transfer an amount of its profit after income tax to the statutory reserve fund, until the accumulated total of the fund reaches 50% of its registered capital. The appropriations to the reserve fund and enterprise expansion fund are determined by the articles of association of the Company's subsidiaries and are subject to the approval by the boards of directors of the subsidiaries.
- (d) Other contribution reserve mainly comprises capital contributions, maintenance and production fund, capital contribution for energy saving and emission reduction projects, and deemed contributions from equity owners net of deemed distributions to equity owners. The maintenance and production fund is appropriated/utilised in accordance with relevant PRC regulations on certain enterprises.
- (e) Dividends amounting to US\$ 79,294,000 (equivalent to HK\$616,106,000) were paid to the immediate parent during the six months ended 30 June 2017.
- (f) On 27 April 2017, China Jinmao Holdings Group Limited ("Jinmao") repurchased perpetual convertible securities with an aggregate principal amount of US\$400,000,000 (equivalent to approximately HK\$3,058,667,000), at the total consideration of US\$441,133,000 (equivalent to approximately HK\$3,432,394,000).
- (g) On 17 January 2017, Franshion Brilliant Limited, a wholly-owned subsidiary of Jinmao, issued subordinate guaranteed perpetual capital securities with an amount of US\$497,615,000 (equivalent to approximately HK\$3,859,200,000), being 99.523% of the principal amount of US\$500,000,000. The direct transaction costs attributable to the issuance amounted to US\$3,862,000 (equivalent to approximately HK\$29,951,000).

In the opinion of the directors, the Group is able to control the delivery of cash or other financial assets to the holders of the perpetual securities due to redemption other than an unforeseen liquidation of Jinmao or Franshion Brilliant Limited. Accordingly, the perpetual securities are classified as equity instruments and the total net proceed of HK\$3,829,249,000 was recorded in non-controlling interests.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017 (Unaudited) HK\$ million	2016 (Unaudited) HK\$ million
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in)/generated from operations		(10,256)	3,133
Income tax paid		(2,628)	(1,836)
		<u>(12,884)</u>	<u>1,297</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of oil and gas properties		-	(387)
Increase in amounts due from related parties		(4,640)	(1,796)
(Increase)/decrease in restricted bank deposits		(1,357)	608
Disposal of subsidiaries	12	(801)	-
(Increase)/decrease in entrusted loans to non-controlling shareholders		(2,791)	160
Additions to investments in associates		(1,214)	-
Additions to investments in joint ventures		(136)	(234)
Increase of other financial assets		(6)	(105)
Other investing activities		(852)	48
		<u>(11,797)</u>	<u>(1,706)</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other loans		51,472	25,966
Repayment of bank loans and other loans		(29,626)	(23,218)
Issue of perpetual securities, net of issue expenses		3,829	6,237
Repurchase of Jinmao's perpetual convertible securities		(3,436)	(1,696)
Interest paid		(2,199)	(2,354)
Loans from non-controlling shareholders		7,227	-
Repayment of short-term commercial paper		(2,263)	-
Dividends paid		(616)	-
Acquisition of non-controlling interests		-	(3,311)
Increase in amount due to related parties		4	933
Other financing activities		(541)	(490)
		<u>23,851</u>	<u>2,067</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(830)	1,658
Cash and cash equivalents at beginning the period		23,669	18,549
Effect of foreign exchange rate changes, net		<u>571</u>	<u>(397)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>23,410</u>	<u>19,810</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position		<u>23,410</u>	<u>19,810</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except in relation to the following revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKAS 7
Amendments to HKAS 12

Statement of Cash Flows: Disclosure Initiative
Income Taxes: Recognition of Deferred Tax
Assets for Unrecognised Losses

Amendments to HKFRS 12 included in Annual Improvements
2014-2016 Cycle

Disclosure of Interests in Other Entities:
Clarification of the scope of disclosure
requirements in HKFRS 12

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

Besides, during the period ended 30 June 2017, the Group also adopted hedge accounting to account for Jinmao's net investment in a foreign operation. The accounting policies related to the net investment hedge are as follows:

Hedges of a net investment in a foreign operation included a hedge of a monetary item which was accounted for as part of the net investment. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. BUSINESS ANALYSIS

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

	Oil and gas HK\$ million	Fertilisers HK\$ million	Real estate HK\$ million	Others HK\$ million	Elimination HK\$ million	Consolidated HK\$ million
<u>Six months ended 30 June 2017</u>						
REVENUE						
External sales	207,486	11,846	20,172	3,497	-	243,001
Inter-segment sales	<u>107</u>	<u>-</u>	<u>12</u>	<u>2,272</u>	<u>(2,391)</u>	<u>-</u>
Total	<u>207,593</u>	<u>11,846</u>	<u>20,184</u>	<u>5,769</u>	<u>(2,391)</u>	<u>243,001</u>
Segment profit/(loss)	1,308	358	6,069	1,233	(551)	8,417
Interest income						613
Finance costs						(1,676)
Gain on disposal of subsidiaries						80
Share of profits and losses of:						
Joint ventures						(39)
Associates						<u>(33)</u>
Profit before tax						<u>7,362</u>
<u>Six months ended 30 June 2016</u>						
REVENUE						
External sales	117,807	10,592	10,374	2,982	-	141,755
Inter-segment sales	<u>521</u>	<u>-</u>	<u>14</u>	<u>2,786</u>	<u>(3,321)</u>	<u>-</u>
Total	<u>118,328</u>	<u>10,592</u>	<u>10,388</u>	<u>5,768</u>	<u>(3,321)</u>	<u>141,755</u>
Segment profit/(loss)	(456)	(419)	3,537	1,130	(827)	2,965
Interest income						362
Finance costs						(1,158)
Share of profits and losses of:						
Joint ventures						(33)
Associates						<u>24</u>
Profit before tax						<u>2,160</u>

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. OTHER INCOME, GAINS AND LOSSES, NET

	Six months ended 30 June	
	2017	2016
	HK\$ million	HK\$ million
<u>Other income</u>		
Bank interest income	138	265
Interest on other advances	392	54
Interest on other financial assets	83	34
Interest on other deposits	-	1
Interest on financial lease contracts	-	8
Dividend income from available-for-sale investments	2	5
Government grants (Note i)	23	61
Compensation received	3	24
Sales of scrapped materials	3	5
Penalty income	6	37
Sundry income, net	<u>137</u>	<u>124</u>
	<u>787</u>	<u>618</u>
<u>Gains and losses</u>		
Loss on disposal of property, plant and equipment	(6)	(2)
Gain on disposal of subsidiaries	80	-
Impairment losses on property, plant and equipment	-	(12)
Impairment losses on an investment in an associate	-	(71)
Write-off of non-demand payables	21	-
Reversal of impairment losses on trade and bills receivables	-	1
Foreign exchange difference, net	(187)	6
Fair value gains, net:		
Derivative financial instruments	34	-
Transfers from properties held for sale to investment properties	2	-
Accrued value-added tax expenses	(145)	-
Other gains and losses, net	<u>(34)</u>	<u>(20)</u>
	<u>(235)</u>	<u>(98)</u>
Other income, gains and losses, net	<u><u>552</u></u>	<u><u>520</u></u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

Note:

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

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	HK\$ million	HK\$ million
Amortisation of other long-term assets	4	4
Amortisation of prepaid land lease payments	36	38
Amortisation of intangible assets	24	46
Depreciation of oil and gas properties	-	1,378
Depreciation of property, plant and equipment	394	410
Write-down of inventories	<u>8</u>	<u>32</u>

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For the six months ended 30 June 2017

6. INCOME TAX

	Six months ended 30 June	
	2017 HK\$ million	2016 HK\$ million
Hong Kong profits tax:		
Current tax	<u>9</u>	<u>4</u>
PRC tax:		
PRC enterprise income tax	1,835	824
Land appreciation tax ("LAT")	176	437
Underprovision in prior year	-	24
	<u>2,011</u>	<u>1,285</u>
Tax in other jurisdictions:		
Current tax	<u>1</u>	<u>154</u>
Deferred taxation	<u>60</u>	(<u>616</u>)
	<u>2,081</u>	<u>827</u>

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

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

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

Corporate income tax in other jurisdictions has been provided at rates ranging from 5% to 38.7%.

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

7. LAND UNDER DEVELOPMENT

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

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

8. GOODWILL

	30 June 2017 HK\$ million	31 December 2016 HK\$ million
At 1 January:		
Cost	4,015	4,055
Accumulated impairment	<u>-</u>	<u>-</u>
Net carrying amount	<u>4,015</u>	<u>4,055</u>
Cost at 1 January, net of accumulated impairment	4,015	4,055
Exchange realignment	<u>18</u>	<u>(40)</u>
Net carrying amount at the end of the period	<u><u>4,033</u></u>	<u><u>4,015</u></u>
At the end of the period:		
Cost	4,033	4,015
Accumulated impairment	<u>-</u>	<u>-</u>
Net carrying amount	<u><u>4,033</u></u>	<u><u>4,015</u></u>

Goodwill has been allocated to two groups of cash-generating units relating to the fertilisers division and the real estate division. The carrying amounts of goodwill as at 30 June 2017 and 31 December 2016 allocated to these divisions are as follows:

	30 June 2017 HK\$ million	31 December 2016 HK\$ million
Fertilisers division	2,033	2,015
Real estate division	<u>2,000</u>	<u>2,000</u>
	<u><u>4,033</u></u>	<u><u>4,015</u></u>

Impairment testing of goodwill

According to the Group's accounting policy, the goodwill impairment test will be performed annually. In the opinion of the Directors, there was no impairment of goodwill recognised for the six months ended 30 June 2017 (2016: Nil). The Company will perform impairment test on goodwill at year-end of 2017 and determine if impairment is necessary.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

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For the six months ended 30 June 2017

9. INTEREST-BEARING BORROWINGS

	30 June 2017 HK\$ million	31 December 2016 HK\$ million
Current:		
Bank loans, secured	4,683	1,712
Bank loans, guaranteed	1,152	-
Bank loans, unsecured	9,224	6,170
Guaranteed senior notes, unsecured	2,665	4,994
Notes issued under the medium-term note programme	-	2,794
Short term commercial paper	-	2,236
Other loans, unsecured	<u>10,212</u>	<u>2,197</u>
	<u>27,936</u>	<u>20,103</u>
Non-current:		
Bank loans, secured	9,619	12,602
Bank loans, unsecured	18,693	11,636
Guaranteed senior notes, unsecured	31,061	27,011
Notes, unsecured	2,850	-
Notes issued under the medium term note programme	8,593	6,084
Domestic corporate bonds, unsecured	2,530	2,453
Bonds	4,026	3,905
Other loans, unsecured	<u>4,803</u>	<u>4,666</u>
	<u>82,175</u>	<u>68,357</u>
Carrying amounts repayable:		
Within one year	27,936	20,103
More than one year, but not more than five years	70,689	55,477
More than five years	<u>11,486</u>	<u>12,880</u>
	<u>110,111</u>	<u>88,460</u>

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

10. SHARE CAPITAL

	30 June 2017 HK\$ million	31 December 2016 HK\$ million
Issued and fully paid:		
24,468,400,000 (2016: 24,468,400,000) ordinary shares	<u>24,468</u>	<u>24,468</u>

11. PERPETUAL CAPITAL SECURITIES

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

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

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12. DISPOSAL OF SUBSIDIARIES

On 1 January 2017, the Company disposed of all shares in Sinochem Petroleum Limited, Sinochem Resources UK Limited, and 99.8981% of the membership rights in Sinochem Petroleum Netherlands Cooperatief U.A. ("SPNC") to SPEP Energy Hong Kong Limited, a fellow subsidiary of the Company. The sales and transfers of the shares and membership rights were effectuated as of 1 January 2017, of which the consideration was based on the shareholding percentages and percentages of membership rights and the book values of the net assets of the above subsidiaries as of 31 December 2016.

For the six months ended 30 June 2017, Jinmao lost control over certain subsidiaries upon the disposal of equity interests (six months ended 30 June 2016: Nil).

Details of the financial impacts are summarised below:

	Note	30 June 2017 HK\$ million
Net assets/liabilities disposed of:		
Property, plant and equipment		285
Oil and gas properties		38,371
Intangible assets		1,875
Properties under development		131
Deferred tax assets		864
Other non-current assets		6,834
Cash and cash equivalents		1,290
Inventories		706
Trade and bills receivables		656
Prepayments, deposits and other receivables		1,298
Restricted bank balances		2
Trade and bills payables		(507)
Other payables and accruals		(7,724)
Tax payable		(125)
Derivative financial instruments		(20)
Deferred tax liabilities		(2,727)
Other non-current liabilities		(18,162)
Net assets/liabilities		<u>23,047</u>
0.1019% of net assets of SPNC transferred to available-for-sale investments		(15)
Net assets disposed of		<u>23,032</u>
Gain on disposal of subsidiaries	4	<u>80</u> <u>23,112</u>
Satisfied by		
Cash		489
Increase in amounts due from a related party		<u>22,623</u> <u>23,112</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	30 June 2017 HK\$ million
Cash consideration	489
Cash and cash equivalents disposed of	(1,290)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>(801)</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. CAPITAL COMMITMENTS

	30 June 2017 HK\$ million	31 December 2016 HK\$ million
Contracted, but not provided for:		
Property, plant and equipment	167	89
Properties under development	20,230	12,737
Land under development	3,012	1,478
Capital contributions to joint ventures	309	453
	<u>23,718</u>	<u>14,757</u>
Authorised, but not contracted for:		
Property, plant and equipment	702	371
Oil and gas properties	-	2,301
Investments in an associate and others	576	559
	<u>1,278</u>	<u>3,231</u>
	<u>24,996</u>	<u>17,988</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2017 HK\$ million	2016 HK\$ million
The ultimate parent:		
Sale of fertilisers	13	26
Purchase of fertilisers	101	128
Import service fee	2	1
Interest expense	-	1
Rental income	4	5
The immediate parent:		
Rental income	42	48
Property management fee income	8	5
Interest income and other income	44	22
Interest expense	4	9
Fellow subsidiaries:		
Sale of crude oil and petroleum products	10,732	-
Sale of chemical products	1,229	913
Purchase of chemical products	17	4
Interest expense	52	24
Rental income	69	91
Property management fee income	15	10
Interest income and other income	390	88
Transfer investment in subsidiaries to a related party	22,623	-
Management fee expense	-	19
Ship rental expense	213	214
Purchase of crude oil and petroleum products	523	-
Consigned processing fee	823	403
Storage fee expenses	2	-
Associates:		
Sale of fertilizers	-	12
Sale of crude oil and petroleum products	5,414	2,015
Sale of chemical products	-	15
Purchase of fertilisers	1,071	908
Property management fee income	6	3
Transportation income	112	90
Interest income and other income	114	156
Consulting fee income	7	-
Interest expense	20	6

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For the six months ended 30 June 2017

14. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Six months ended 30 June	
	2017 HK\$ million	2016 HK\$ million
Joint ventures:		
Sale of fertilisers	121	100
Interest income and other income	452	40
Purchase of fertilisers	512	598
Consulting fee income	4	-
Rental income	1	-
Property management fee income	5	-
Consulting fee expense	72	30
 An associate of the Group's ultimate holding company:		
Rental income	33	34
Property management fee income	<u>1</u>	<u>1</u>

(b) At the end of the reporting period, certain bank borrowings granted to the Group were guaranteed by its immediate parent.

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

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

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

15. CONTINGENT LIABILITIES

At the end of the reporting period, Jinmao has provided guarantees in respect of mortgage facilities for certain purchasers of Jinmao's properties amounted to approximately HK\$23,017 million (31 December 2016: HK\$21,216 million).

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. FAIR VALUE AND FAIR VALUE HIERARCHY

Financial instruments fair value

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

	<u>30 June 2017</u>		<u>31 December 2016</u>	
	Carrying amount HK\$ million	Fair value HK\$ million	Carrying amount HK\$ million	Fair value HK\$ million
Financial liabilities:				
Interest-bearing borrowings	<u>110,111</u>	<u>113,753</u>	<u>88,460</u>	<u>90,769</u>

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

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

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

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

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

The Group enters into derivative financial instruments with counterparties, principally financial institutions with good credit ratings. Derivative financial instruments are measured using present value calculations or similar calculations. The models incorporate market observable inputs including the foreign exchange spot and forward rates.

SINOCHEM HONG KONG (GROUP) COMPANY LIMITED

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For the six months ended 30 June 2017

16. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

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

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

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

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

Assets measured at fair value:

As at 30 June 2017

	Fair value measurement using			Total HK\$ million
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million	
Listed available-for-sale investments	1,686	-	-	1,686
Derivative financial instruments	<u>435</u>	<u>624</u>	<u>-</u>	<u>1,059</u>
	<u>2,121</u>	<u>624</u>	<u>-</u>	<u>2,745</u>

As at 31 December 2016

	Fair value measurement using			Total HK\$ million
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million	
Listed available-for-sale investments	1,594	-	-	1,594
Derivative financial instruments	<u>-</u>	<u>511</u>	<u>-</u>	<u>511</u>
	<u>1,594</u>	<u>511</u>	<u>-</u>	<u>2,105</u>

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For the six months ended 30 June 2017

16. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 30 June 2017

	Fair value measurement using			Total HK\$ million		
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million			
	Derivative financial instruments	14	619		-	633

As at 31 December 2016

	Fair value measurement using			Total HK\$ million		
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million			
	Derivative financial instruments	215	938		-	1,153

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

The Group did not have any financial assets that were not measured at fair value in the statement of financial position but for which the fair values were disclosed as at 30 June 2017 (2016: Nil).

Liabilities for which fair values are disclosed:

As at 30 June 2017

	Fair value measurement using			Total HK\$ million
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million	
Interest-bearing borrowings	<u>55,243</u>	<u>58,510</u>	<u>-</u>	<u>113,753</u>

As at 31 December 2016

	Fair value measurement using			Total HK\$ million
	Quoted prices in active markets (Level 1) HK\$ million	Significant observable inputs (Level 2) HK\$ million	Significant unobservable inputs (Level 3) HK\$ million	
Interest-bearing borrowings	<u>49,550</u>	<u>41,219</u>	<u>-</u>	<u>90,769</u>

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17. EVENTS AFTER THE REPORTING PERIOD

- (a) On 3 July 2017, Franshion Brilliant Limited, a wholly-owned subsidiary of Jinmao, completed an issue of the senior guaranteed perpetual capital securities in the aggregate principal amount of US\$300 million (equivalent to HK\$2,342 million). The securities confer a right to receive distribution at 4.00% per annum payable semi-annually in arrears beginning on 3 January 2018.
- (b) On 10 July 2017, Jinmao completed an issue of the domestic medium-term notes in the principal amount of RMB2,500 million (equivalent to HK\$2,873 million). The notes are unsecured and have a term of 3 years with a fixed coupon rate of 4.78%.
- (c) On 28 July 2017 and 1 August 2017, the board of directors of the Company approved the distribution of dividends amounting to US\$100 million (equivalent to HK\$781 million) and US\$80.4 million (equivalent to HK\$628 million) to the immediate parent, and the dividends were paid on 31 July 2017 and 1 August 2017, respectively.
- (d) On 2 August 2017, China Jin Mao (Group) Company Limited, a non-wholly-owned subsidiary of Jinmao, completed an issue of the short-term notes in the national inter-bank market in the PRC, in the amount of RMB1,000 million (equivalent to HK\$1,163 million). The notes have a term of 365 days with an interest rate of 4.65% per annum.
- (e) On 24 August 2017, Franshion Brilliant Limited, a wholly-owned subsidiary of Jinmao, entered into a purchase agreement with Goldman Sachs (Asia) L.L.C. as initial purchaser in respect of the subscription and sale of proposed further issuance of US\$200 million senior guaranteed perpetual capital securities, which will be consolidated and form a single series with the US\$300 million 4.00% senior guaranteed perpetual capital securities issued by Franshion Brilliant Limited on 3 July 2017. The securities confer a right to receive distribution at 4.00% per annum payable semi-annually with issuance price 100.091% of the principal amount of the securities, plus accrued distributions from 3 July 2017.

18. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 31 August 2017.