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If you have sold or transferred all your Shares in Sinofert Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

**MAJOR TRANSACTION –
CAPITAL INJECTION TO SINOCHEM CHANGSHAN**

A letter from the Board is set out on pages 4 to 8 of this circular.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meaning:

“Board”	the board of Directors of the Company
“Company”	Sinofert Holdings Limited, a company incorporated on 26 May 1994 in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“DES Agreement”	the debt for equity swap agreement entered into between Sinochem Fertilizer and Sinochem Changshan on 31 August 2018
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Jilin SOA”	吉林省國有資產經營管理有限責任公司 (Jilin State-Owned Assets Management Co., Ltd.), a company incorporated in the PRC with limited liability
“Latest Practicable Date”	19 October 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, which for the purposes of this circular only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“shareholder(s)”	registered holder(s) of Share(s)
“Sinochem Changshan”	中化吉林長山化工有限公司 (Sinochem Jilin Changshan Chemical Co., Ltd.), a company incorporated in the PRC with limited liability, and a non-wholly owned subsidiary of Sinochem Fertilizer
“Sinochem Corporation”	中國中化股份有限公司 (Sinochem Corporation), a joint stock company incorporated in the PRC with limited liability, a subsidiary of Sinochem Group and the indirect controlling shareholder of the Company
“Sinochem Fertilizer”	中化化肥有限公司 (Sinochem Fertilizer Company Limited), a company incorporated in the PRC with limited liability, and an indirect wholly-owned subsidiary of the Company
“Sinochem Group”	中國中化集團有限公司 (Sinochem Group Co., Ltd.), a state-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company
“Sinochem HK”	中化香港(集團)有限公司 (Sinochem Hong Kong (Group) Company Limited), a company incorporated in Hong Kong with limited liability, and the immediate controlling shareholder of the Company holding approximately 52.65% of the total number of issued shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules

DEFINITIONS

“Transaction”	the conversion by Sinochem Fertilizer of an amount of RMB1,820,000,000 in the outstanding shareholders’ loans extended by it to Sinochem Changshan into an additional registered capital of Sinochem Changshan
“%”	percent

LETTER FROM THE BOARD



SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

Executive Directors:

QIN Hengde (*Chief Executive Officer*)
Harry YANG

Non-executive Directors:

ZHANG Wei (*Chairman*)
YANG Lin

Independent Non-executive Directors:

KO Ming Tung, Edward
LU Xin
TSE Hau Yin, Aloysius

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business:

Unit 4705, 47th Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

26 October 2018

To: the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION –
CAPITAL INJECTION TO SINOCHEM CHANGSHAN**

INTRODUCTION

Reference is made to the announcement of the Company dated 31 August 2018.

* *For identification purposes only*

LETTER FROM THE BOARD

Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, has, since 2010, extended several shareholders' loans to its non-wholly owned subsidiary, Sinochem Changshan, for the purpose of satisfying the needs of Sinochem Changshan's daily operation and business development.

On 31 August 2018, Sinochem Fertilizer and Sinochem Changshan entered into the DES Agreement, pursuant to which Sinochem Fertilizer agreed to convert an amount of RMB1,820,000,000 in the outstanding shareholders' loans extended by it to Sinochem Changshan into an additional registered capital of Sinochem Changshan. Upon completion of the Transaction, the registered capital of Sinochem Changshan will increase from RMB1,018,650,000 to RMB2,838,650,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Changshan will increase from 94.78% to 98.16%.

The purpose of this circular is to provide you with further information on the details of the Transaction and other information as required under the Listing Rules.

PRINCIPAL TERMS OF THE DES AGREEMENT

Date

31 August 2018

Parties

- (a) Sinochem Fertilizer
- (b) Sinochem Changshan

Nature of the Transaction

Pursuant to the DES Agreement, Sinochem Fertilizer agreed to convert an amount of RMB1,820,000,000 in the outstanding shareholders' loans extended by it to Sinochem Changshan into an additional registered capital of Sinochem Changshan. Upon completion of the Transaction, the registered capital of Sinochem Changshan will increase from RMB1,018,650,000 to RMB2,838,650,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Changshan will increase from 94.78% to 98.16%.

Sinochem Changshan has been actively seeking loans from independent commercial banks. For this purpose, Sinochem Changshan needs to optimize the structure of its assets and liabilities and lower its debt asset ratio. Based on Sinochem Changshan's previous experiences and its communications with independent commercial banks, it planned to lower its debt asset ratio to a range between 75% and 80% to facilitate its needs for bank loans. The amount of capital injection by Sinochem Fertilizer to Sinochem Changshan is determined based on the above debt asset ratio and the financial information of Sinochem Changshan for the year ended 31 December 2017.

LETTER FROM THE BOARD

As the capital injection is to be made by Sinochem Fertilizer to Sinochem Changshan through the conversion of shareholders' loans into registered capital, Sinochem Fertilizer is not required to make any cash payment in respect of the Transaction.

Completion

Sinochem Changshan shall complete the accounting treatment in respect of the Transaction, the corresponding amendments to its register of members and articles of association, as well as the formalities in relation to the registration with the authority for industrial and commercial administration. Completion of the Transaction shall take place on the date of completion of the relevant registration with the authority for industrial and commercial administration.

INFORMATION ON SINOCEM CHANGSHAN

Established in 1969, Sinochem Changshan is principally engaged in the production and sale of urea, compound fertilizer, morpholine, liquid anhydrous ammonia, ammonia water, industrial oxygen, nitrogen, argon, carbon dioxide, mixed gas, medical oxygen, water treatment agent, and plastic woven bag, etc. Prior to the Transaction, Sinochem Changshan has a registered capital of RMB1,018,650,000, held as to 94.78% by Sinochem Fertilizer and 5.22% by Jilin SOA. Upon completion of the Transaction, its registered capital will increase to RMB2,838,650,000, held as to 98.16% by Sinochem Fertilizer and 1.84% by Jinlin SOA. Sinochem Changshan will remain as a non-wholly owned subsidiary of Sinochem Fertilizer, and its accounts will continue to be consolidated into the accounts of the Group.

Based on the financial statements of Sinochem Changshan prepared in accordance with the Hong Kong Financial Reporting Standards, its audited net liabilities as at 31 December 2017 is approximately RMB1,663,276,000, and its audited net liabilities as at 30 June 2018 is approximately RMB1,716,217,000. The losses of Sinochem Changshan for the two years ended 31 December 2017 and for the six months ended 30 June 2018 are as follows:

Unit: RMB'000

	Year ended 31 December 2016 (Audited)	Year ended 31 December 2017 (Audited)	Six months ended 30 June 2018 (Audited)
Loss before taxation	(754,264)	(1,371,737)	(54,236)
Loss after taxation	(754,951)	(1,371,737)	(54,236)

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Transaction will help reduce the debt burden of Sinochem Changshan and optimize its asset structure from net liabilities to net assets, which will significantly improve its financial position. As a subsidiary of the Company and an important production base of the Group in Northeast China, Sinochem Changshan will bring new vitality into the overall business development of the Group through the enhancement of its own operating capability.

The Directors are of the view that the Transaction is entered into by the Group in its ordinary and usual course of business, on normal commercial terms, is fair and reasonable and in the interests of the Company and its shareholders as a whole.

FINANCIAL EFFECT OF THE TRANSACTION

Assets and Liabilities

Before and after the completion of the Transaction, Sinochem Changshan has been and will remain as a non-wholly owned subsidiary of the Company, and its accounts have been and will continue to be consolidated into the accounts of the Group. Upon completion of the Transaction, the shareholding percentage of Sinochem Fertilizer in Sinochem Changshan will increase by 3.38% from 94.78% to 98.16%, and the debt investment in an amount of RMB1,820,000,000 made by Sinochem Fertilizer to Sinochem Changshan will be changed to long-term equity investment. As the intra-group debt and long-term equity investment will be eliminated in the Group's consolidated financial statements, the Transaction will have no impact on the assets and liabilities of the Group. Based on the audited financial statements of Sinochem Changshan as at 30 June 2018 and assuming the completion of the Transaction had taken place on 30 June 2018, the Transaction would only cause the non-controlling interest in the Group's consolidated financial statements to increase by RMB86,943,420, and the total equity attributable to owners of the Company would decrease by the same amount. Such increase in the non-controlling interest represents the difference between the minority shareholder's interest of 5.22% in the net liabilities of Sinochem Changshan prior to the Transaction and the minority shareholder's interest of 1.84% in the net assets of Sinochem Changshan upon completion of the Transaction.

Earnings

As the profit and loss of Sinochem Changshan is consolidated in the financial statements of the Group before and after the completion of the Transaction, except for the transaction cost, the Transaction will not have any impact on the earnings of the Group.

IMPLICATIONS OF THE LISTING RULES

Given that one or more of the applicable percentage ratios in respect of the Transaction are more than 25% but less than 100%, the Transaction constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no shareholder has any material interest in the Transaction, and therefore none of the shareholders is required to abstain from voting if the Company were to convene a general meeting to approve the Transaction. The Company has obtained a written approval in respect of the Transaction from Sinochem HK, the immediate controlling shareholder of the Company, which owns 3,698,660,874 shares of the Company, representing approximately 52.65% of the total number of issued shares of the Company as at the Latest Practicable Date. Pursuant to Rule 14.44 of the Listing Rules, the written approval from Sinochem HK can be accepted in lieu of holding a general meeting for the purpose of approving the Transaction. As such, no general meeting will be convened by the Company to approve the Transaction.

GENERAL INFORMATION

The Company is principally engaged in the production, procurement and sale of fertilizers and related products in the PRC. The main business comprises research and development, production, procurement, distribution and agricultural services of fertilizers and forms a vertically integrated business model combining upstream and downstream businesses.

Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, is principally engaged in the production, import, export, distribution, wholesale and retail of fertilizer raw materials and products, as well as research and development and services in the field of fertilizer-related business and products.

Jilin SOA is principally engaged in businesses such as assets acquisition, disposal, leasing, and investment in certain industries; acting as an agent of the enterprises invested by Jilin State-owned Assets Supervision and Administration Commission for the transfer of their debts and equity interests and operation of such enterprises; merger and acquisition of enterprises, restructuring advisory and agency services; corporate and asset management. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Jilin SOA and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Sinofert Holdings Limited
Qin Hengde
Executive Director and Chief Executive Officer

FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the years ended 31 December 2015, 2016 and 2017, and the six months ended 30 June 2018 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.sinofert.com):

- the Annual Report 2015 dated 31 March 2016 (pages 84 to 167);
- the Annual Report 2016 dated 30 March 2017 (pages 98 to 179);
- the Annual Report 2017 dated 28 March 2018 (pages 96 to 179); and
- the Interim Report 2018 dated 30 August 2018 (pages 28 to 62).

INDEBTEDNESS

As at the close of business on 31 August 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this circular, the Group had total outstanding debts of approximately RMB3,698,286,000 as below. The unsecured and guaranteed bank borrowings were guaranteed by the Company.

Unit: RMB'000

Bank borrowings	
– Secured	5,000
– Guaranteed	174,434
– Unsecured	63,000
	242,434
Bonds	3,455,852
Total outstanding debts	3,698,286

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, no member of the Group had outstanding at the close of business on 31 August 2018 any mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness, or any obligations under hire purchase contracts or finance leases payable or any guarantees or other contingent liabilities.

WORKING CAPITAL

Taking into account the Group's cash and cash equivalents on hand, financial resources available to the Group and cash generated from future operations, the Directors after due and careful enquiry, are of the view that, in the absence of unforeseeable circumstances, the Group has sufficient working capital for the Group's present requirements, that is, for at least 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group's strategic development direction is to adapt to the modern agricultural development trend, with a core focus on integration of various agricultural inputs, technical planting services, agricultural services, financial services, agricultural sales and other integrated solutions. The Group strives to utilize information technology to enhance the efficiency and effectiveness of agricultural services, provide agricultural services directly to end users, enhance research and development, and continuously promote products upgrades, so as to gradually form a competitive product portfolio, thereby enhancing the Group's overall competitiveness.

Looking ahead, the Group will follow the trend of agricultural supply-side reform and the rapidly changing agricultural structure with a focus on transformation and upgrade, take root in modern agriculture, streamline business structure and renovate business model, so as to achieve stable and sustainable growth. In this connection, the Group will continue to push forward the distribution channel expansion strategy to increase its market share, and will at the same time consolidate its strategic cooperation with key suppliers in China and overseas to strengthen the centralized strategic procurement and the business collaboration among subsidiaries. The Group will also actively explore the construction of a modern agricultural platform for economic crop, and build up a market-oriented research and development system to strengthen scientific research innovation, including the building of a high standard research and development center in Linyi, Shandong Province. The Group will also enhance the overall management level of the production units to improve efficiency while lowering cost, speed up industrial layout adjustment, and constantly promote the awareness of risk control and safety management to ensure operating safety.

As disclosed in the section headed "Reasons for and Benefits of the Transaction" in the "Letter from the Board" in this circular, the Transaction will help reduce the debt burden of Sinochem Changshan and optimize its asset structure, which will significantly improve its financial position. As a subsidiary of the Company and an important production base of the Group in Northeast China, Sinochem Changshan will bring new vitality into the overall business development of the Group through the enhancement of its own operating capability.

The following is the text of a report, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SINOCEM JILIN CHANGSHAN CHEMICAL CO., LTD. TO THE DIRECTORS OF SINFERT HOLDINGS LIMITED

INTRODUCTION

We report on the historical financial information of 中化吉林長山化工有限公司 (Sinochem Jilin Changshan Chemical Co., Ltd.[#]) ("Sinochem Changshan") set out on pages 14 to 50, which comprises the statements of financial position of the Sinochem Changshan as at 31 December 2015, 2016 and 2017 and 30 June 2018 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for each of the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 14 to 50 forms an integral part of this report, which has been prepared for inclusion in the circular of Sinochem Holdings Limited ("Sinochem" or the "Company") dated 26 October 2018 in connection with the capital injection to Sinochem Changshan through the conversion of shareholder's loans into registered capital of Sinochem Changshan (the "Transaction").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

[#] *English translation for identification only*

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design 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. Our work also included 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 Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of this report, a true and fair view of Sinochem Changshan's financial position as at 31 December 2015, 2016 and 2017 and 30 June 2018 and of Sinochem Changshan's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REVIEW OF STUB PERIOD CORRESPONDING FINANCIAL INFORMATION

We have also reviewed the stub period corresponding interim financial information of Sinochem Changshan which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended 30 June 2017 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our 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 HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the

accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 October 2018

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Sinofert Changshan for the Relevant Periods, on which the Historical Financial Information is based, were audited by 畢馬威華振會計師事務所 (特殊普通合伙) (KPMG Huazhen LLP[#]) in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi)

	Note	Years ended 31 December			Six months ended	
		2015	2016	2017	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenue	4	666,640	308,505	558,132	381,830	452,577
Cost of sales		(644,300)	(402,722)	(641,931)	(419,672)	(390,954)
Gross profit /(loss)		22,340	(94,217)	(83,799)	(37,842)	61,623
Other income and gains	5	40,044	5,582	20,196	12,464	9,022
Selling and distribution expenses		(9,630)	(6,259)	(14,419)	(7,876)	(16,464)
Administrative expenses		(50,382)	(252,362)	(308,736)	(60,849)	(55,480)
Other expenses and losses		(29,099)	(351,091)	(901,098)	(831)	(1,931)
Loss from operations		(26,727)	(698,347)	(1,287,856)	(94,934)	(3,230)
Finance costs	6(a)	(27,281)	(55,917)	(83,881)	(35,969)	(51,006)
Loss before taxation	6	(54,008)	(754,264)	(1,371,737)	(130,903)	(54,236)
Income tax	7	(673)	(687)	-	-	-
Loss and total comprehensive income for the year/period		<u>(54,681)</u>	<u>(754,951)</u>	<u>(1,371,737)</u>	<u>(130,903)</u>	<u>(54,236)</u>

The accompanying notes form part of the Historical Financial Information.

[#] English translation for identification only

STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	At 31 December			At 30 June
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Non-current assets					
Property, plant and equipment	10	1,665,438	1,303,370	383,372	382,644
Lease prepayments	11	87,743	85,251	82,759	81,513
Prepayments for acquisition of property, plant and equipment		5,763	4,219	31,036	36,224
Other long-term assets	12	9,056	8,523	8,839	8,367
Deferred tax assets	21	1,120	433	433	433
		<u>1,769,120</u>	<u>1,401,796</u>	<u>506,439</u>	<u>509,181</u>
Current assets					
Inventories	13	211,065	132,752	196,519	115,060
Trade and bills receivables	14	9,139	3,732	10,487	48,952
Other receivables and prepayments	15	81,528	92,966	115,313	133,466
Lease prepayments	11	2,541	2,492	2,492	2,492
Bank balances and cash	16	29,266	3,854	21,430	9,373
		<u>333,539</u>	<u>235,796</u>	<u>346,241</u>	<u>309,343</u>
Current liabilities					
Trade and bills payables	17	245,942	152,090	75,695	50,816
Other payables	18	214,145	291,694	317,652	261,609
Contract liabilities		78,614	38,326	64,442	45,741
Interest-bearing borrowings due within one year	19	760,000	1,103,473	1,735,658	1,819,216
		<u>1,298,701</u>	<u>1,585,583</u>	<u>2,193,447</u>	<u>2,177,382</u>
Net current liabilities		<u>(965,162)</u>	<u>(1,349,787)</u>	<u>(1,847,206)</u>	<u>(1,868,039)</u>
Total assets less current liabilities		<u>803,958</u>	<u>52,009</u>	<u>(1,340,767)</u>	<u>(1,358,858)</u>

APPENDIX II ACCOUNTANTS' REPORT OF SINOCEM CHANGSHAN

	<i>Note</i>	At 31 December			At 30 June
		2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current liabilities					
Interest-bearing					
borrowings due after					
one year	19	330,120	333,681	264,957	236,319
Deferred income	20	10,426	9,194	7,961	7,345
Other long-term liabilities		–	–	49,591	113,695
		<u>340,546</u>	<u>342,875</u>	<u>322,509</u>	<u>357,359</u>
NET ASSETS/ (LIABILITIES)		<u>463,412</u>	<u>(290,866)</u>	<u>(1,663,276)</u>	<u>(1,716,217)</u>
CAPITAL AND RESERVES					
Paid-in capital	22	1,018,650	1,018,650	1,018,650	1,018,650
Reserves		<u>(555,238)</u>	<u>(1,309,516)</u>	<u>(2,681,926)</u>	<u>(2,734,867)</u>
TOTAL EQUITY/ (DEFICIT)		<u>463,412</u>	<u>(290,866)</u>	<u>(1,663,276)</u>	<u>(1,716,217)</u>

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CHANGES IN EQUITY

(Expressed in Renminbi)

	Paid-in capital RMB'000	Capital reserve RMB'000 (Note a)	Special reserve RMB'000 (Note b)	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2015	1,018,650	48,819	1,463	(549,376)	519,556
Loss and total comprehensive income for the year	-	-	-	(54,681)	(54,681)
Maintenance and production fund	-	-	(1,463)	-	(1,463)
Balance at 31 December 2015 and 1 January 2016	1,018,650	48,819	-	(604,057)	463,412
Loss and total comprehensive income for the year	-	-	-	(754,951)	(754,951)
Maintenance and production fund	-	-	673	-	673
Balance at 31 December 2016 and 1 January 2017	1,018,650	48,819	673	(1,359,008)	(290,866)
Loss and total comprehensive income for the year	-	-	-	(1,371,737)	(1,371,737)
Maintenance and production fund	-	-	(673)	-	(673)
Balance at 31 December 2017 and 1 January 2018	1,018,650	48,819	-	(2,730,745)	(1,663,276)
Loss and total comprehensive income for the period	-	-	-	(54,236)	(54,236)
Maintenance and production fund	-	-	1,295	-	1,295
Balance at 30 June 2018	1,018,650	48,819	1,295	(2,784,981)	(1,716,217)
Unaudited:					
Balance at 1 January 2017	1,018,650	48,819	673	(1,359,008)	(290,866)
Loss and total comprehensive income for the period	-	-	-	(130,903)	(130,903)
Maintenance and production fund	-	-	667	-	667
Balance at 30 June 2017	1,018,650	48,819	1,340	(1,489,911)	(421,102)

Notes:

- Capital reserve mainly represents contributions from the shareholders of Sinochem Changshan.
- Special reserve comprises the fund received which can only be utilised for energy saving and emission reduction projects, and the maintenance and production fund appropriated/utilised in accordance to relevant PRC regulations on certain enterprises.

The accompanying notes form part of the Historical Financial Information.

CASH FLOW STATEMENTS

(Expressed in Renminbi)

	Years ended 31 December			Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (Unaudited)	2018 RMB'000
Operating activities					
Loss before taxation	(54,008)	(754,264)	(1,371,737)	(130,903)	(54,236)
Adjustments for:					
Release of deferred income	(3,663)	(1,232)	(1,233)	(616)	(616)
Finance costs	27,281	55,917	83,881	35,969	51,006
Depreciation of property, plant and equipment	55,922	129,643	92,298	45,724	12,370
Impairment loss on property, plant and equipment	28,216	348,633	879,661	–	–
Loss/(gain) on disposal of property, plant and equipment	27	990	71	20	(61)
Amortisation of lease prepayments	2,443	2,541	2,492	1,246	1,246
Amortisation of other long-term assets	4,739	4,912	4,599	3,049	587
Impairment of trade receivables	–	163	–	–	–
Impairment of other receivables and prepayments	–	202	–	–	–
Write-down of inventories	–	–	19,509	–	–
Operating cash flows before movements in working capital	60,957	(212,495)	(290,459)	(45,511)	10,296
(Increase)/decrease in inventories	(12,369)	78,313	(83,276)	52,387	81,459
(Increase)/decrease in trade and bills receivables	(80,018)	5,244	(6,755)	(2)	(38,465)
Increase in other receivables and prepayments	(22,969)	(12,319)	(23,921)	(28,866)	(19,043)
Increase in deferred income	1,000	–	–	–	–
Decrease in trade and bills payables	(97,468)	(93,852)	(76,395)	(90,378)	(24,879)
Increase/(decrease) in other payables and contract liabilities	245,166	(53,636)	178,396	(39,103)	49,937
Cash generated from/ (used in) operations	94,299	(288,745)	(302,410)	(151,473)	59,305
Income tax paid	(673)	–	–	–	–
Net cash generated from/(used in) operating activities	93,626	(288,745)	(302,410)	(151,473)	59,305

	Years ended 31 December			Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (Unaudited)	2018 RMB'000
Investing activities					
Purchases of property, plant and equipment	(211,909)	(24,135)	(155,801)	(55,610)	(75,023)
Additions of prepaid lease payments	(490)	-	-	-	-
Proceeds from disposals of property, plant and equipment	1	447	-	-	64
Acquisition of other long-term assets	(7,007)	(4,379)	(4,915)	(1,010)	(115)
Net cash used in investing activities	<u>(219,405)</u>	<u>(28,067)</u>	<u>(160,716)</u>	<u>(56,620)</u>	<u>(75,074)</u>
Financing activities					
Repayment of bank and other loans	(642,000)	(264,473)	(1,317,473)	(570,000)	(575,000)
Proceeds from new bank and other loans	829,995	611,507	1,880,934	843,822	629,920
Interests paid	(48,887)	(55,634)	(82,759)	(35,733)	(51,208)
Net cash generated from financing activities	<u>139,108</u>	<u>291,400</u>	<u>480,702</u>	<u>238,089</u>	<u>3,712</u>
Net increase/ (decrease) in cash and cash equivalent	13,329	(25,412)	17,576	29,996	(12,057)
Cash and cash equivalents at 1 January	<u>15,937</u>	<u>29,266</u>	<u>3,854</u>	<u>3,854</u>	<u>21,430</u>
Cash and cash equivalents at 31 December/30 June	<u>29,266</u>	<u>3,854</u>	<u>21,430</u>	<u>33,850</u>	<u>9,373</u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

中化吉林長山化工有限公司 (Sinochem Jilin Changshan Chemical Co., Ltd.[#], referred to herein as “Sinochem Changshan”) is a limited liabilities company established in the People’s Republic of China (the “PRC”) on 21 May 2001. Its registered office is located at Changshan Town, Qianguo County, Songyuan City, Jilin Province, the PRC.

Sinochem Changshan is principally engaged in manufacture and sales of fertilizer and chemical products for industrial use.

The Historical Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, Sinochem Changshan has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are effective for the accounting periods beginning after 1 January 2018. The revised and new accounting standard and interpretations issued but not yet effective for accounting year beginning on 1 January 2018 are set out in Note 28.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information for the six months ended 30 June 2017 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Historical Financial Information.

The Historical Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand, which is the functional currency of Sinochem Changshan. The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

The Historical Financial Information has been prepared on the basis that Sinochem Changshan will continue as a going concern notwithstanding the net current liabilities of Sinochem Changshan as at 31 December 2015, 2016, 2017 and 30 June 2018 and net deficit as at 31 December 2016 and 2017 and 30 June 2018 on the strength of an undertaking provided by the immediate parent company, 中化化肥有限公司 (Sinochem Fertilizer Co., Ltd.[#], referred to herein as “Sinochem Fertilizer”), to continue to provide such financing support as is necessary to maintain Sinochem Changshan as a going concern basis.

[#] English translation for identification only

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates and judgements

The preparation of the Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(e)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(p)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

<i>Category</i>	<i>Years of depreciation</i>
Buildings	20-30 years
Plant, machinery and equipment	10-14 years
Motor vehicles	8 years
Furniture and fixtures	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(c) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(e)(ii)). Cost comprises direct costs of construction as well as interest expense capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities

necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

(d) Lease prepayments and other long-term assets

Lease prepayments represent land use rights under operating leases paid to the relevant government authorities. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (see note 2(e)(ii)). The cost of lease prepayments is charged to expenses on a straight-line base over the respective periods of the rights.

Other long-term assets mainly represent activators held for use in the production of goods which are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Amortisation is provided using the straight-line method.

(e) Credit losses and impairment of assets

(i) Credit losses from financial instruments

Sinochem Changshan recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to Sinochem Changshan in accordance with the contract and the cash flows that Sinochem Changshan expects to receive).

In measuring ECLs, Sinochem Changshan takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at each statement of financial position date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- prepayment for acquisition of property, plant and equipment; and
- other long-term assets

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year/period in which the reversals are recognised.

(f) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the moving weighted-average method, and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(g) Contract liabilities

A contract liability is recognised when the customer pays consideration before Sinochem Changshan recognises the related revenue (see note 2(o)). A contract liability would also be recognised if Sinochem Changshan has an unconditional right to receive consideration before Sinochem Changshan recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(h)).

(h) Trade and other receivables

A receivable is recognised when Sinochem Changshan has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before Sinochem Changshan has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(e)(i)).

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(e)(i).

(j) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with Sinochem Changshan's accounting policy for borrowing costs (see note 2(p)).

(l) Employee benefits*(i) Short term employee benefits*

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when Sinochem Changshan can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the end of each of the Relevant Periods, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, Sinochem Changshan controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Sinochem Changshan has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Sinochem Changshan intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority.

(n) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when Sinochem Changshan has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable

estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue and other income

Income is classified by Sinochem Changshan as revenue when it arises from the sale of goods, the provision of services or the use by others of Sinochem Changshan's assets under leases in the ordinary course of Sinochem Changshan's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which Sinochem Changshan is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of Sinochem Changshan's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that Sinochem Changshan will comply with the conditions attaching to them. Grants that compensate Sinochem Changshan for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate Sinochem Changshan for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss over the useful life of the related asset on a reasonable and systematic manner.

(p) Borrowing costs

Borrowing costs that are directly attributable to the construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(q) Related parties

(a) A person, or a close member of that person's family, is related to Sinochem Changshan if that person:

- (i) has control or joint control over Sinochem Changshan;
- (ii) has significant influence over Sinochem Changshan; or
- (iii) is a member of the key management personnel of Sinochem Changshan or Sinochem Changshan's parent.

(b) An entity is related to Sinochem Changshan if any of the following conditions applies:

- (i) The entity and Sinochem Changshan are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities 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 Sinochem Changshan.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (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).
- (viii) The entity, or any member of a group of which it is apart, provides key management personnel services to Sinochem Changshan or to Sinochem Changshan's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

In the process of applying Sinochem Changshan's accounting policies, management has made the following accounting judgements.

Provision of inventories

Inventories are stated at the lower of cost or 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.

Impairment on property, plant and equipment

In considering the impairment losses that may be required for Sinochem Changshan's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of fair value less cost of disposal and the value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. Where the actual future cash flows are less than expected, a material impairment loss may arise.

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	Years ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Disaggregated by major products					
Sales of nitrogen fertilizer	392,721	107,408	249,094	164,962	95,063
Sales of compound fertilizer	199,530	165,357	157,814	145,549	206,483
Sales of other products	74,389	35,740	151,224	71,319	151,031
	<u>666,640</u>	<u>308,505</u>	<u>558,132</u>	<u>381,830</u>	<u>452,577</u>

All revenue are generated in mainland China.

All revenue from contracts with customers is recognised at point in time.

(b) Segment reporting

Operating segments, and the amounts of each segment item are identified from the financial information provided regularly to the most senior executive management for the purposes of allocating resources to, and assessing the performance of its business and geographical location.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

As for Sinochem Changshan, the profit or loss, assets and liabilities of operation represent the single segment of operation of general fertilizer sales segment and all of the operations are located in PRC, therefore no segment reporting is presented.

5 OTHER INCOME AND GAINS

	Note	Years ended 31 December			Six months ended 30 June	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (Unaudited)	2018 RMB'000
Rental income		279	289	1,457	–	–
Government grants		21,791	2,166	15,126	6,315	–
Sales of semi-product, scrapped materials and raw materials		2,934	729	1,097	91	7,937
Release of deferred income	20	3,663	1,232	1,233	616	616
Others		11,377	1,166	1,283	5,442	469
		<u>40,044</u>	<u>5,582</u>	<u>20,196</u>	<u>12,464</u>	<u>9,022</u>

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Years ended 31 December			Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (Unaudited)	2018 RMB'000
Interest on borrowings	49,110	55,917	83,881	35,969	51,006
Less: Interest expense capitalised (note)	21,829	–	–	–	–
	<u>27,281</u>	<u>55,917</u>	<u>83,881</u>	<u>35,969</u>	<u>51,006</u>

Note: The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation related to construction of production lines is 5.378% for the year ended 31 December 2015.

(b) Staff costs

	Years ended 31 December			Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (Unaudited)	2018 RMB'000
Salaries, wages and other benefits	99,736	92,269	102,511	47,405	41,715
Termination benefits	–	–	152,425	–	856
Contributions to retirement benefit scheme	14,589	15,965	12,661	6,888	5,651
	<u>114,325</u>	<u>108,234</u>	<u>267,597</u>	<u>54,293</u>	<u>48,222</u>

(c) Other items

	Years ended 31 December			Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000	2018 RMB'000
				(Unaudited)	
Amortisation					
– lease prepayments (note 11)	2,443	2,541	2,492	1,246	1,246
– other long-term assets (note 12)	4,739	4,912	4,599	3,049	587
	<u>7,182</u>	<u>7,453</u>	<u>7,091</u>	<u>4,295</u>	<u>1,833</u>
Depreciation (note 10)	<u>55,922</u>	<u>129,643</u>	<u>92,298</u>	<u>45,724</u>	<u>12,370</u>
Impairment losses					
– trade receivables (note 14)	–	163	–	–	–
– other receivables and prepayments (note 15)	–	202	–	–	–
– property, plant and equipment (note 10)	<u>28,216</u>	<u>348,633</u>	<u>879,661</u>	<u>–</u>	<u>–</u>
Write-down of inventories	<u>–</u>	<u>–</u>	<u>19,509</u>	<u>–</u>	<u>–</u>

7 INCOME TAX IN THE STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the statements of profit or loss represents:

	Note	Years ended 31 December			Six months ended 30 June	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000	2018 RMB'000
					(Unaudited)	
Provision for the year/period		–	–	–	–	–
Under-provision in respect of prior years		(673)	–	–	–	–
Deferred tax	21(a)	<u>–</u>	<u>(687)</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>(673)</u>	<u>(687)</u>	<u>–</u>	<u>–</u>	<u>–</u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (Unaudited)	2018 RMB'000
Loss before taxation	(54,008)	(754,264)	(1,371,737)	(130,903)	(54,236)
Tax calculated at the applicable tax rate of 25%	13,502	188,566	342,934	32,726	13,559
Tax effect of non-deductible expenses	(156)	(2,984)	(106)	(800)	(352)
Tax effect of non-taxable income	539	–	–	–	–
Effect of tax losses and deductible temporary difference not recognised	(13,885)	(186,269)	(342,828)	(31,926)	(13,207)
Under-provision in respect of prior years	(673)	–	–	–	–
Income tax expense for the year/period	<u>(673)</u>	<u>(687)</u>	<u>–</u>	<u>–</u>	<u>–</u>

Note: The provision for the PRC Enterprise Income Tax of Sinochem Changshan is based on the statutory rate of 25% on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year.

8 DIRECTORS' REMUNERATION

Directors' emoluments of Sinochem Changshan were borne by its shareholders and therefore the directors believe the presentation of such information is not meaningful for the purpose of this report.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate of the emoluments in respect of the five individuals with the highest emoluments of Sinochem Changshan are as follows:

	Years ended 31 December			Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000	2018 RMB'000
Salaries and other benefits	1,228	1,089	1,303	684	724
Contributions to retirement benefit scheme	115	131	143	71	80
	<u>1,343</u>	<u>1,220</u>	<u>1,446</u>	<u>755</u>	<u>804</u>

The emoluments of the five individuals with the highest emoluments are within the following bands:

	Years ended 31 December			Six months ended 30 June	
	2015 Number of individuals	2016 Number of individuals	2017 Number of individuals	2017 Number of individuals	2018 Number of individuals
Nil - HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture & fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2015	506,775	768,988	14,036	5,845	913,491	2,209,135
Additions	–	6,954	212	228	257,572	264,966
Transfers	16,536	15,658	–	657	(32,851)	–
Disposals	–	(142)	–	(359)	–	(501)
Reclassification	–	651	–	(651)	–	–
At 31 December 2015 and 1 January 2016	<u>523,311</u>	<u>792,109</u>	<u>14,248</u>	<u>5,720</u>	<u>1,138,212</u>	<u>2,473,600</u>
Additions	–	7,857	1,462	199	108,127	117,645
Transfers	356,524	851,422	–	–	(1,207,946)	–
Disposals	(2,240)	(13,550)	–	(62)	–	(15,852)
At 31 December 2016 and 1 January 2017	<u>877,595</u>	<u>1,637,838</u>	<u>15,710</u>	<u>5,857</u>	<u>38,393</u>	<u>2,575,393</u>

	Buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture & fixtures <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Additions	–	6,653	–	127	45,252	52,032
Transfers	5,050	10,722	154	28	(15,954)	–
Disposals	–	(1,039)	(22)	(385)	–	(1,446)
At 31 December 2017 and 1 January 2018	<u>882,645</u>	<u>1,654,174</u>	<u>15,842</u>	<u>5,627</u>	<u>67,691</u>	<u>2,625,979</u>
Additions	50	263	–	88	11,244	11,645
Disposals	–	(8,504)	(2,061)	(127)	–	(10,692)
At 30 June 2018	<u>882,695</u>	<u>1,645,933</u>	<u>13,781</u>	<u>5,588</u>	<u>78,935</u>	<u>2,626,932</u>
Accumulated depreciation and impairment						
At 1 January 2015	(213,812)	(499,245)	(7,323)	(4,117)	–	(724,497)
Charge for the year	(15,495)	(38,874)	(1,020)	(533)	–	(55,922)
Impairment loss	(14,681)	(13,535)	–	–	–	(28,216)
Disposals	–	134	–	339	–	473
Reclassification	–	(563)	–	563	–	–
At 31 December 2015 and 1 January 2016	<u>(243,988)</u>	<u>(552,083)</u>	<u>(8,343)</u>	<u>(3,748)</u>	<u>–</u>	<u>(808,162)</u>
Charge for the year	(37,302)	(90,789)	(1,058)	(494)	–	(129,643)
Impairment loss	(202,478)	(145,740)	(308)	(107)	–	(348,633)
Disposals	2,013	12,344	–	58	–	14,415
At 31 December 2016 and 1 January 2017	<u>(481,755)</u>	<u>(776,268)</u>	<u>(9,709)</u>	<u>(4,291)</u>	<u>–</u>	<u>(1,272,023)</u>
Charge for the year	(27,917)	(62,938)	(1,040)	(403)	–	(92,298)
Impairment loss	(270,994)	(583,838)	(4,735)	(1,239)	(18,855)	(879,661)
Disposals	–	987	22	366	–	1,375
At 31 December 2017 and 1 January 2018	<u>(780,666)</u>	<u>(1,422,057)</u>	<u>(15,462)</u>	<u>(5,567)</u>	<u>(18,855)</u>	<u>(2,242,607)</u>
Charge for the period	(2,855)	(9,469)	(42)	(4)	–	(12,370)
Disposals	–	8,504	2,061	124	–	10,689
At 30 June 2018	<u>(783,521)</u>	<u>(1,423,022)</u>	<u>(13,443)</u>	<u>(5,447)</u>	<u>(18,855)</u>	<u>(2,244,288)</u>

	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture & fixtures	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net book value:						
At 31 December 2015	279,323	240,026	5,905	1,972	1,138,212	1,665,438
At 31 December 2016	395,840	861,570	6,001	1,566	38,393	1,303,370
At 31 December 2017	101,979	232,117	380	60	48,836	383,372
At 30 June 2018	99,174	222,911	338	141	60,080	382,644

Notes:

- (a) All buildings and plants are located in the PRC.
- (b) Sinochem Changshan determines whether there are indicators for impairment of property, plant and equipment at the end of each reporting period. Should the indicators exist, Sinochem Changshan will estimate value in use of relevant cash generating units of property, plant and equipment by estimating the future cash flows expected from those interests and a discount rate in order to calculate the present value. In view of the loss sustained by Sinochem Changshan for the years ended 31 December 2015, 2016 and 2017, and for the six months ended 30 June 2017 and 2018, the directors of Sinochem Changshan considered that indicators of potential impairment of property, plant and equipment existed as at 31 December 2015, 2016, 2017 and 30 June 2017 and 2018. Sinochem Changshan re-assessed the recoverable amount of this cash generating unit with reference to its value in use, derived by using discounted cash flow analysis as at 31 December 2015, 2016, 2017 and 30 June 2017 and 2018. The pre-tax discount rates used in the value in use calculations are 13%, 13%, 13.6%, 13.6% (unaudited) and 13.6% for the years ended 31 December 2015, 2016 and 2017, and for the six months ended 30 June 2017 and 2018, respectively. Based on the discounted cash flow forecast prepared, Sinochem Changshan has recognised impairment loss on property, plant and equipment of RMB28,216,000, RMB348,633,000, RMB879,661,000 in "other expenses and losses" for the years ended 31 December 2015, 2016 and 2017, respectively.

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11 LEASE PREPAYMENTS

	2015 RMB'000	At 31 December 2016 RMB'000	2017 RMB'000	At 30 June 2018 RMB'000
Cost:				
At 1 January	104,144	104,634	104,634	104,634
Additions	490	—	—	—
	<u>104,634</u>	<u>104,634</u>	<u>104,634</u>	<u>104,634</u>
At 31 December/30 June	----- 104,634	----- 104,634	----- 104,634	----- 104,634
Accumulated amortisation:				
At 1 January	(11,907)	(14,350)	(16,891)	(19,383)
Charge for the year/period	(2,443)	(2,541)	(2,492)	(1,246)
	<u>(14,350)</u>	<u>(16,891)</u>	<u>(19,383)</u>	<u>(20,629)</u>
At 31 December/30 June	----- (14,350)	----- (16,891)	----- (19,383)	----- (20,629)
Net book value:				
At 31 December/30 June	<u>90,284</u>	<u>87,743</u>	<u>85,251</u>	<u>84,005</u>
Analysis for reporting purposes as				
Current assets	2,541	2,492	2,492	2,492
Non-current assets	87,743	85,251	82,759	81,513
	<u>87,743</u>	<u>85,251</u>	<u>82,759</u>	<u>81,513</u>
At 31 December/30 June	<u>90,284</u>	<u>87,743</u>	<u>85,251</u>	<u>84,005</u>

12 OTHER LONG-TERM ASSETS

	2015 RMB'000	At 31 December 2016 RMB'000	2017 RMB'000	At 30 June 2018 RMB'000
Cost:				
At 1 January	14,076	21,083	25,462	30,377
Additions	7,007	4,379	4,915	115
	<u>21,083</u>	<u>25,462</u>	<u>30,377</u>	<u>30,492</u>
At 31 December/30 June	----- 21,083	----- 25,462	----- 30,377	----- 30,492
Accumulated amortisation:				
At 1 January	(7,288)	(12,027)	(16,939)	(21,538)
Charge for the year/period	(4,739)	(4,912)	(4,599)	(587)
	<u>(12,027)</u>	<u>(16,939)</u>	<u>(21,538)</u>	<u>(22,125)</u>
At 31 December/30 June	----- (12,027)	----- (16,939)	----- (21,538)	----- (22,125)
Net book value:				
At 31 December/30 June	<u>9,056</u>	<u>8,523</u>	<u>8,839</u>	<u>8,367</u>

13 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Fertilizer merchandise and finished goods	116,909	46,687	53,552	11,327
Raw materials	84,868	68,974	121,949	81,513
Work in progress	9,288	17,091	21,018	22,220
	<u>211,065</u>	<u>132,752</u>	<u>196,519</u>	<u>115,060</u>

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	<u>644,300</u>	<u>402,722</u>	<u>641,931</u>	<u>390,954</u>

14 TRADE AND BILLS RECEIVABLES

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables due from				
– Sinochem Fertilizer (note 25(b))	16	–	–	5,411
– third party	<u>8,885</u>	<u>4,477</u>	<u>5,769</u>	<u>4,860</u>
	8,901	4,477	5,769	10,271
Less: allowance for doubtful debts (note 14(b))	<u>(582)</u>	<u>(745)</u>	<u>(745)</u>	<u>(745)</u>
	8,319	432	5,024	9,526
Bills receivable	<u>820</u>	<u>–</u>	<u>5,463</u>	<u>39,426</u>
Total trade and bills receivables	<u>9,139</u>	<u>3,732</u>	<u>10,487</u>	<u>48,952</u>

(a) Ageing analysis

Sinochem Changshan allows a credit period of 0 - 90 days to its customers. The ageing analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date is as follows:

	At 31 December			At 30 June
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Within 3 months	3,645	89	5,054	39,510
More than 3 months but within 6 months	39	–	1,722	5,400
More than 6 months but within 12 months	16	–	123	542
Over 12 months	5,439	3,643	3,588	3,500
	<u>9,139</u>	<u>3,732</u>	<u>10,487</u>	<u>48,952</u>

Before accepting any new customer, Sinochem Changshan assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

(b) Impairment of trade receivables

The movements in the allowance for doubtful debts during the Relevant Periods are as follows:

	At 31 December			At 30 June
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Balance at 1 January	582	582	745	745
Impairment loss recognised	–	163	–	–
Balance at 31 December/30 June	<u>582</u>	<u>745</u>	<u>745</u>	<u>745</u>

15 OTHER RECEIVABLES AND PREPAYMENTS

	At 31 December			At 30 June
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Deductible input VAT	62,063	81,155	96,575	85,975
Prepayments	11,338	1,208	7,053	34,061
Other receivables	8,640	11,318	12,400	14,145
Less: allowance for doubtful debts (note)	<u>(513)</u>	<u>(715)</u>	<u>(715)</u>	<u>(715)</u>
	<u>81,528</u>	<u>92,966</u>	<u>115,313</u>	<u>133,466</u>

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Note: The movements in the allowance for doubtful debts during the Relevant Periods are as follows:

	At 31 December		At 30 June	
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January	513	513	715	715
Impairment loss recognised	—	202	—	—
Balance at 31 December/ 30 June	<u>513</u>	<u>715</u>	<u>715</u>	<u>715</u>

16 BANK BALANCES AND CASH

(a) Cash and cash equivalents comprise:

	At 31 December		At 30 June	
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank	<u>29,266</u>	<u>3,854</u>	<u>21,430</u>	<u>9,373</u>

(b) Reconciliation of liabilities arising from financing activities

	Bank and other loans	Interest payable	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 19)</i>		
At 1 January 2015	902,125	1,428	903,553
Changes from financing cash flows:			
Proceeds from bank and other loans	829,995	—	829,995
Repayment of bank and other loans	(642,000)	—	(642,000)
Interest paid	—	(48,887)	(48,887)
Total changes from financing cash flows	<u>187,995</u>	<u>(48,887)</u>	<u>139,108</u>
Other changes:			
Interest on borrowings (<i>note 6</i>)	—	49,110	49,110
At 31 December 2015 and 1 January 2016	<u>1,090,120</u>	<u>1,651</u>	<u>1,091,771</u>

APPENDIX II ACCOUNTANTS' REPORT OF SINOCEM CHANGSHAN

	Bank and other loans <i>RMB'000</i> <i>(Note 19)</i>	Interest payable <i>RMB'000</i>	Total <i>RMB'000</i>
Changes from financing cash flows:			
Proceeds from bank and other loans	611,507	–	611,507
Repayment of bank and other loans	(264,473)	–	(264,473)
Interest paid	–	(55,634)	(55,634)
	-----	-----	-----
Total changes from financing cash flows	347,034	(55,634)	291,400
	-----	-----	-----
Other changes:			
Interest on borrowings <i>(note 6)</i>	–	55,917	55,917
	-----	-----	-----
At 31 December 2016 and 1 January 2017			
	1,437,154	1,934	1,439,088
	-----	-----	-----
Changes from financing cash flows:			
Proceeds from bank and other loans	1,880,934	–	1,880,934
Repayment of bank and other loans	(1,317,473)	–	(1,317,473)
Interest paid	–	(82,759)	(82,759)
	-----	-----	-----
Total changes from financing cash flows	563,461	(82,759)	480,702
	-----	-----	-----
Other changes:			
Interest on borrowings <i>(note 6)</i>	–	83,881	83,881
	-----	-----	-----
At 31 December 2017 and 1 January 2018			
	2,000,615	3,056	2,003,671
	-----	-----	-----
Changes from financing cash flows:			
Proceeds from bank and other loans	629,920	–	629,920
Repayment of bank and other loans	(575,000)	–	(575,000)
Interest paid	–	(51,208)	(51,208)
	-----	-----	-----
Total changes from financing cash flows	54,920	(51,208)	3,712
	-----	-----	-----
Other changes:			
Interest on borrowings <i>(note 6)</i>	–	51,006	51,006
	-----	-----	-----
At 30 June 2018			
	2,055,535	2,854	2,058,389
	=====	=====	=====

APPENDIX II ACCOUNTANTS' REPORT OF SINOCEM CHANGSHAN

17 TRADE AND BILLS PAYABLES

	2015	At 31 December	2017	At 30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	126,039	133,090	75,695	50,816
Bills payable	119,903	19,000	–	–
	<u>245,942</u>	<u>152,090</u>	<u>75,695</u>	<u>50,816</u>
Trade and bills payables	<u><u>245,942</u></u>	<u><u>152,090</u></u>	<u><u>75,695</u></u>	<u><u>50,816</u></u>

The ageing analysis of trade and bills payable, based on the invoice date, is as follows:

	2015	At 31 December	2017	At 30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	192,226	101,225	43,909	10,106
More than 3 months but within 6 months	35,017	8,692	4,074	7,215
More than 6 months but within 12 months	4,060	13,552	6,943	12,277
Over 12 months	14,639	28,621	20,769	21,218
	<u>245,942</u>	<u>152,090</u>	<u>75,695</u>	<u>50,816</u>
	<u><u>245,942</u></u>	<u><u>152,090</u></u>	<u><u>75,695</u></u>	<u><u>50,816</u></u>

18 OTHER PAYABLES

	2015	At 31 December	2017	At 30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs payables	22,452	7,291	103,254	101,689
Payables for acquisition of property, plant and equipment	178,425	270,483	196,019	137,451
Interest payable	1,651	1,934	3,056	2,854
Others	11,617	11,986	15,323	19,615
	<u>214,145</u>	<u>291,694</u>	<u>317,652</u>	<u>261,609</u>
Other payables	<u><u>214,145</u></u>	<u><u>291,694</u></u>	<u><u>317,652</u></u>	<u><u>261,609</u></u>

19 INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	At 31 December		At 30 June	
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans				
Bank loans, guaranteed (note a)	130,000	–	–	–
Borrowings from Sinochem Fertilizer (notes b and c, note 25(b))	960,120	1,437,154	2,000,615	2,055,535
	<u>1,090,120</u>	<u>1,437,154</u>	<u>2,000,615</u>	<u>2,055,535</u>

All of the interest-bearing borrowings are fixed-rate borrowings carried at amortised cost and repayable as follows:

	At 31 December		At 30 June	
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount repayable:				
Within 1 year	760,000	1,103,473	1,735,658	1,819,216
After 1 year but within 2 years	150,000	130,000	264,957	236,319
After 2 years but within 5 years	180,120	203,681	–	–
	<u>1,090,120</u>	<u>1,437,154</u>	<u>2,000,615</u>	<u>2,055,535</u>
Less: amounts due within 1 year shown as current liabilities	<u>(760,000)</u>	<u>(1,103,473)</u>	<u>(1,735,658)</u>	<u>(1,819,216)</u>
Non-current liabilities	<u>330,120</u>	<u>333,681</u>	<u>264,957</u>	<u>236,319</u>

Notes:

- (a) As at 31 December 2015, the bank loans of RMB130,000,000 of Sinochem Changshan are guaranteed by Sinochem Fertilizer.
- (b) On 31 August 2018, Sinochem Changshan and Sinochem Fertilizer entered into the Debt For Equity Swap Agreement, pursuant to which Sinochem Fertilizer agreed to convert shareholder's loans of RMB1,820,000,000 into additional registered capital of Sinochem Changshan.
- (c) Included in borrowings from Sinochem Fertilizer, borrowings of RMB960,120,000, RMB1,437,154,000, RMB1,589,864,000 and RMB1,569,784,000 as at 31 December 2015, 2016, 2017 and 30 June 2018, respectively, are entrusted loan arranged through Sinochem Finance Co., Ltd.

20 DEFERRED INCOME

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	13,089	10,426	9,194	7,961
Additions	1,000	–	–	–
Recognised in profit or loss	(3,663)	(1,232)	(1,233)	(616)
At 31 December/30 June	<u>10,426</u>	<u>9,194</u>	<u>7,961</u>	<u>7,345</u>

Deferred income mainly represents the government grants received from relevant PRC authorities for fixed asset investment of Sinochem Changshan. The subsidies are recognised in the statement of profit or loss over the estimated useful lives of the respective assets.

21 DEFERRED TAX ASSETS

(a) Deferred tax assets recognised

- (i) The components of deferred tax assets recognised in the statements of financial position and the movements during the Relevant Periods are as follows:

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment losses for property, plant and equipment				
At 1 January	1,120	1,120	433	433
Charged to profit or loss	–	(687)	–	–
At 31 December/30 June	<u>1,120</u>	<u>433</u>	<u>433</u>	<u>433</u>

(b) Deferred tax assets not recognised

Sinochem Changshan has not recognised deferred tax assets in respect of cumulative tax losses of RMB99,868,000, RMB839,793,000, RMB2,205,960,000, and RMB2,258,780,000 as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available. Unrecognised tax losses will expire within five years from the end of respective year of assessment. Unrecognised tax losses of RMB5,153,000 and RMB5,145,000 have expired during 2016 and 2017.

22 CAPITAL AND RESERVES

Distributions

No distribution was made during the Relevant Periods.

23 CAPITAL RISK MANAGEMENT

Sinochem Changshan manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Sinochem Changshan's overall strategy remains unchanged from previous years.

The capital structure of Sinochem Changshan consists of net debt including borrowings, net of cash and cash equivalents and equity attributable to owners of Sinochem Changshan comprising paid-in capital, retained profits and other reserves.

The directors of Sinochem Changshan review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Sinochem Changshan will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

24 FINANCIAL INSTRUMENTS

Sinochem Changshan's major financial instruments include trade and bills receivables, other receivables and prepayments, bank balances and cash, trade and bills payables, other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no significant change to Sinochem Changshan's exposure to these risks or the manner in which it manages and measures these risks. The management manages and monitors Sinochem Changshan's exposures to these risks to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Sinochem Changshan. Sinochem Changshan's credit risk is primarily attributable to trade and other receivables. Sinochem Changshan's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions for which Sinochem Changshan considers to have low credit risk.

Trade and other receivables

Sinochem Changshan's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when Sinochem Changshan has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Normally, Sinochem Changshan does not obtain collateral from customers.

Sinochem Changshan measures loss allowances for trade and other receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

APPENDIX II ACCOUNTANTS' REPORT OF SINOCEM CHANGSHAN

The following table provides information about Sinochem Changshan's exposure to credit risk and ECLs for trade and other receivables as at 31 December 2015, 2016, 2017 and 30 June 2018:

	Expected loss rate %	Gross carrying amount <i>RMB'000</i>	Loss allowance <i>RMB'000</i>
At 31 December 2015			
Within 1 year	1.53%	8,489	130
More than 1 year but within 2 years	9.51%	5,214	496
More than 2 years	12.27%	3,822	469
		<u>17,525</u>	<u>1,095</u>
At 31 December 2016			
Within 1 year	2.27%	8,722	198
More than 1 year but within 2 years	14.05%	485	68
More than 2 years	18.13%	6,588	1,194
		<u>15,795</u>	<u>1,460</u>
At 31 December 2017			
Within 1 year	1.73%	7,845	136
More than 1 year but within 2 years	10.72%	3,333	357
More than 2 years	13.83%	6,991	967
		<u>18,169</u>	<u>1,460</u>
At 30 June 2018			
Within 1 year	1.81%	9,480	172
More than 1 year but within 2 years	11.22%	2,783	312
More than 2 years	14.48%	6,742	976
		<u>19,005</u>	<u>1,460</u>

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and Sinochem Changshan's view of economic conditions over the expected lives of the receivables.

(b) Liquidity risk

Sinochem Changshan is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined level of authority. Sinochem Changshan's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting periods of Sinochem Changshan's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date Sinochem Changshan can be required to pay:

	Contractual undiscounted cash outflow				Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	
At 31 December 2015					
Borrowings	798,406	161,653	198,964	1,159,023	1,090,120
Trade and bills payables	245,942	–	–	245,942	245,942
Other payables	214,145	–	–	214,145	214,145
	<u>1,258,493</u>	<u>161,653</u>	<u>198,964</u>	<u>1,619,110</u>	<u>1,550,207</u>
At 31 December 2016					
Borrowings	1,149,400	144,850	212,834	1,507,084	1,437,154
Trade and bills payables	152,090	–	–	152,090	152,090
Other payables	291,694	–	–	291,694	291,694
	<u>1,593,184</u>	<u>144,850</u>	<u>212,834</u>	<u>1,950,868</u>	<u>1,880,938</u>
At 31 December 2017					
Borrowings	1,811,477	275,925	–	2,087,402	2,000,615
Trade and bills payables	75,695	–	–	75,695	75,695
Other payables	317,652	–	–	317,652	317,652
	<u>2,204,824</u>	<u>275,925</u>	<u>–</u>	<u>2,480,749</u>	<u>2,393,962</u>
At 31 June 2018					
Borrowings	1,886,357	240,776	–	2,127,133	2,055,535
Trade and bills payables	50,816	–	–	50,816	50,816
Other payables	261,609	–	–	261,609	261,609
	<u>2,198,782</u>	<u>240,776</u>	<u>–</u>	<u>2,439,558</u>	<u>2,367,960</u>

(c) **Interest rate risk**

Sinochem Changshan is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 19 for details of these borrowings). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of Sinochem Changshan on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

Sensitivity analysis

Since Sinochem Changshan has no variable-rate borrowings at the Relevant Periods, no sensitivity analysis about interest rates risk is prepared.

25 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with Sinochem Changshan during the years ended 31 December 2015, 2016 and 2017, and the six months ended 30 June 2018 were as follows:

Immediate holding company

Sinochem Fertilizer

(a) **Transactions with related parties**

In addition to the transaction disclosed elsewhere in the financial statements, Sinochem Changshan entered into the following significant transactions with its related parties during the Relevant Periods:

	Years ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Sales of fertilizers to					
Immediate holding					
company	172,400	98,398	173,282	119,528	207,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Purchases of fertilizers					
from					
Immediate holding					
company	121,058	78,116	125,438	68,374	104,187
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loans from					
Immediate holding					
company	699,995	611,507	1,880,934	843,822	629,920
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Repayments of loans					
from					
Immediate holding					
company	642,000	134,473	1,317,473	570,000	575,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Balances with related parties

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	16	–	–	5,411
Prepayments	10,748	–	–	8,056
Trade and bills payables	3,087	17,252	17,900	7,037
Other payables and contract liabilities	55,356	1,990	42,770	26,144
Borrowings-due within one year (note (i))	630,000	1,103,473	1,735,658	1,819,216
Borrowings-due after one year (note (ii))	330,120	333,681	264,957	236,319
	<u>2,053</u>	<u>1,455</u>	<u>1,853</u>	<u>899</u>

Notes:

- i. Borrowings from Sinochem Fertilizer are borrowed with a maturity period within 1 year at fixed interest rates from 3.15% to 5.00% per annum.
- ii. Borrowings from Sinochem Fertilizer are borrowed with a maturity period within 5 years at fixed interest rates from 5.00% to 5.25% per annum.

(c) Key management personnel remuneration

Remuneration for key management personnel of Sinochem Changshan, including amounts paid to certain of the highest paid employees as disclosed in note 9, are as follows:

	Years ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other benefits	1,877	1,301	1,650	843	808
Retirement scheme contributions	176	154	203	98	91
	<u>2,053</u>	<u>1,455</u>	<u>1,853</u>	<u>941</u>	<u>899</u>

Total remuneration is included in “staff costs” (see note 6(b)).

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

The directors believe the presentation of such information is not meaningful for the purpose of this report.

26 COMMITMENTS

Capital commitments outstanding at Relevant Periods not provided for in the Historical Financial Information are as follows:

	At 31 December			At 30 June
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Contracted for the acquisitions of fixed assets	150	–	–	56,715
Authorised but not contracted for the acquisitions of fixed assets	156,289	73,781	99,597	40,039
	<u>156,439</u>	<u>73,781</u>	<u>99,597</u>	<u>96,754</u>

27 PARENT AND ULTIMATE HOLDING COMPANY

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the directors of Sinochem Changshan consider the immediate parent company is Sinochem Fertilizer and the ultimate holding company is 中國中化集團有限公司 (Sinochem Group Co., Ltd#).

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ending 31 December 2018 and which have not been adopted in this Historical Financial Information. These include the following which may be relevant to Sinochem Changshan.

	Effective for accounting periods beginning on or after
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

Sinochem Changshan is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on Sinochem Changshan's results of operations and financial position. The actual impact upon the initial adoption of these amendments, new standard and interpretations may differ as the assessment completed to date is based on the information currently available to Sinochem Changshan, and further impacts may be identified before the amendments, standards and interpretations are initially applied.

English translation for identification only

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Sinochem Changshan in respect of any period subsequent to 30 June 2018. No dividend or distribution has been declared or made by Sinochem Changshan in respect of any period subsequent to 30 June 2018.

Results of the six months ended 30 June 2018 compared to those of the six months ended 30 June 2017***Revenue***

For the six months ended 30 June 2018, the revenue of Sinochem Changshan was RMB452,580,000, up by 19% as compared to RMB381,830,000 for the six months ended 30 June 2017. In particular, the revenue of urea products was RMB95,060,000, representing a decrease of 42% as compared to RMB164,960,000 for the corresponding period of last year; and the revenue of liquid ammonia was RMB150,380,000, representing an increase of 112% as compared to RMB71,060,000 for the corresponding period of last year, which was mainly attributable to the fact that old production facilities halted production during the period and new production facilities were operated separately to principally produce liquid ammonia products with higher gross profit margin. The revenue of compound fertilizers was RMB206,480,000, representing an increase of 42% as compared to RMB145,550,000 for the corresponding period of last year. Such increase was mainly due to an increase in both production and sales volumes from the corresponding period of last year as a result of the newly-built 150,000-ton compound fertilizers production facilities being put into operation.

Gross Profit

For the six months ended 30 June 2018, the gross profit of Sinochem Changshan was RMB61,620,000, representing a significant improvement of profitability as compared to the negative gross profit of RMB37,840,000 for the six months ended 30 June 2017. Such increase in gross profit margin was mainly attributable to the improved production stability and the lower unit cost of products during the period, which changed the inversion between production cost and selling price in the corresponding period of last year due to the unstable production.

Operating Loss

For the six months ended 30 June 2018, the operating loss of Sinochem Changshan was RMB3,230,000, representing a decrease of 97% as compared to the operating loss of RMB94,930,000 for the six months ended 30 June 2017. Such decrease was mainly attributable to the improved production stability, the lower unit cost of products and the market price recovery, which contributed to an increase of RMB99,460,000 in gross profit from the corresponding period of last year.

Out of the operating expenses, selling and distribution cost amounted to RMB16,460,000 for the six months ended 30 June 2018, which grew by RMB8,580,000 from RMB7,880,000 for the six months ended 30 June 2017. Such growth was mainly due to a significant increase in the sales volume of liquid ammonia products. Due to the risks of exposure to liquid ammonia products, it was necessary to engage professional companies with applicable qualifications for the transportation of such products.

Sinochem Changshan was responsible for engaging transportation companies with respect to the majority of sales of liquid ammonia products and undertaking the related transportation expenses, which therefore resulted in a significant growth of transportation expenses.

Net Loss

For the six months ended 30 June 2018, the net loss of Sinochem Changshan was RMB54,240,000, representing a decrease of RMB76,660,000 or 59% as compared to the net loss of RMB130,900,000 for the six months ended 30 June 2017. Such decrease was mainly attributable to the improvement of Sinochem Changshan's operation as a whole caused by an increase in operating gross profit. However, Sinochem Changshan still incurred a loss due to high financing cost and heavy burden.

Results of the year ended 31 December 2017 compared to those of the year ended 31 December 2016

Revenue

For the year ended 31 December 2017, the revenue of Sinochem Changshan was RMB558,130,000, up by 81% as compared to RMB308,510,000 for the year ended 31 December 2016. In particular, the revenue of urea products was RMB249,090,000, representing an increase of 132% as compared to RMB107,410,000 for last year; and the revenue of liquid ammonia was RMB137,380,000, representing an increase of 408% as compared to RMB27,030,000 for last year. Such increase was mainly attributable to a significant increase in production volume as a result of the gradual resumption of production in 2017 after a prolonged halt to production of Sinochem Changshan's old production facilities in 2016. The revenue of compound fertilizers was RMB157,970,000, representing a decrease of 4% as compared to RMB165,360,000, and the production and sales volumes basically remained stable.

Gross Profit

For the year ended 31 December 2017, Sinochem Changshan recorded a negative gross profit of RMB83,800,000, representing a decrease of 11% as compared to a negative gross profit of RMB94,220,000 for the year ended 31 December 2016. The inversion between production cost and selling price improved as compared to that of 2016, which was mainly attributable to an increase in both production and sales volumes and a reduction of costs resulting from the resumption of production for the old production facilities and the gradual fine-tuning of the new production facilities in 2017.

Operating Loss

For the year ended 31 December 2017, the operating loss of Sinochem Changshan was RMB1,287,860,000, representing an increase of 84% as compared to the operating loss of RMB698,350,000 for the year ended 31 December 2016. In 2017, Sinochem Changshan made an impairment provision of RMB880,000,000 for property, plant and equipment as well as a provision of RMB154,320,000 for staff optimization cost out of its prudent consideration. If the effects of major non-recurring losses and expenses were excluded, the operating loss of Sinochem Changshan was RMB253,540,000 in 2017, representing a decrease of RMB96,180,000 or 27% as compared to the operating loss of RMB349,720,000 in 2016 after excluding major non-recurring losses.

Out of the operating expenses, selling and distribution cost increased by 130% to RMB14,420,000 for the year ended 31 December 2017 from RMB6,260,000 for the year ended 31 December 2016. Such increase was mainly due to a significant increase in the sales volume of both urea and liquid ammonia products during the year, and an increase in transportation expenses for sale because most of liquid ammonia products were transported by the professional companies engaged by Sinochem Changshan and the related transportation expenses were assumed by Sinochem Changshan.

Net Loss

For the year ended 31 December 2017, the net loss of Sinochem Changshan was RMB1,371,740,000, representing an increase of 82% as compared to the net loss of RMB754,950,000 for the year ended 31 December 2016. Such increase was mainly attributable to an impairment provision made for the above-mentioned property, plant and equipment in 2017.

Results of the year ended 31 December 2016 compared to those of the year ended 31 December 2015*Revenue*

For the year ended 31 December 2016, the revenue of Sinochem Changshan was RMB308,510,000, down by 54% as compared to RMB666,640,000 for the year ended 31 December 2015. In particular, the revenue of urea products was RMB107,410,000, representing a decrease of 73% as compared to RMB392,720,000 for last year; and the revenue of liquid ammonia was RMB27,030,000, representing a decrease of 13% as compared to RMB31,210,000 for last year. Such decrease was mainly attributable to a significant decrease in both production and sales volumes as a result of the fact that the old production facilities ran at half capacity and the new production facilities were operated unstably after being put into operation in 2016. The revenue of compound fertilizers was RMB165,360,000, representing a decrease of 17% as compared to RMB199,530,000 for last year, which was mainly due to a decline of product prices as a result of a sluggish fertilizer market. The revenue of morpholine was RMB5,220,000,

representing a decrease of 84% as compared to RMB32,390,000 for last year, which was mainly due to a halt to the production of morpholine from April 2016 as a result of its falling price and inability to generate profits for Sinochem Changshan.

Gross Profit

For the year ended 31 December 2016, Sinochem Changshan recorded a negative gross profit of RMB94,220,000 and experienced an inversion between production cost and selling price, and the profitability of its products significantly declined as compared to the gross profit of RMB22,340,000 for the year ended 31 December 2015. Such decline was mainly attributable to a significant increase in unit cost of products as a result of the fact that Sinochem Changshan ran at half capacity and its production volume shrank.

Operating Loss

For the year ended 31 December 2016, the operating loss of Sinochem Changshan was RMB698,350,000, representing a significant increase as compared to the operating loss of RMB26,730,000 for the year ended 31 December 2015. Such increase was mainly attributable to the inversion between production cost and selling price, the negative gross profit, and an increase of RMB180,460,000 in expenses due to the inclusion of depreciation and labor costs in administrative expenses during the halt to the production of production facilities, as well as an impairment provision of RMB348,630,000 made for property, plant and equipment out of its prudent consideration.

Out of the operating expenses, selling and distribution expenses decreased by 35% to RMB6,260,000 for the year ended 31 December 2016 from RMB9,630,000 for the year ended 31 December 2015, which was mainly due to a decrease in selling expenses as a result of a decrease in the sales volume of products during the year.

Net Loss

For the year ended 31 December 2016, the net loss of Sinochem Changshan was RMB754,950,000, representing a significant increase as compared to the net loss of RMB54,680,000 for the year ended 31 December 2015. Such increase was mainly attributable to a negative gross profit resulting from the inversion between production cost and selling price, as well as an impairment provision made for property, plant and equipment.

Capital Structure, Liquidity and Financial Resources

As at 30 June 2018, total assets of Sinochem Changshan amounted to RMB818,520,000 which comprised non-current assets of RMB509,180,000 and current assets of RMB309,340,000. Non-current assets mainly included property, plant and equipment of RMB382,640,000, and current assets mainly included inventories of RMB115,060,000, other receivables and prepayments of RMB133,470,000 and trade and

bills receivables of RMB48,950,000. Non-current liabilities of Sinochem Changshan mainly included interest-bearing borrowings due after one year of RMB236,320,000 and other long-term liabilities of RMB113,700,000. Current liabilities of Sinochem Changshan mainly included interest-bearing borrowings due within one year of RMB1,819,220,000 and other payables and receipt in advance of RMB261,610,000.

Net assets of Sinochem Changshan as at 31 December 2015 amounted to RMB463,410,000 and its gearing ratio (which was calculated by total liabilities divided by total assets) was 78%. As at 31 December 2016 and 2017 and 30 June 2018, net liabilities amounted to RMB290,870,000, RMB1,663,280,000 and RMB1,716,220,000, respectively, and gearing ratio was approximately 118%, 295% and 310%, respectively.

Borrowings

As at 31 December 2015, 31 December 2016, 31 December 2017 and 30 June 2018, interest-bearing borrowings of Sinochem Changshan were RMB1,090,120,000, RMB1,437,150,000, RMB2,000,620,000 and RMB2,055,540,000, respectively. All of such borrowings were credit borrowings from shareholders as denominated in RMB and at fixed interest rates.

The maturity analysis of the above credit borrowings from shareholders is as follows:

Unit: RMB'000

	As at 31 December			As at
	2015	2016	2017	30 June 2018
Repayable within one year	760,000	1,103,470	1,735,660	1,819,220
After one year but within two years	150,000	130,000	264,960	236,320
After two years but within five year	180,120	203,680	–	–
Total	<u>1,090,120</u>	<u>1,437,150</u>	<u>2,000,620</u>	<u>2,055,540</u>

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, the interest rates of term loans were from 4.815% to 5.25%, from 3.915% to 5%, 5% and 5% per annum, respectively.

Capital Expenditure

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, the capital expenditure used in purchase of property, plant and equipment and lease of land use rights amounted to RMB265,460,000, RMB117,650,000, RMB52,030,000 and RMB11,650,000, respectively.

Capital Commitments

As at 30 June 2018, Sinochem Changshan had additional capital commitments of RMB96,750,000, which were comprised of the purchases of property, plant and equipment contracted but not provided for and the purchases of property, plant and equipment authorised but not contracted for.

Significant Investment

As at 31 December 2015, 2016 and 2017 and 30 June 2018, Sinochem Changshan did not hold any significant investment.

Charge on Assets

As at 31 December 2015, 2016 and 2017 and 30 June 2018, Sinochem Changshan did not have any charge on assets.

Contingent Liabilities

As at 31 December 2015, 2016 and 2017 and 30 June 2018, Sinochem Changshan did not have any material contingent liabilities.

Employees and Remuneration Policies

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the total number of full-time employees of Sinochem Changshan were 1,640, 1,600, 1,480 and 1,106, respectively. Sinochem Changshan provides remuneration to its employees, including monthly salary, bonus and other benefits. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, the total staff costs of Sinochem Changshan (excluding provision for staff optimization cost) were RMB114,000,000, RMB108,000,000, RMB115,000,000 and RMB48,220,000, respectively.

Material Transaction

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, Sinochem Changshan did not have any material acquisitions or disposals of subsidiaries and associated companies.

Exchange Rate Risk

All operations of Sinochem Changshan are in the PRC and all of its assets and liabilities are denominated in RMB. Therefore, the Company is not aware of any material exposure to fluctuations in exchange rate.

Development Prospect

Upon completion of the Transaction, the capital structure of Sinochem Changshan will be greatly optimized, and its gearing ratio and interest expense will be substantially reduced, thus greatly reducing its operating burden. In 2018, Sinochem Changshan has achieved the long-term stable operation of its plant by implementing a series of reform measures. As a result, its risk resistance capability has been consistently strengthened and its profitability has been on the rise. Upon completion of the Transaction, the operating capability of Sinochem Changshan will be further improved. Subject to compliance with the industrial development policies of the PRC, Sinochem Changshan will make use of the regional advantages of the Northeast region to expand its production capacity, with a view to building a million-ton fertilizer production base.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.



INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF SINFERT HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2018 and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 and related notes as set out in Part B of Appendix IV to the circular dated 26 October 2018 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part B of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the capital injection in which 中化化肥有限公司 (Sinochem Fertilizer Co., Ltd.,[#] referred to herein as "Sinochem Fertilizer"), an indirect wholly-owned subsidiary of the Company, will convert the outstanding shareholder's loans due from its non-wholly owned subsidiary, 中化吉林長山化工有限公司 (Sinochem Jilin Changshan Chemical Co., Ltd.[#] referred to herein as "Sinochem Changshan") into an additional registered capital of Sinochem Changshan (the "Transaction") on the Group's financial position as at 30 June 2018 and the Group's financial performance for the six months ended 30 June 2018 as if the Transaction had taken place at 30 June 2018 and 1 January 2018, respectively. As part of this process, information about the Group's financial position as at 30 June 2018 and financial performance for the six months ended 30 June 2018 has been extracted by the Directors from the interim report of the Group for the six months ended 30 June 2018, on which a review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

[#] English translation for identification only

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 October 2018

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information of the Group, comprising the unaudited pro forma consolidated statement of financial position as at 30 June 2018 and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 (“Unaudited Pro Forma Financial Information”), has been prepared to illustrate the effect of the Transaction as if it had been completed on 30 June 2018 and 1 January 2018 respectively.

The Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 4.29 of the Listing Rules by the directors of the Company for the purpose of illustrating the effect of the Transaction.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results and financial position of the Group had the Transaction been completed as of the specified dates or any other dates.

The Unaudited Pro Forma Financial Information is based upon the unaudited consolidated statement of financial position of the Group as at 30 June 2018 and the unaudited consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018, which have been extracted from the Company’s published interim financial report for the six months ended 30 June 2018, and adjusted on a pro forma basis to reflect the effect of the Transaction. These pro forma adjustments are (i) directly attributable to the Transaction and not relating to other future events and decision and (ii) factually supportable based on the terms of the debt for equity swap agreement entered into between Sinochem Fertilizer and Sinochem Changshan on 31 August 2018.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE GROUP**

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1. Unaudited pro forma consolidated statement of financial position as at 30 June 2018

	The Group At 30 June 2018 RMB'000 (Unaudited)	Pro forma Adjustment RMB'000 Note 1	Pro forma Group RMB'000
Non-current assets			
Property, plant and equipment	2,393,484	–	2,393,484
Lease payments	481,182	–	481,182
Mining rights	562,647	–	562,647
Goodwill	831,641	–	831,641
Other long-term assets	38,855	–	38,855
Interest in associates	495,598	–	495,598
Interests in joint ventures	396,573	–	396,573
Other equity securities	524,137	–	524,137
Other financial assets	116,420	–	116,420
Advance payment for acquisition of property, plant and equipment	72,557	–	
Deferred tax assets	18,300	–	18,300
	5,931,394	–	5,931,394
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Current assets			
Inventories	4,475,716	–	4,475,716
Trade and bills receivables	1,476,602	–	1,476,602
Other receivables and advance payments	1,380,894	–	1,380,894
Loans to an associate	670,000	–	670,000
Lease prepayments	13,810	–	13,810
Other financial assets	180,000	–	180,000
Bank balances and cash	1,743,652	–	1,743,652
	9,940,674	–	9,940,674
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	The Group At 30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	Pro forma Adjustment <i>RMB'000</i> <i>Note 1</i>	Pro forma Group <i>RMB'000</i>
Current Liabilities			
Trade and bills payables	2,455,131	–	2,455,131
Other payables and receipt in advance	779,941	–	779,941
Contract liabilities	1,548,346	–	1,548,346
Interest-bearing borrowings – due within one year	68,000	–	68,000
Tax liabilities	15,472	–	15,472
	<u>4,866,890</u>	–	<u>4,866,890</u>
Net current assets	<u>5,073,784</u>	–	<u>5,073,784</u>
Total assets less current liabilities	<u>11,005,178</u>	–	<u>11,005,178</u>
Non-current liabilities			
Interest-bearing borrowings – due after one year	3,496,710	–	3,496,710
Deferred income	79,812	–	79,812
Deferred tax liabilities	221,306	–	221,306
Other long-term liabilities	174,223	–	174,223
	<u>3,972,051</u>	–	<u>3,972,051</u>
NET ASSETS	<u>7,033,127</u>	–	<u>7,033,127</u>
CAPITAL AND RESERVES			
Issued equity	8,267,384	–	8,267,384
Reserves	(1,026,486)	–	(1,026,486)
Total equity attributable to owners of the Company	7,240,898	(86,943)	7,153,955
Non-controlling interests	(207,771)	86,943	(120,828)
TOTAL EQUITY	<u>7,033,127</u>	–	<u>7,033,127</u>

2 Unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018

	The Group for the six months ended 30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	Pro forma adjustment <i>RMB'000</i> <i>Note 2</i>	Pro forma Group <i>RMB'000</i>
Revenue	13,037,313	–	13,037,313
Cost of sales	<u>(11,951,385)</u>	<u>–</u>	<u>(11,951,385)</u>
Gross profit	1,085,928	–	1,085,928
Other income and gains	146,738	–	146,738
Selling and distribution expenses	(456,534)	–	(456,534)
Administrative expenses	(305,804)	–	(305,804)
Other expenses and losses	(31,674)	–	(31,674)
Share of results of associates	(3,012)	–	(3,012)
Share of results of joint ventures	10,899	–	10,899
Finance costs	<u>(121,869)</u>	<u>–</u>	<u>(121,869)</u>
Profit before taxation	324,672	–	324,672
Income tax	<u>353</u>	<u>–</u>	<u>353</u>
Profit for the period	<u><u>325,025</u></u>	<u><u>–</u></u>	<u><u>325,025</u></u>
Profit for the period attributable to:			
– Owners of the Company	314,923	(1,919)	313,004
– Non-controlling interests	<u>10,102</u>	<u>1,919</u>	<u>12,021</u>
	<u>325,025</u>	<u>–</u>	<u>325,025</u>
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	The Group for the six months ended 30 June 2018 RMB'000 (Unaudited)	Pro forma adjustment RMB'000 Note 2	Pro forma Group RMB'000
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	(2,162)	–	(2,162)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of overseas subsidiaries	<u>30,422</u>	<u>–</u>	<u>30,422</u>
Other comprehensive income for the period	<u>28,260</u>	<u>–</u>	<u>28,260</u>
Total comprehensive income for the period	<u><u>353,285</u></u>	<u><u>–</u></u>	<u><u>353,285</u></u>
Total comprehensive income attributable to:			
– Owners of the Company	343,183	(1,919)	341,264
– Non-controlling interests	<u>10,102</u>	<u>1,919</u>	<u>12,021</u>
	<u><u>353,285</u></u>	<u><u>–</u></u>	<u><u>353,285</u></u>

Note 1: Upon completion of the Transaction, the shareholding percentage of Sinochem Fertilizer in Sinochem Changshan will increase from 94.78% to 98.16%. The adjustment represents the result of the Transaction that causing the non-controlling interest in the Group's consolidated financial statements to increase by RMB86,943,000, and the total equity attributable to owners of the Company would decrease by the same amount.

Note 2: The adjustment to profit for the period attributable to non-controlling interests represents the changing of the shareholding percentage of non-controlling interests cause the loss of Sinochem Changshan for the period attributable to non-controlling interests decrease by RMB1,919,000, and the loss attributable to the Company would increase by the same amount.

Note 3: The capital injection is to be made by Sinochem Fertilizer to Sinochem Changshan through the conversion of shareholder's loans into registered capital. Sinochem Fertilizer is not required to make any cash payment in respect of the Transaction.

Note 4: No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2018.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTEREST IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) nor had any interest in the right to subscribe for Shares in the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, Directors of the Company had long position in the Shares of the Company as follows:

Name of Director	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
Harry Yang	Beneficial owner	600	0.000%
Lu Xin	Beneficial owner	6,500,000	0.093%

3. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Group, within the two years preceding the Latest Practicable Date and are or may be material:

- (a) a share transfer agreement was entered into between Sinochem Fertilizer and Sinochem Group on 24 October 2017, pursuant to which Sinochem Fertilizer sold to Sinochem Group 571,578,484 shares of Qinghai Salt Lake Industry Co., Ltd. (青海鹽湖工業股份有限公司), representing 20.52% of its total issued share capital, for a total consideration of RMB8,063,198,568.40 (for further details, please refer to the Company's announcements dated 17 October 2017, 24 October 2017, 20 December 2017 and 23 May 2018, and the circular dated on 1 December 2017);
- (b) an entrusted loan contract was entered into by Sinochem Fertilizer with Yangmei Pingyuan Chemical Company Limited (陽煤平原化工有限公司, "Yangmei Pingyuan") and Sinochem Group Finance Co., Ltd. (中化集團財務有限責任公司, "Sinochem Finance") on 24 July 2018, pursuant to which Sinochem Fertilizer agreed to provide an entrusted loan in the principal amount of RMB670,000,000 to Yangmei Pingyuan through Sinochem Finance (for further details, please refer to the Company's announcement dated 24 July 2018); and
- (c) the DES Agreement.

4. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors are also employees of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of substantial shareholder of the Company	Position in the substantial shareholder of the Company
Zhang Wei	Sinochem Group Sinochem Corporation	President and director President and director
Yang Lin	Sinochem Group Sinochem Corporation	General accountant Chief financial officer

5. DIRECTORS' SERVICE CONTRACTS

On 16 February 2017, Mr. Qin Hengde, an executive Director and the Chief Executive Officer of the Company, entered into a service contract with the Company for a term of three years. On 15 May 2017, Mr. Harry Yang, an executive Director of the Company, renewed his service contract with the Company for a term of three years. Pursuant to the terms stipulated in the service contracts of Mr. Qin Hengde and Mr. Harry Yang, the respective service contract with the Company may be (i) terminated prior to its expiry if either party serves two months' prior notice to the other in writing; or (ii) terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the respective service contract. Should the Company terminate the respective service contract with Mr. Qin Hengde or Mr. Harry Yang prior to its expiry, Mr. Qin Hengde or Mr. Harry Yang will be entitled to receive a cash compensation equivalent to 11 months of his annual director's salary, save for the circumstances described in item (ii) above.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (b) none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2017 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) were proposed to be acquired or disposed of by; or (iv) were proposed to be leased to any member of the Group.

8. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Company since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

10. EXPERT

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this circular:

Name	Qualification
KPMG	Certified Public Accountants

The expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, KPMG:

- (a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) did not have any direct or indirect interest in any assets which had been since 31 December 2017 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

11. MISCELLANEOUS

- (a) The company secretary of the Company is Ms. CHEUNG Kar Mun, Cindy, a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate member of The Hong Kong Institute of Chartered Secretaries.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.
- (c) The principal place of business and head office of the Company in Hong Kong is at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (d) The principal share registrar and transfer office of the Company is Codan Services Limited at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.
- (e) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) for a period of 14 days from the date of this circular at the principal place of business of the Company at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong:

- (a) the bye-laws of the Company;
- (b) the DES Agreement;
- (c) the service contracts referred to in the section headed "Directors' Service Contracts" in this appendix;
- (d) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (e) the accountants' report of Sinochem Changshan received from KPMG, the text of which is set out in Appendix II to this circular;

- (f) the report on the unaudited pro forma financial information of the Group received from KPMG, the text of which is set out in Appendix IV to this circular;
- (g) the written consent referred to in the section headed “Expert” in this appendix;
- (h) the annual reports and consolidated financial statements of the Company for each of the two years ended 31 December 2016 and 2017 and the interim report and consolidated financial statements of the Company for the six months ended 30 June 2018; and
- (i) a copy of each circular issued by the Company pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since 31 December 2017, being the date of the Company’s latest published audited consolidated financial statements, including the circular dated 12 February 2018 in relation to the renewal of continuing connected transaction.