

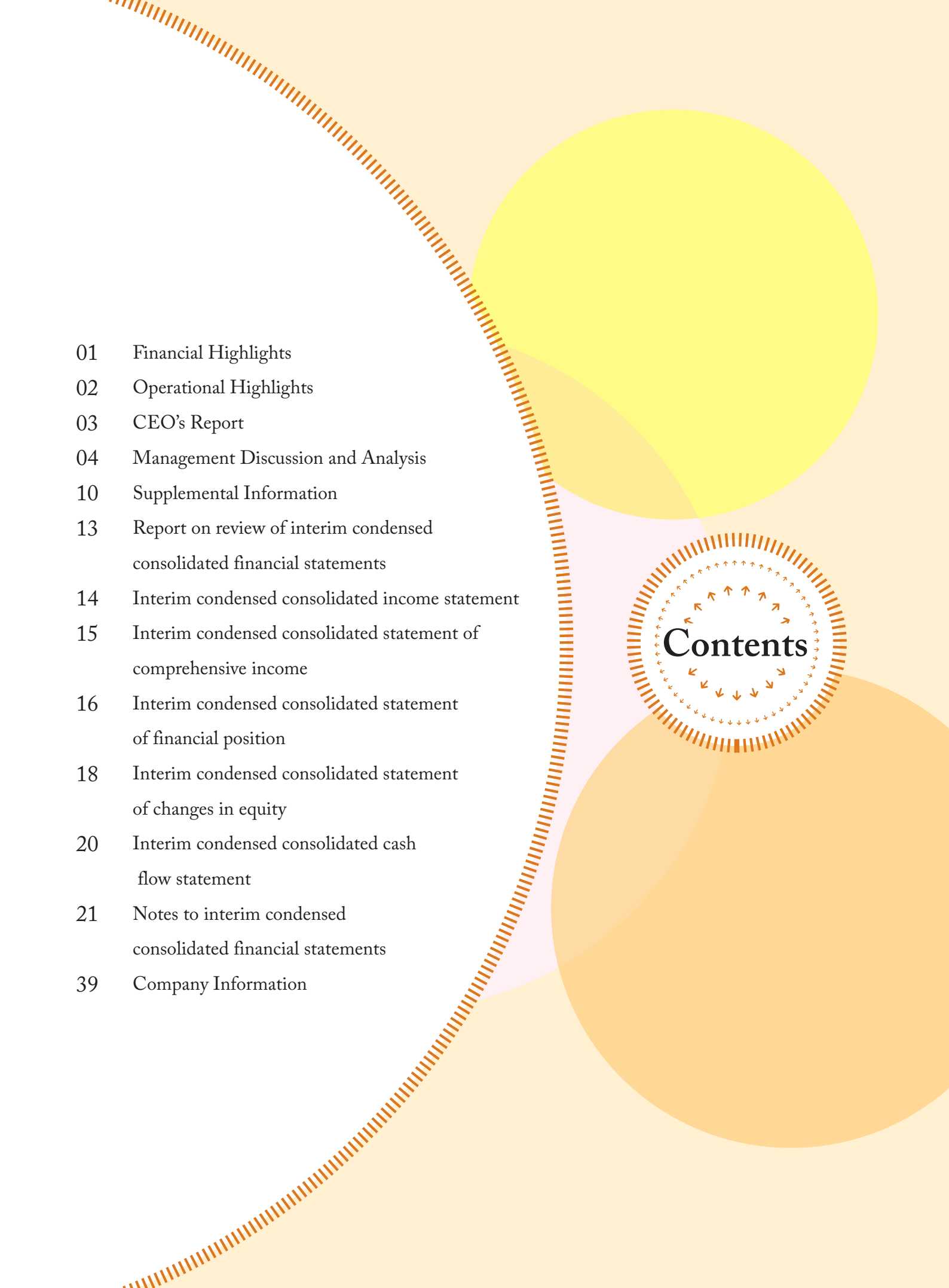


中海石油化学股份有限公司
China BlueChemical Ltd.

2012 中期報告 Interim Report



股票代碼 HKSE CODE 3983



| | |
|----|---|
| 01 | Financial Highlights |
| 02 | Operational Highlights |
| 03 | CEO's Report |
| 04 | Management Discussion and Analysis |
| 10 | Supplemental Information |
| 13 | Report on review of interim condensed consolidated financial statements |
| 14 | Interim condensed consolidated income statement |
| 15 | Interim condensed consolidated statement of comprehensive income |
| 16 | Interim condensed consolidated statement of financial position |
| 18 | Interim condensed consolidated statement of changes in equity |
| 20 | Interim condensed consolidated cash flow statement |
| 21 | Notes to interim condensed consolidated financial statements |
| 39 | Company Information |



Contents

Financial Highlights

Selected data of Interim condensed consolidated income statement

For the six months ended 30 June 2012

(All amounts expressed in thousands of Renminbi, except for per share data)

| | Six months ended 30 June | |
|--|--------------------------|-------------------|
| | 2012 Unaudited | 2011 Unaudited |
| Revenue | 5,001,295 | 4,756,558 |
| Cost of sales | (3,480,811) | (3,059,567) |
| Gross profit | 1,520,484 | 1,696,991 |
| Other income and gains | 75,032 | 61,993 |
| Selling and distribution costs | (87,816) | (77,936) |
| Administrative expenses | (186,225) | (191,301) |
| Other expenses | (13,200) | (10,259) |
| Finance income | 7,940 | 5,655 |
| Finance costs | (7,715) | (2,622) |
| Exchange (losses) / gains, net | (1,561) | 149 |
| Share of profits of associates | 58 | 50 |
| Profit before tax | 1,306,997 | 1,482,720 |
| Income tax expense | (296,657) | (326,607) |
| Profit for the period | 1,010,340 | 1,156,113 |
| Attributable to: | | |
| Owners of the parent | 908,454 | 1,030,292 |
| Non-controlling interests | 101,886 | 125,821 |
| | 1,010,340 | 1,156,113 |
| Earnings per share attributable to ordinary owners of the parent | | |
| - Basic for the period (RMB fen) | 19.71 | 22.35 |

Selected data of Interim condensed consolidated statement of financial position

As at 30 June 2012

(All amounts expressed in thousands of Renminbi)

| | 30 June 2012 | 31 December 2011 |
|-------------------------------------|-------------------|---------------------|
| | Unaudited | Audited |
| Assets | | |
| Non-current assets | 11,760,992 | 11,198,027 |
| Current assets | 4,776,123 | 5,270,706 |
| Total assets | 16,537,115 | 16,468,733 |
| Equity and liabilities | | |
| Total equity | 13,651,514 | 13,567,668 |
| Non-current liabilities | 692,544 | 680,009 |
| Current liabilities | 2,193,057 | 2,221,056 |
| Total equity and liabilities | 16,537,115 | 16,468,733 |

Operational Highlights

Production volume and utilisation rate of the Group's various plants

| | | For the six-month period ended 30 June | | | | | |
|--------------------------|-------------------------|--|---------|------------|----------------------|-------|--------|
| | | Production volume (tonnes) | | | Utilisation Rate (%) | | |
| | | 2012 | 2011 | Change (%) | 2012 | 2011 | Change |
| Fertilisers | | | | | | | |
| Urea | Fudao Phase I | 241,289 | 280,006 | (13.8) | 92.8 | 107.7 | (14.9) |
| | Fudao Phase II | 359,142 | 440,024 | (18.4) | 89.8 | 110.0 | (20.2) |
| | CNOOC Tianye | 247,632 | 257,711 | (3.9) | 95.2 | 99.1 | (3.9) |
| | Group total | 848,063 | 977,741 | (13.3) | 92.2 | 106.3 | (14.1) |
| Phosphate Fertilisers | DYK Chemical MAP | 18,169 | 23,128 | (21.4) | 24.2 | 30.8 | (6.6) |
| | DYK Chemical DAP | 198,527 | 188,630 | 5.2 | 113.4 | 107.8 | 5.6 |
| | Group total | 216,696 | 211,758 | 2.3 | 86.7 | 84.7 | 2.0 |
| Chemical Products | | | | | | | |
| Methanol | Hainan Phase I | 321,586 | 329,072 | (2.3) | 107.2 | 109.7 | (2.5) |
| | Hainan Phase II | 373,673 | 423,367 | (11.7) | 93.4 | 105.8 | (12.4) |
| | CNOOC Tianye | 57,754 | 68,825 | (16.1) | 57.8 | 68.8 | (11.0) |
| | Group total | 753,013 | 821,264 | (8.3) | 94.1 | 102.7 | (8.6) |
| POM | CNOOC Tianye POM (note) | 16,529 | - | - | 55.1 | - | - |
| | Group total | 16,529 | - | - | 55.1 | - | - |

* Note: CNOOC Tianye POM plant went into commercial operation on 1 October 2011. Its production volume in 2011 was included from the date of commercial operation only.

Sales volume of the Group's various plants

Unit: tonne

| | | For the six-month period ended 30 June | | |
|--------------------------|------------------|--|---------|------------|
| | | 2012 | 2011 | Change (%) |
| | | Fertilisers | | |
| Urea | Fudao Phase I | 249,641 | 284,937 | (12.4) |
| | Fudao Phase II | 366,564 | 417,312 | (12.2) |
| | CNOOC Tianye | 237,077 | 271,810 | (12.8) |
| | Group total | 853,282 | 974,059 | (12.4) |
| Phosphate Fertilisers | DYK Chemical MAP | 17,927 | 19,246 | (6.9) |
| | DYK Chemical DAP | 197,979 | 196,717 | 0.6 |
| | Group total | 215,906 | 215,963 | (0.03) |
| Chemical Products | | | | |
| Methanol | Hainan Phase I | 305,461 | 322,765 | (5.4) |
| | Hainan Phase II | 397,126 | 409,118 | (2.9) |
| | CNOOC Tianye | 36,480 | 45,795 | (20.3) |
| | Group total | 739,067 | 777,678 | (5.0) |
| POM | CNOOC Tianye POM | 16,438 | - | - |
| | Group total | 16,438 | - | - |

CEO's Report

Dear Shareholders,

In the first half of 2012, the worldwide grain planting drove up the global demand on fertilizers. In China, the demand for methanol was boosted by the promotion of alternative energies. Your Company achieved sound operating results through its solid production management, stringent cost control and stable sales network, despite the impact of the scheduled overhauls of the major production facilities in Hainan, the undersupply of natural gas during the winter season in Inner Mongolia and the slowdown in global economic growth.

Safe and stable operation of production plants

Our Hainan Phase I Methanol facility carried out long cycle of continuous operation. The ammonium phosphate plants of DYK Chemical in Hubei also ran stable, achieving higher utilization rates as compared to the corresponding period of last year. The Company successfully completed the overhauls for the urea facilities of Fudao Phase I and Fudao Phase II as well as Phase II methanol facility in Hainan on schedule. Upon completion of such overhauls, the three plants have been in stable operations. The utilization rates of the aforesaid three facilities declined as compared to those of the corresponding period of last year as a result of the scheduled overhauls. The utilisation rates of the urea and methanol facilities of CNOOC Tianye in Inner Mongolia were also lower due to the shortage in natural gas supply in winter. In addition, in view of the weak market demand, we aligned the production of the Inner Mongolia POM plant with POM's demand.

Industry-leading position in profitability maintained

Despite the adverse impact of the scheduled overhauls of the Company's three major production facilities in Hainan, the insufficient supply of natural gas at CNOOC Tianye in winter and the lackluster demand in the POM market, the Company, with its solid production management, sever cost control and stable sales network, achieved a gross profit margin of over 30% for the first half of 2012, maintaining its leading position in profitability among industry peers.

Smooth progress of key projects

The DAP expansion project of DYK Chemical conducted a successful trial run in April 2012, following thorough calibrations of the equipment. After passing the functional test, the project commenced commercial operations in August 2012, taking the Company's production capacity of phosphate fertilizers to one million tones per year.

The exploration and development work of the ancillary coal mine for the coal-based urea project in Hegang, Heilongjiang advanced progressively, as the geological exploration report for the coal mine was completed and submitted to the government for review and approval. In view of the progress, the Company resumed the construction of the Hegang coal-based urea project in early June 2012.

Outlook for the second half of 2012

Looking forward to the second half of 2012, strong international prices of agricultural products will drive the global demand for fertilizers, while the development of alternative energies in China will stabilize China's demand for methanol. Nevertheless, uncertainties in global economic growth will bring pressure to the domestic POM market.

To address the challenges as well as to leverage on the opportunities, the Company will focus on the following tasks in the second half of the year: to roll out management enhancement activities on all fronts with the aim of resolving the prominent issues of the Company; to further enhance the level of refined operations of our facilities so as to improve operating efficiencies and economic returns; to improve the quality of POM products and strive to fulfill our annual business objectives; to enhance marketing efforts for POM products so as to ensure smooth sales of the Company's products; to vigorously advance the construction of the Company's key projects; and to continue to identify worldwide merger and acquisition opportunities that fit the Company's development strategies.

YANG Yexin
CEO & President

Management Discussion and Analysis

Sector Review

Fertiliser Industry

In 2012, the Chinese government continues to significantly increase its investment in “agriculture, rural areas and farmers” in order to stabilize domestic grain productions and ensure domestic grain supplies. A total investment of RMB1,228.7 billion has been allocated to “agriculture, rural areas and farmers” for the year of 2012, an increase of 17.9% over last year, among which subsidies to the agricultural industry amount to RMB162.8 billion, an increase of 15.8% over 2011. At the same time, to increase farmers’ incomes from, and motivation in, growing food crops, the PRC government continued to raise the minimum purchase prices for wheat and rice steadily, with the minimum purchase prices for wheat increasing by 7.4% to 9.7% to RMB2.04 per kilogram and the minimum purchase prices for rice increasing by 9.4% to 17.6% to RMB2.4 to RMB2.8 per kilogram.

Benefitting from the increase in the global grain sowing area and favorable natural climatic conditions for the planting season, international and domestic demands for fertilisers were robust during the reporting period.

In 2012, export tariffs and low-season export windows of domestic urea and phosphate fertilisers remain the same as in 2011, but the export benchmark prices in 2012 do not include tariffs. Domestic producers of urea and phosphate fertilisers should benefit from that during the export window in low-season.

(I) Urea

During the first half of 2012, domestic urea production volume was approximately 32.65 million tonnes (in kind), an increase of about 9.6% over the first half of 2011.

Domestic market price of urea was approximately RMB2,250 per tonne from January to February 2012. Driven by the domestic demand during the high season, domestic market price of urea started to rise from the end of February onwards. Domestic market price of urea rose significantly from the second half of March, pulled by the soaring international market prices as well as the strong domestic demand of urea. The highest price of urea reached over RMB2,650 per tonne by early to mid-May. Since then, the domestic market price of urea started to decline, reaching approximately RMB2,250 per tonne by the end of June.

(II) Phosphate Fertilisers

During the reporting period, domestic ammonium phosphate production volume was about 12 million tonnes (in kind), an increase of approximately 9.1% compared with the corresponding period in 2011.

During the first half of 2012, domestic market for ammonium phosphate remained stable. The market price for diammonium phosphate (DAP) was within the range of RMB3,200 to RMB3,400 per tonne. However, production costs of DAP increased due to significant rises in the prices of ammonia and phosphoric ore, the major raw materials for the production of DAP, and the profitability of phosphate fertiliser producers was compromised as a result.

Chemical Industry

(I) Methanol sector

Although the slowdown of the domestic economic growth in the first half of 2012 affected the demand of traditional downstream use of methanol, the rapid development of alternative use of energy and methanol-to-olefin resulted in a substantial increase in the demand for methanol. During the reporting period, domestic apparent consumption of methanol was about 15 million tonnes, an increase of approximately 19% over the corresponding period in 2011.

In the first half of 2012, domestic methanol production volume amounted to approximately 12.6 million tonnes, an increase of approximately 30% compared with the corresponding period in 2011, while methanol import volume was approximately 2.47 million tonnes, a decrease of approximately 14% compared with the corresponding period in 2011.

The key domestic markets for methanol sustained a steady trend from January to May 2012. Price fluctuations ranged from RMB2,900 to RMB3,200 per tonne. The market prices for methanol eased since the beginning of June in the wake of the drastic fall in international energy prices. The price for methanol in key domestic markets maintained at RMB2,600 to RMB2,700 per tonne at the end of June.

(II) POM Sector

The overall domestic POM industry was making a loss for the first half of 2012, as the domestic market demand for POM was low due to the notably slowdown in both international and domestic economic growth, while there was ferocious market competition over domestic middle-to-low end POM products as a result of serious imbalance of supply over demand.

Business Review

During the reporting period, the methanol plant of Hainan Phase I of the Company and the ammonium phosphate plant of DYK Chemical in Hubei were in stable operations. The Company, through careful organization and reasonable planning, successfully completed the overhauls for the urea plants in Fudao Phase I and Fudao Phase II as well as the methanol plants in Hainan Phase II in accordance with the plan. Upon completion of such overhauls, the three plants have been in stable operations. However, the utilisation rates of those plants were lower than those of the corresponding period of last year as a result of the overhauls. The utilization rates of the urea and methanol plants of CNOOC Tianye in Inner Mongolia decreased due to the shortage in natural gas supplies in winter. The utilization rate of the POM plant of CNOOC Tianye was low due to sluggish sales caused by weak market demand.

During the reporting period, by seizing the advantageous opportunities brought by the peak season of domestic demands for fertilizers, robust market demands and demands for methanol as alternative energies, the Company successfully completed the sales targets for urea, phosphate fertilizers and methanol and achieved sound economic returns. However, the sales volume and selling price of our POM products were lower than expected due to weak demands as well as intensified competitions in the market.

Production and sales details of the Group's various plants during the reporting period are set out below:

| | For the six months ended 30 June | | | | | |
|------------------------------|----------------------------------|-----------------------------|----------------------------|----------------------------------|-----------------------------|----------------------------|
| | 2012 | | | 2011 | | |
| | Production Volume (tonnes) | Sales Volume (tonnes) | Utilisation Rate (%) | Production Volume (tonnes) | Sales Volume (tonnes) | Utilisation Rate (%) |
| Fertilisers | | | | | | |
| Urea | | | | | | |
| Fudao Phase I | 241,289 | 249,641 | 92.8 | 280,006 | 284,937 | 107.7 |
| Fudao Phase II | 359,142 | 366,564 | 89.8 | 440,024 | 417,312 | 110.0 |
| CNOOC Tianye | 247,632 | 237,077 | 95.2 | 257,711 | 271,810 | 99.1 |
| Group total | 848,063 | 853,282 | 92.2 | 977,741 | 974,059 | 106.3 |
| Phosphate fertilisers | | | | | | |
| DYK Chemical MAP | 18,169 | 17,927 | 24.2 | 23,128 | 19,246 | 30.8 |
| DYK Chemical DAP | 198,527 | 197,979 | 113.4 | 188,630 | 196,717 | 107.8 |
| Group total | 216,696 | 215,906 | 86.7 | 211,758 | 215,963 | 84.7 |
| Chemical Products | | | | | | |
| Methanol | | | | | | |
| Hainan Phase I | 321,586 | 305,461 | 107.2 | 329,072 | 322,765 | 109.7 |
| Hainan Phase II | 373,673 | 397,126 | 93.4 | 423,367 | 409,118 | 105.8 |
| CNOOC Tianye | 57,754 | 36,480 | 57.8 | 68,825 | 45,795 | 68.8 |
| Group total | 753,013 | 739,067 | 94.1 | 821,264 | 777,678 | 102.7 |
| POM | | | | | | |
| CNOOC Tianye POM (note) | 16,529 | 16,438 | 55.1 | – | – | – |
| Group total | 16,529 | 16,438 | 55.1 | – | – | – |

Note: CNOOC Tianye POM plant went into commercial operation on 1 October 2011. Its production volume in 2011 was included from the date of the commencement of commercial operation only.

Financial Review

Revenue and gross profit

During the reporting period, the Group's revenue was RMB5,001.3 million, an increase of RMB244.7 million, or 5.1%, from RMB4,756.6 million for the corresponding period of 2011. During the reporting period, the Group's gross profit was RMB1,520.5 million, a decrease of RMB176.5 million, or 10.4%, from RMB1,697.0 million for the corresponding period of 2011.

During the reporting period, the Group's external revenue derived from ureas amounted to RMB1,855.7 million, a decrease of RMB64.5 million, or 3.4%, from RMB1,920.2 million for the corresponding period of 2011, primarily attributable to: (1) a 25-day suspension and a 34-day operation at low utilisation rate of the urea plant of CNOOC Tianye in Inner Mongolia caused by serious undersupply of gases in the first quarter of the reporting period together with the overhauls of the urea plants at Fudao Phase I and Fudao Phase II in Hainan, resulting in a reduced volume of urea production with the sales of urea reduced by 120,777 tonnes in volume and RMB238.1 million in revenue as compared to the corresponding period of last year; (2) the rise of the selling price of urea by RMB203.5 per tonne contributing to an increase of RMB173.6 million in revenue partially offsetting the aforesaid reductions.

During the reporting period, the Group's external revenue derived from phosphate fertilisers was RMB660.5 million, a decrease of RMB6.6 million, or 1.0%, from RMB667.1 million for the corresponding period of 2011, primarily attributable to a decrease in the selling prices of phosphate fertilizers by RMB30.1 per tonne, contributing to a decrease of RMB6.5 million in revenue in the reporting period.

During the reporting period, the Group's external revenue derived from the methanol segment was RMB1,666.0 million, a decrease of RMB16.2 million, or 1.0%, from RMB1,682.2 million for the corresponding period of 2011, primarily attributable to: (1) the suspension of the methanol plant of CNOOC Tianye in Inner Mongolia for 83 days owing to the serious undersupply of gases in the first quarter of the reporting period and the overhaul of the Hainan Phase II methanol plant for 18 days in January, resulting in a reduced volume of methanol production with methanol sales reduced by 38,611 tonnes in volume and RMB83.5 million in revenue as compared to the corresponding period of last year; and (2) the rise of the selling price of methanol by RMB91.1 per tonne contributing to an increase of RMB67.3 million in revenue partially offsetting the aforesaid reductions.

During the reporting period, the Group's revenue from other segments (primarily comprising the manufacture and sale of BB fertilisers, POM and woven plastic bags, the trading of fertilisers and chemicals, port operations and the provision of transportation services) increased by RMB332.0 million, which was primarily attributable to: (1) an increase of RMB125.2 million in revenue during the reporting period following the commencement of commercial operation of the POM plant of CNOOC Tianye in Inner Mongolia in October 2011; (2) an increase of RMB168.7 million in revenue from the trading of fertilisers and chemicals; (3) an increase in revenue of RMB56.6 million from BB fertilisers; and (4) a decrease in transportation volumes at Basuo Port with a decrease of RMB18.5 million in revenue partially offsetting the aforesaid increases.

The Group's gross profit for the reporting period amounted to RMB1,520.5 million, a decrease of RMB176.5 million, or 10.4%, from RMB1,697.0 million for the corresponding period of 2011. It was primarily attributable to: (1) the reduction in the Group's production and sales volume of and revenue from urea and methanol owing to the serious undersupply of gases at CNOOC Tianye in Inner Mongolia and the overhauls of three production plants in Hainan, coupled with higher costs driven up by overhaul charges and the increase in natural gas prices compared with the corresponding period in 2011, partially offset by the increase in the selling prices of urea and methanol compared with the corresponding period in 2011, nonetheless, resulting in the decrease in gross profit for urea and methanol by RMB36.1 million and RMB23.3 million, respectively, for the reporting period; (2) the decrease in gross profit for phosphate fertilisers by RMB66.1 million for the reporting period owing to the significant increase in the production cost of phosphate fertilizers driven by rising prices for raw materials such as phosphoric ore, sulphur and ammonia; and (3) a decrease in the gross profit for other businesses by RMB51.0 million mainly reflecting losses sustained by the POM business owing to excessive oversupply and low prices in the domestic mid-to-low end POM market, coupled with higher production cost resulting from the low-load operation of production plants.

Other income and gains

The Group's other gains during the reporting period were RMB75.0 million, an increase of RMB13.0 million, or 21.0%, from RMB62.0 million for the corresponding period of 2011, primarily attributable to an increase of RMB12.6 million in entrusted investment gains during the reporting period.

Selling and distribution costs

The Group's selling and distribution costs during the reporting period were RMB87.8 million, an increase of RMB9.9 million, or 12.7%, from RMB77.9 million for the corresponding period of 2011, primarily attributable to: (1) an increase in selling and distribution costs of the new POM products by RMB6.7 million during the reporting period; and (2) an increase in sales volumes of 36,173 tonnes of Guangxi Fudao.

Administrative expenses

The Group's administrative expenses during the reporting period were RMB186.2 million, a decrease of RMB5.1 million, or 2.7%, from RMB191.3 million for the corresponding period of 2011.

Other expenses

The Group's other expenses during the reporting period were RMB13.2 million, an increase of RMB2.9 million, or 28.2%, from RMB10.3 million for the corresponding period of 2011, primarily attributable to the increase in handling fees in relation to entrusted loans and the tax amounts during the reporting period.

Finance income and finance costs

The Group's finance income during the reporting period was RMB7.9 million, an increase of RMB2.2 million, or 38.6%, from RMB5.7 million for the corresponding period of 2011. The increase was primarily attributable to the increase in deposit interest rate by domestic banks during the reporting period.

During the reporting period, the Group's finance costs were RMB7.7 million, an increase of RMB5.1 million, or 196.2%, from RMB2.6 million for the corresponding period of 2011.

Exchange gains/(losses), net

The Group recorded an exchange loss of RMB1.6 million during the reporting period, a decrease of RMB1.7 million from an exchange gain of RMB0.1 million for the corresponding period of 2011, primarily attributable to the exchange loss arising from the payment of dividends during the reporting period.

Income tax expense

The Group's income tax expense during the reporting period was RMB296.7 million, a decrease of RMB29.9 million, or 9.2%, from RMB326.6 million for the corresponding period of 2011, primarily attributable to: (1) a decrease in corporate income tax expense of RMB38.7 million due to the decrease in the Group's profit before tax during the reporting period; and (2) an increase in income tax expense of RMB8.8 million due to an increase in the income tax rate applicable to the Group to 22.7% during the reporting period, partially offsetting the aforesaid decrease.

Net profit for the period

During the reporting period, the Group's net profit was RMB1,010.3 million, a decrease of RMB145.8 million, or 12.6%, from RMB1,156.1 million for the corresponding period of 2011.

The decrease of the Group's net profit was primarily attributable to: (1) reduced production and sales volume of urea and methanol owing to the serious undersupply of gases at CNOOC Tianye in Inner Mongolia and the overhauls of three production plants in Hainan, coupled with the increase in costs reflecting the overhaul charges and the increase in natural gas prices; (2) higher production costs for phosphate fertilizers driven by rising prices of raw materials for the production of phosphate fertilisers such as phosphoric ore, sulphur and ammonia; and (3) losses incurred by the POM business owing to excessive oversupply in the mid-to-low end POM market with low prices, coupled with higher production cost resulting from the low-load operation of production plants.

Dividends

The board of directors of the Company did not recommend the payment of an interim dividend for the six-month period ended 30 June 2012.

As at 30 June 2012, the Company distributed the final cash dividend of RMB737.6 million for 2011.

Capital expenditure

During the reporting period, the Group's capital expenditure on acquisition, property, plant and equipment and prepaid land lease payments amounted to RMB851.2 million in total, mainly comprising investments of: (1) RMB535.9 million for the DYK Chemical Plant Phase II Expansion Project; (2) RMB101.4 million for the Huahe 520,000 tonnes/year Urea Project; (3) RMB68.4 million for production plant upgrades, product research and development and equipment purchases; and (4) RMB145.5 million for expansion and improvement of Basuo Port.

Pledge of assets

As at 30 June 2012, the Group did not pledge any assets.

Capital management

The primary objective of the Group's capital management is to maintain a high credit rating and healthy capital structure to safeguard its normal production operation and maximize shareholders' value. The Group manages its capital structure in response to changes in economic conditions and makes timely adjustments, if appropriate. We may raise new debts or issue new shares in order to maintain or realign our capital structure. The gearing ratio of the Group (interest-bearing debt divided by the sum of total equity plus interest-bearing debt) as at 30 June 2012 was 3.14%, an increase of 0.1% from 3.04% as at 31 December 2011, primarily attributable to new short-term borrowings of RMB18.2 million for Guangxi Fudao's tradings during the reporting period.

Cash and cash equivalents

The Group's cash and cash equivalents at the beginning of the reporting period were RMB2,803.3 million. Net cash inflows from operating activities for the reporting period were RMB1,325.5 million, net cash outflows from investing activities were RMB780.8 million, and net cash outflows from financing activities were RMB917.0 million. As at 30 June 2012, the Group's cash and cash equivalents were RMB2,431.0 million. The Group has sufficient cash flow to meet the capital demand for its daily operation and future development.

Human resources and training

As at 30 June 2012, the Group had 5,961 employees. The Company adopts a comprehensive remuneration system and a systematic welfare plan as well as an effective performance evaluation system to ensure that the remuneration policy provides sufficient incentives to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 1,652 training courses in strict compliance with its annual training plan with a total of 31,064 enrolments and 165,494 training hours.

Market risks

The major market risks of the Group are exposure to changes in the selling prices of the key products and costs of raw materials (mainly natural gas, phosphate ore, ammonia and sulphur), fuels (mainly coal) and energies as well as fluctuations in interest rates or exchange rates.

Commodity price risk

The Group is also exposed to commodity price risk arising from changes in product selling prices and costs of raw materials and fuels.

Interest rate risk

The major interest rate risk that the Group is exposed to includes the Group's long-term debt obligations which are subject to floating interest rates.

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. During the reporting period, the Renminbi to US dollar exchange rate ranged between 6.2670 to 6.3359. Fluctuation in exchange rate of RMB against US dollar may affect the Group's revenue from product and import prices for equipment and raw materials.

As at 30 June 2012, the Group had no debts which were denominated in US dollar.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 3.3% during the reporting period, which did not have a significant effect on the Group's operating results.

Post balance sheet events and contingent liabilities

After the reporting period and up to the date of this report, the Group had no material post balance sheet events.

As at 30 June 2012, the Group had no material contingent liabilities.

Material litigation and arbitration

As at 30 June 2012, the Group had no material litigation and arbitration.

Sector Outlook

Looking forward to the second half of 2012, the country will enter into the low-season for the use of chemical fertilisers, while the easing of coal prices will also bring pressure to the domestic market for chemical fertilisers. However, strong international prices for agricultural products should drive the international demand for chemical fertilisers, while exports of chemical fertilisers and domestic buffer inventory during winter season will provide support for the domestic prices of chemical fertilisers.

For the chemicals segment, the global economy will recover slowly, and the PRC economy is expected to stabilise. The rebound of international energy prices and the development of alternative use of energy as well as methanol-to-olefin would stabilize China's demand for methanol. However, the weakness in demand in the domestic POM market is not expected to reverse in the short term.

Our Key Tasks in the Second Half of 2012

1. Comprehensively enhance our management with effective measures implemented so as to address prominent issues of the Company as well as solidify our development foundation, while facilitating innovative management, consolidating our competitive strengths and risk resistance capacity to enhance our operational efficiency as well as economical benefits;
2. Strengthen production and HSE management, further enhance the refined management on operation of our production facilities to ensure safe, stable and highly effective operation of the existing plants and endeavor to achieve the annual production and operation targets;
3. Continue to optimise the production technology of the POM plant in Inner Mongolia in order to enhance the quality of our products;
4. Fully utilize the export windows of urea and phosphate fertilisers in low season during the second half of the year to ensure smooth product sales, while enhancing efforts on the sales of POM products to expand the market shares of our POM products;
5. Advance the construction of the coal-based urea project in Hegang, Heilongjiang and strive to complete the feasibility report and the governmental review and approval process for the ancillary coal mine as planned;
6. Continue to optimize the proposal for the conversion from natural gas-based to coal-based in CNOOC Tianye, Inner Mongolia;
7. Resolve as soon as possible the dispute with the joint venture partner of the Yangpoquan coal mine in Hualu, Shanxi;
8. Continue to look out for merger and acquisition opportunities in China and overseas that fit the development strategy of the Company.

Supplemental Information

Audit Committee

The Audit Committee has reviewed, with the management, the accounting principles and standards adopted by the Group and discussed internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2012. The Group's unaudited interim results for the six months ended 30 June 2012 have been reviewed independently by the Company's external auditor Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. Neither the Audit Committee nor the independent auditor Ernst & Young has any disagreement over the accounting treatments adopted in preparing the interim results during the reporting period.

Corporate Governance

The Company strives to maintain a high level of corporate governance in order to enhance transparency and ensure the protection of the overall interests of the shareholders. The Company complied with all Code Provisions as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) for the three months ended 31 March 2012 and all Code Provisions of the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1 April 2012) as set out in Appendix 14 to the Listing Rules for the three months ended 30 June 2012.

Disclosure of Information of Directors

Mr. Yang Shubo and Mr. Zhu Lei were appointed as the non-executive directors of the Company on 5 June 2012. Ms. Lee Kit Ying and Mr. Lee Kwan Hung were appointed as the independent non-executive directors of the Company on 5 June 2012. On 18 July 2012, Mr. Lee Kwan Hung resigned as the independent non-executive director of New Universe International Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Fang Yong, Mr. Chen Kai, Mr. Zhang Xinzhi and Mr. Tsui Yiu Wa, Alec ceased to be the directors of the Company on 5 June 2012.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

In respect of the transactions of securities by our Directors and Supervisors, the Company has adopted a set of standard codes on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Board confirms that, having made specific enquiries with all directors and supervisors, during the six months ended 30 June 2012, all members of the Board and all supervisors have complied with the Model Code.

Substantial Shareholders' Interests

As at 30 June 2012, to the best knowledge of the Directors and chief executive of the Company, pursuant to the register of required to be kept under Section 336 of the SFO, the interests and short positions in any shares and underlying shares of the Company held by the substantial shareholders and other individuals (excluding Directors, Supervisors and chief executive of the Company) are set out as below:

| Name of Substantial Shareholder | Nature of interest | Number of shares held | Class of shares | Approximate percentage of the relevant class of shares in issue (%) | Approximate percentage of total issued shares (%) |
|--|--|--|-----------------|---|---|
| China National Offshore Oil Corporation (Note 1) | Beneficial owner; security interests in shares held through a controlled corporation | 2,813,999,878(L) (Note 2) | Domestic Shares | 100(L) | 61.04(L) |
| Commonwealth Bank of Australia | Interests in controlled corporation | 177,804,000 (L) (Note 3) | H Shares | 10.04 (L) | 3.86 (L) |
| JP Morgan Chase & Co. | Beneficial owner; investment manager; custodian corporation/ approved lending agent | 176,596,756 (L) 127,576,756 (P) (Note 4) | H Shares | 9.97 (L) 7.20 (P) | 3.83 (L) 2.77 (P) |
| Hang Seng Bank Trustee International Limited | Trustee (other than a bare trustee) | 141,676,000 (L) (Note 5) | H Shares | 7.99 (L) | 3.07 (L) |
| Blackrock, Inc. | Interests in controlled corporation | 125,067,397 (L) 6,322,736 (S) | H Shares | 7.06 (L) 0.35 (S) | 2.71 (L) 0.14 (S) |
| Mondrian Investment Partners Limited | Investment manager | 89,810,000 (L) | H Shares | 5.07 (L) | 1.95 (L) |

Notes: The letter (L) denotes long position, the letter (S) denotes short position, and the letter (P) denotes lending pool.

- (1) Mr. LI Hui, the Chairman and Non-executive Director of the Company, is also the deputy general manager of China National Offshore Oil Corporation ("CNOOC").
- (2) Out of the 2,813,999,878 domestic shares, 2,738,999,512 shares are held as beneficial owner and 75,000,366 shares are held as having security interests in shares by CNOOC through a controlled corporation, CNOOC Finance Corporation Limited.
- (3) The shares of the Company are held directly by controlled corporations of Commonwealth Bank of Australia, which are First State Investments (Hong Kong) Ltd and First State Investment Management (UK) Limited.
- (4) The shares of the Company are held directly by a number of controlled corporations of JP Morgan Chase & Co., which are JP Morgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc., JF Asset Management Limited, J.P. Morgan Investment Management Inc. and JP Morgan Asset Management (UK) Limited.
- (5) These shares are held by Hang Seng Bank Trustee International Limited, which are also deemed to be interested by each of Value Partners Limited, Value Partners Group Limited, Value Partners Hong Kong Limited, Cheah Capital Management Limited, Cheah Company Limited, Mr. Cheah Cheng Hye and Ms. To Hau Yin.

Save as disclosed above and so far as the Directors and the chief executive of the Company are aware, as at 30 June 2012, no other person (excluding the Directors, Supervisors and chief executive of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) of the Company which were required to be recorded in the register kept under section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Directors', Supervisors' and Senior Management's Interests in Shares and Short Positions

Pursuant to the Company's H-Share Appreciation Rights Scheme, details of which were set out in the Company's circular dated 11 January 2008, as at 30 June 2012, the following Directors, Supervisors and senior management were granted share appreciation rights by the Company as follows:

| Names | Capacity | Number of share appreciation rights granted (Share) | Approximate percentage of the relevant class of shares in issue (%) | Approximate percentage of total issued shares of the Company (%) |
|-----------------|---|---|---|--|
| YANG Yexin | Executive Director, Chief Executive Officer and President | 891,000 | 0.05 | 0.02 |
| FANG Yong | Executive Vice President | 681,000 | 0.04 | 0.01 |
| CHEN Kai | Executive Vice President | 681,000 | 0.04 | 0.01 |
| ZHOU Fan | Executive Vice President | 454,000 | 0.03 | 0.01 |
| QUAN Changsheng | Chief Financial Officer, Vice President and Board Secretary | 616,000 | 0.03 | 0.01 |
| MIAO Qian | Vice President | 616,000 | 0.03 | 0.01 |

Notes:

- (1) Mr. Hong Junlian resigned as Vice President of the Company in August 2009 and the share appreciation rights over 616,000 shares granted to him have lapsed and cannot be exercised.
- (2) Mr. Wu Mengfei resigned as the Chairman and non-executive Director of the Company with effect from 29 July 2011.
- (3) With effect from 23 February 2012 Mr. Liang Mingchu ceased to be Vice President of the Company.
- (4) With effect from 5 June 2012 Mr. Fang Yong and Mr. Chen Kai ceased to be executive directors of the Company.

Save as disclosed above, as at 30 June 2012, none of the Directors, Supervisors or senior management of the Company or their respective associates had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 deemed or taken to have under such provisions of SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

Report on review of interim condensed consolidated financial statements



To the shareholders of China BlueChemical Ltd.

(Established in the People's Republic of China as a joint-stock company with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 14 to 38 which comprise the interim condensed consolidated statement of financial position of China BlueChemical Ltd. ("the Company") and its subsidiaries (collectively as "the Group") as at 30 June 2012 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB"). The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
21 August 2012

Interim condensed consolidated income statement

For the six months ended 30 June 2012

| | Notes | Six months ended 30 June | |
|---|-------|------------------------------|------------------------------|
| | | 2012 Unaudited RMB'000 | 2011 Unaudited RMB'000 |
| Revenue | 4 | 5,001,295 | 4,756,558 |
| Cost of sales | | (3,480,811) | (3,059,567) |
| Gross profit | | 1,520,484 | 1,696,991 |
| Other income and gains | 4 | 75,032 | 61,993 |
| Selling and distribution costs | | (87,816) | (77,936) |
| Administrative expenses | | (186,225) | (191,301) |
| Other expenses | | (13,200) | (10,259) |
| Finance income | | 7,940 | 5,655 |
| Finance costs | | (7,715) | (2,622) |
| Exchange (losses) / gains, net | | (1,561) | 149 |
| Share of profits of associates | | 58 | 50 |
| Profit before tax | 5 | 1,306,997 | 1,482,720 |
| Income tax expense | 6 | (296,657) | (326,607) |
| Profit for the period | | 1,010,340 | 1,156,113 |
| Attributable to: | | | |
| Owners of the parent | | 908,454 | 1,030,292 |
| Non-controlling interests | | 101,886 | 125,821 |
| | | 1,010,340 | 1,156,113 |
| Earnings per share attributable to ordinary owners of the parent | | | |
| - Basic for the period (RMB) | 7 | 0.20 | 0.22 |
| - Diluted for the period (RMB) | 7 | 0.20 | 0.22 |

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June 2012

| | Note | Six months ended 30 June | |
|---|------|------------------------------|------------------------------|
| | | 2012 Unaudited RMB'000 | 2011 Unaudited RMB'000 |
| Profit for the period | | 1,010,340 | 1,156,113 |
| Other comprehensive income for the period, net of tax | 8 | - | - |
| Total comprehensive income for the period, net of tax | | 1,010,340 | 1,156,113 |
| Attributable to: | | | |
| Owners of the parent | | 908,454 | 1,030,292 |
| Non-controlling interests | | 101,886 | 125,821 |
| | | 1,010,340 | 1,156,113 |

Interim condensed consolidated statement of financial position

As at 30 June 2012

| | | 30 June 2012 | 31 December 2011 |
|---|-------|-------------------|---------------------|
| | | Unaudited | Audited |
| | Notes | RMB'000 | RMB'000 |
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 9,925,740 | 9,347,634 |
| Mining rights | | 482,213 | 482,868 |
| Prepaid land lease payments | 9 | 466,563 | 472,695 |
| Intangible assets | | 125,075 | 129,685 |
| Investments in associates | | 654,405 | 654,347 |
| Available-for-sale investments | 10 | 600 | 600 |
| Deferred tax assets | | 106,396 | 110,198 |
| | | <u>11,760,992</u> | <u>11,198,027</u> |
| Current assets | | | |
| Inventories | | 1,429,971 | 1,473,422 |
| Trade receivables | 11 | 146,352 | 147,272 |
| Bills receivable | | 83,790 | 81,196 |
| Prepayments, deposits and other receivables | 12 | 659,892 | 730,989 |
| Available-for-sale investments | 10 | 11,610 | - |
| Pledged bank deposits | 13 | - | 1,711 |
| Time deposits | 13 | 13,500 | 32,850 |
| Cash and cash equivalents | 13 | 2,431,008 | 2,803,266 |
| | | <u>4,776,123</u> | <u>5,270,706</u> |
| Total assets | | <u>16,537,115</u> | <u>16,468,733</u> |

Interim condensed consolidated statement of financial position (continued)

As at 30 June 2012

| | | 30 June 2012 | 31 December 2011 |
|--|-------|-------------------|---------------------|
| | | Unaudited | Audited |
| | Notes | RMB'000 | RMB'000 |
| Equity and liabilities | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 14 | 4,610,000 | 4,610,000 |
| Reserves | | 7,697,981 | 6,789,415 |
| Proposed dividends | 15 | - | 737,600 |
| | | <u>12,307,981</u> | 12,137,015 |
| Non-controlling interests | | 1,343,533 | 1,430,653 |
| Total equity | | <u>13,651,514</u> | 13,567,668 |
| Non-current liabilities | | | |
| Benefits liability | | 50,101 | 53,411 |
| Interest-bearing bank borrowings | | 425,000 | 425,000 |
| Other long-term liabilities | | 147,360 | 129,802 |
| Deferred tax liabilities | | 70,083 | 71,796 |
| | | <u>692,544</u> | 680,009 |
| Current liabilities | | | |
| Interest-bearing bank borrowings | | 18,160 | - |
| Trade payables | 16 | 567,040 | 318,689 |
| Bills payable | 16 | - | 8,550 |
| Other payables and accruals | 17 | 1,511,297 | 1,765,424 |
| Income tax payable | | 96,560 | 128,393 |
| | | <u>2,193,057</u> | 2,221,056 |
| Total liabilities | | <u>2,885,601</u> | 2,901,065 |
| Total equity and liabilities | | <u>16,537,115</u> | 16,468,733 |
| Net current assets | | <u>2,583,066</u> | 3,049,650 |
| Total assets less current liabilities | | <u>14,344,058</u> | 14,247,677 |
| Net assets | | <u>13,651,514</u> | 13,567,668 |

YANG Yexin

Director

Lee Kit Ying

Director

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2012

| | Attributable to owners of the parent | | |
|---|--------------------------------------|------------------|----------------------------|
| | Issued capital | Capital reserve* | Statutory surplus reserve* |
| | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2012 | 4,610,000 | 1,009,725 | 611,377 |
| Profit for the period | - | - | - |
| Total comprehensive income for the period | - | - | - |
| Acquisition of non-controlling interests | - | - | - |
| Appropriation and utilisation of safety fund, net | - | - | - |
| Final 2011 dividends declared | - | - | - |
| As at 30 June 2012 (Unaudited) | 4,610,000 | 1,009,725 | 611,377 |

* These reserve accounts comprise the consolidated reserves of RMB7,697,981,000 (31 December 2011: RMB6,789,415,000) in the interim condensed consolidated statement of financial position.

| | Attributable to owners of the parent | | |
|---|--------------------------------------|------------------|---------------------------|
| | Issued capital | Capital reserve | Statutory surplus reserve |
| | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2011 | 4,610,000 | 1,009,725 | 471,031 |
| Profit for the period | - | - | - |
| Total comprehensive income for the period | - | - | - |
| Appropriation and utilisation of safety fund, net | - | - | - |
| Final 2010 dividends declared | - | - | - |
| As at 30 June 2011 (Unaudited) | 4,610,000 | 1,009,725 | 471,031 |

| Special reserve* | Retained profits* | Proposed dividends | Total | Non-controlling interests | Total equity |
|------------------|-------------------|--------------------|------------|---------------------------|--------------|
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 10,939 | 5,157,374 | 737,600 | 12,137,015 | 1,430,653 | 13,567,668 |
| - | 908,454 | - | 908,454 | 101,886 | 1,010,340 |
| - | 908,454 | - | 908,454 | 101,886 | 1,010,340 |
| - | 112 | - | 112 | (658) | (546) |
| 4,146 | (4,146) | - | - | - | - |
| - | - | (737,600) | (737,600) | (188,348) | (925,948) |
| 15,085 | 6,061,794 | - | 12,307,981 | 1,343,533 | 13,651,514 |

| Special reserve | Retained profits | Proposed dividends | Total | Non-controlling interests | Total equity |
|-----------------|------------------|--------------------|------------|---------------------------|--------------|
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 672 | 4,059,810 | 414,900 | 10,566,138 | 1,355,866 | 11,922,004 |
| - | 1,030,292 | - | 1,030,292 | 125,821 | 1,156,113 |
| - | 1,030,292 | - | 1,030,292 | 125,821 | 1,156,113 |
| 6,599 | - | - | 6,599 | - | 6,599 |
| - | - | (414,900) | (414,900) | (158,137) | (573,037) |
| 7,271 | 5,090,102 | - | 11,188,129 | 1,323,550 | 12,511,679 |

Interim condensed consolidated cash flow statement

For the six months ended 30 June 2012

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB'000 | RMB'000 |
| Net cash inflow from operating activities | 1,325,487 | 1,386,489 |
| Net cash outflow from investing activities | (780,759) | (1,145,244) |
| Net cash outflow from financing activities | (916,986) | (393,814) |
| Net decrease in cash and cash equivalents | (372,258) | (152,569) |
| Cash and cash equivalents at 1 January | 2,803,266 | 2,387,092 |
| Cash and cash equivalents at 30 June | 2,431,008 | 2,234,523 |
| Analysis of balances of cash and cash equivalents | | |
| Cash and balances with banks and financial institutions | 2,444,508 | 2,458,387 |
| Less: Pledged time deposits for letter of credit facilities | - | 2,584 |
| Less: Non-pledged time deposits at banks and financial institutions with original maturity of more than three months when acquired | 13,500 | 221,280 |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position | 2,431,008 | 2,234,523 |

Notes to interim condensed consolidated financial statements

1 Corporate information

China BlueChemical Ltd. (the “Company”) was established in the People’s Republic of China (the “PRC”) on 3 July 2000 as a limited liability company under the name of CNOOC Chemical Limited (中海石油化學有限公司). The Company was restructured and its name was changed to China BlueChemical Ltd. (中海石油化學股份有限公司) on 25 April 2006. The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC.

In September and October 2006, the Company issued an aggregate 1,610,000,000 new H shares at a price of HKD1.90 per share to the public, which were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the manufacture and sale of urea, methanol, phosphorus fertilisers which include mono-ammonium phosphate (“MAP”) and di-ammonium phosphate (“DAP”) fertilisers, and polyoxymethylene (“POM”).

In the opinion of the directors, the ultimate holding company of the Company is China National Offshore Oil Corporation (“CNOOC”), a state-owned enterprise established in the PRC.

As at 30 June 2012, particulars of the subsidiaries, associates, and jointly-controlled entities are as follows:

| Name | Place and date of establishment and operation | Registered capital RMB'000 | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|-------------------------------|---|--|
| Subsidiaries: | | | | |
| CNOOC Fudao Limited (海洋石油富島有限公司) | PRC 31 December 2001 | 463,000 | Direct Indirect 100.00 - | Manufacture and sale of fertilisers |
| Hainan CNOOC Plastic Co., Ltd. (海南中海石油塑編有限公司) | PRC 28 April 2002 | 12,716 | Direct Indirect 100.00 - | Manufacture and sale of woven plastic bags |
| Hainan CNOOC Complex Fertiliser Co., Ltd. (海南富島複合肥有限公司) | PRC 19 May 2000 | 7,500 | Direct Indirect 100.00 - | Manufacture and sale of BB fertiliser |
| Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司) | PRC 22 October 2001 | 6,250 | Direct Indirect - 67.26 | Provision of transportation services |
| CNOOC (Hainan) E&P Gas Limited (中海石油(海南)環保氣體有限公司) | PRC 8 November 2004 | 6,900 | Direct Indirect 100.00 - | Manufacture and sale of liquidised carbon dioxide |
| CNOOC Jincheng Coal Chemical Industry Co., Ltd. (中海石油晉城煤化工產業有限公司) | PRC 26 November 2007 | 160,000 | Direct Indirect 75.00 - | Manufacture and sale of fertilisers |
| Hainan Basuo Port Limited (海南八所港務有限責任公司) | PRC 25 April 2005 | 514,034 | Direct Indirect 73.11 - | Port operation |
| CNOOC Tianye Chemical Limited (中海石油天野化工股份有限公司) | PRC 18 December 2000 | 1,780,000 | Direct Indirect 90.00 - | Manufacture and sale of fertilisers, methanol, and POM |

Notes to interim condensed consolidated financial statements

1 Corporate information (continued)

| Name | Place and date of establishment and operation | Registered capital RMB'000 | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|-------------------------------|---|---|
| Subsidiaries: (continued) | | | | |
| Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司) | PRC 9 December 1999 | 3,297 | Direct Indirect - | Manufacture and sale of woven plastic bags |
| CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司) | PRC 31 October 2003 | 500,000 | Direct Indirect - | Manufacture and sale of methanol |
| China BlueChemical Yichang Mining Ltd (中海石油化學宜昌礦業有限公司) | PRC 7 August 2008 | 50,000 | Direct Indirect - | Phosphate mining and processing, sale of phosphate ore |
| Shanghai Qionghua Trading Co., Ltd. (上海瓊化經貿有限公司) | PRC 7 January 2002 | 27,000 | Direct Indirect - | Trading of fertilisers |
| China BlueChemical Baotou Coal Chemical Industry Co., Ltd. (中海油化學包頭煤化工有限公司) | PRC 11 September 2008 | 100,000 | Direct Indirect - | Manufacture and sales of fertilisers and chemical products |
| China Basuo Ocean Shipping Tally Co., Ltd. (八所中理外輪理貨有限公司) | PRC 9 May 2008 | 300 | Direct Indirect - | Provision of overseas shipping services |
| CNOOC Hualu Shanxi Coal Chemical Co., Ltd. (中海油華鹿山西煤炭化工有限公司) | PRC 29 November 2005 | 61,224 | Direct Indirect - | Preparatory work for a methanol and dimethyl ether project |
| Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限責任公司) | PRC 12 August 2005 | 1,050,624 | Direct Indirect - | Phosphate mining and processing, manufacture and sales of MAP and DAP fertilisers |
| Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司) | PRC 11 January 2003 | 20,000 | Direct Indirect - | Trading of fertilisers and chemicals |
| Guangxi Fudao Chemical Limited (廣西富島化工有限公司) | PRC 8 February 2006 | 3,000 | Direct Indirect - | Trading of fertilisers and chemicals |
| Guilin Fudao Agriculture Means of Production Limited (桂林富島農業生產資料有限公司) | PRC 10 March 2004 | 1,000 | Direct Indirect - | Trading of fertilisers and chemicals |
| CNOOC Guangxi Fertilizer and Technology Limited (廣西中海肥業科技有限公司) | PRC 25 December 2009 | 2,000 | Direct Indirect - | Manufacture and sale of fertilisers |
| Hegang Huahe Coal Chemical Ltd. (鶴崗市華鶴煤化股份有限公司) | PRC 26 May 2006 | 100,000 | Direct Indirect - | Manufacture and sale of fertilisers |
| Hainan Basuo Port Labor Service Limited (海南八所港務有限責任公司勞動服務公司) | PRC 14 March 2007 | 600 | Direct Indirect - | Provision of overseas shipping services |

Notes to interim condensed consolidated financial statements

1 Corporate information (continued)

| Name | Place and date of establishment and operation | Registered capital RMB'000 | Percentage of equity interest attributable to the Company | Principal activities |
|--|---|-------------------------------|---|---|
| Associates: | | | | |
| Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. (山西華鹿陽坡泉煤礦有限公司) | PRC 3 August 2001 | 52,000 | Direct 49.00 Indirect - | Mining and sale of coal |
| China Basuo Overseas Shipping Agency Co., Ltd. (中國八所外輪代理有限公司) | PRC 24 May 2000 | 1,800 | Direct - Indirect 36.56 | Provision of overseas shipping services |
| Jointly-controlled entities: | | | | |
| Guizhou Jinlin Chemical Co., Ltd. (貴州錦麟化工有限責任公司) | PRC 12 April 2007 | 235,294 | Direct 45.00 Indirect - | Phosphate mining and processing, manufacture and sales of phosphate ore and chemical products |
| Yantai Port fertilizer Logistics Co., Ltd. (煙台港化肥物流有限公司) | PRC 20 July 2011 | 122,500 | Direct 27.00 Indirect - | Cargo handling, warehousing, packaging and domestic freight forwarding |

2 Basis of preparation and changes to the Group's accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance IAS 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011. The adoption of new standards and interpretations as of 1 January 2012 does not have any impact on the accounting policies, interim financial position or performance of the Group.

Improvements to International Financial Reporting Standards ("IFRSs")

The IASB has issued improvements to IFRSs which set out amendments to a number of IFRSs primarily with a view to remove inconsistencies and clarify wording. The adoption of those amendments upon their effective dates did not have any material impact on the accounting policies, interim financial position or performance of the Group.

Notes to interim condensed consolidated financial statements

3 Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has reportable operating segments as follows:

- the urea segment is engaged in the manufacture and sale of urea;
- the phosphorus fertiliser segment is engaged in the manufacture and sale of MAP and DAP fertilisers;
- the methanol segment is engaged in the manufacture and sale of methanol; and
- the “others” segment mainly comprises segments engaged in manufacture and sale of BB fertiliser, POM and woven plastic bags, trading of fertilisers and chemicals, port operations and provision of transportation services.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with adjusted operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Business segments

| (Unaudited) | Urea RMB'000 | Phosphorus fertiliser RMB'000 | Methanol RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|------------------|-------------------------------------|---------------------|-------------------|------------------------------|-------------------|
| Six months ended 30 30 June 2012 | | | | | | |
| Segment revenue: | | | | | | |
| Sales to external customers | 1,855,735 | 660,455 | 1,666,024 | 819,081 | - | 5,001,295 |
| Inter-segment sales | 47,142 | - | 13,916 | 80,582 | ¹ (141,640) | - |
| Total | 1,902,877 | 660,455 | 1,679,940 | 899,663 | (141,640) | 5,001,295 |
| Segment results: | | | | | | |
| Segment profit before tax | 704,318 | 31,874 | 633,482 | (36,994) | ² (25,683) | 1,306,997 |
| As at 30 June 2012 | | | | | | |
| Segment assets | 4,108,187 | 3,426,543 | 3,041,219 | 3,223,992 | ³2,737,174 | 16,537,115 |

- Inter-segment sales are eliminated on consolidation.
- Profit for each operating segment does not include interest and unallocated gains (RMB15,067,000), corporate and other unallocated expenses (RMB31,474,000), finance costs (RMB7,715,000), and net exchange losses (RMB1,561,000).
- Segment assets do not include deferred tax assets (RMB106,396,000), available-for-sale financial assets (RMB600,000), cash and bank balances (RMB1,955,170,000), assets of centralised cost centre (RMB846,716,000), and inter-segment balances (RMB171,708,000).

Notes to interim condensed consolidated financial statements

3 Operating segment information (continued)

Business segments (continued)

| (Unaudited) | Urea RMB'000 | Phosphorus fertiliser RMB'000 | Methanol RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|-------------------------------|------------------|-------------------------------------|---------------------|-------------------|------------------------|------------------|
| Six months ended | | | | | | |
| 30 June 2011 | | | | | | |
| Segment revenue: | | | | | | |
| Sales to external customers | 1,920,230 | 667,137 | 1,682,193 | 486,998 | - | 4,756,558 |
| Inter-segment sales | 27,745 | 1,887 | 14,319 | 90,387 | ¹ (134,338) | - |
| Total | 1,947,975 | 669,024 | 1,696,512 | 577,385 | (134,338) | 4,756,558 |
| Segment results: | | | | | | |
| Segment profit before tax | 705,957 | 99,061 | 659,932 | 51,698 | ² (33,928) | 1,482,720 |
| As at 31 December 2011 | | | | | | |
| Segment assets | 4,155,204 | 2,869,481 | 3,537,757 | 3,320,704 | ³ 2,585,587 | 16,468,733 |

- Inter-segment sales are eliminated on consolidation.
- Profit for each operating segment does not include interest and unallocated gains (RMB20,036,000), corporate and other unallocated expenses (RMB51,491,000), finance costs (RMB2,622,000) and net exchange gains (RMB149,000).
- Segment assets do not include deferred tax assets (RMB110,198,000), available-for-sale financial assets (RMB600,000), cash and bank balances (RMB1,688,306,000), assets of centralised cost centre (RMB850,473,000) and intersegment balances (RMB63,990,000).

Notes to interim condensed consolidated financial statements

4 Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the invoiced values of goods sold, net of value added tax, after allowances for returns and discounts; and the value of services rendered during the period.

An analysis of revenue, other income and gains is as follows:

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB'000 | RMB'000 |
| Revenue | | |
| Sale of goods | 4,801,341 | 4,538,151 |
| Rendering of services | 199,954 | 218,407 |
| | 5,001,295 | 4,756,558 |
| Other income and gains | | |
| Gain on disposal of unlisted investments | 52,229 | 39,608 |
| Income from sale of other materials | 8,987 | 6,939 |
| Income from rendering of other services | 4,003 | 3,545 |
| Gross rental income | 363 | 1,081 |
| Government grants | 5,143 | 9,807 |
| Others | 4,307 | 1,013 |
| | 75,032 | 61,993 |

5 Profit before tax

The Group's profit before tax is arrived at after charging / (crediting):

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB'000 | RMB'000 |
| Cost of inventories sold | 3,288,506 | 2,857,436 |
| Cost of services provided | 164,332 | 185,432 |
| Depreciation | 379,589 | 403,662 |
| Amortisation of prepaid land lease payments | 5,979 | 5,573 |
| Amortisation of intangible assets | 4,813 | 3,620 |
| Write-down of inventories to net realisable value | 51,079 | - |

Notes to interim condensed consolidated financial statements

6 Income tax expense

Major components of income tax expense for the six months ended 30 June 2012 and 2011 are as follows:

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB'000 | RMB'000 |
| Current – PRC | | |
| Charge for the period | 294,568 | 327,428 |
| Deferred | 2,089 | (821) |
| Total tax charge for the period | 296,657 | 326,607 |

(a) Corporate income tax (“CIT”)

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for profits tax in Hong Kong as it does not have assessable profits currently sourced from Hong Kong. The New Corporate Income Tax Law effective from 1 January 2008 introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

CNOOC Fudao Limited (“CNOOC Fudao”), a subsidiary of the Company, is entitled to a preferential tax rate of 15% for the three years ending 31 December 2013 after being assessed as a high-tech enterprise.

Hubei Dayukou Chemical Co.,Ltd (“DYK Chemical”), a subsidiary of the Company, is entitled to a preferential CIT rate of 15% for the year 2012 after being assessed as a high-tech enterprise.

Hainan Basuo Port Limited (“Basuo Port”), a subsidiary of the Company, is entitled to an exemption from CIT for the five years ended 31 December 2009 and a 50% reduction in the applicable CIT rate for the five years ending 31 December 2014 as the company is engaged in infrastructure development and operation.

CNOOC (Hainan) E&P Gas Limited (“CNOOC E&P”), a subsidiary of the Company, is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. The year of 2008 is the first tax profitable year. The year of 2012 is the third year for CNOOC E&P to enjoy the 50% reduction in the applicable CIT rate of 25%.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2012 and 2011.

Notes to interim condensed consolidated financial statements

7 Earnings per share attributable to ordinary owners of the parent

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary owners of the parent for the six months ended 30 June 2012 of approximately RMB908,454,000 (six months ended 30 June 2011: RMB1,030,292,000) and the 4,610,000,000 ordinary shares in issue during the period (six months ended 30 June 2011: 4,610,000,000).

The Group had no potential dilutive ordinary shares in issue during these periods.

8 Components of other comprehensive income

| Movements of other comprehensive income before tax | Six months ended 30 June | |
|---|------------------------------|------------------------------|
| | 2012 Unaudited RMB'000 | 2011 Unaudited RMB'000 |
| Available-for-sale investments: | | |
| Gains arising during the period | 52,229 | 39,608 |
| Less: Reclassification adjustment for gains included in the interim condensed consolidated income statement - gains on disposal | (52,229) | (39,608) |
| | - | - |
| Tax effect of components of other comprehensive income | | |
| | | |
| Available-for-sale investments: | | |
| Gains arising during the period | 13,057 | 9,902 |
| Less: Reclassification adjustment for gains included in the interim condensed consolidated income statement | (13,057) | (9,902) |
| | - | - |

Notes to interim condensed consolidated financial statements

9 Property, plant and equipment and prepaid land lease payments

During the six months ended 30 June 2012, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB963,435,000 (six months ended 30 June 2011: RMB431,133,000). Property, plant and equipment amounting to RMB1,986,000 (six months ended 30 June 2011: RMB1,563,000) were disposed of during the six months ended 30 June 2012.

As at 30 June 2012, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB335,622,000 (31 December 2011: RMB306,725,000).

10 Available-for-sale investments

| | 30 June 2012 | 31 December 2011 |
|--------------------------------------|---------------|------------------|
| | Unaudited | Audited |
| | RMB'000 | RMB'000 |
| Current | | |
| Unlisted investments, at fair value | <u>11,610</u> | - |
| Non-current | | |
| Unlisted equity investments, at cost | <u>600</u> | 600 |

The current unlisted investments consist of placements in structured deposits. The fair value of unlisted investments has been estimated using a valuation technique which requires management to make estimates about the expected future cash flows discounted at current rates.

The non-current unlisted equity investments are accounted for at cost less accumulated impairment losses as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

Notes to interim condensed consolidated financial statements

11 Trade receivables

Sales of the Group's fertilisers including urea, MAP and DAP are normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. In the case of export sales, the Group may also accept irrevocable letters of credit issued in its favour.

The trading terms of the Group with its methanol and POM customers are mainly on credit. The credit period is generally one month, except for some high-credit customers, where payments may be extended.

An aging analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of impairment of trade receivables of the Group, is as follows:

| | 30 June 2012 | 31 December 2011 |
|---------------------------------------|----------------|------------------|
| | Unaudited | Audited |
| | RMB '000 | RMB '000 |
| Within six months | 130,824 | 141,316 |
| Over six months but within one year | 13,212 | 3,434 |
| Over one year but within two years | 1,496 | 2,498 |
| Over two years but within three years | 820 | 24 |
| | <u>146,352</u> | <u>147,272</u> |

As at 30 June 2012, the amount due from CNOOC and its subsidiaries, joint-ventures, and associates ("CNOOC group companies") included in the above trade receivable balances was RMB12,576,000 (31 December 2011: RMB14,183,000). The amount due is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

12 Prepayments, deposits and other receivables

| | 30 June 2012 | 31 December 2011 |
|--------------------------------|----------------|------------------|
| | Unaudited | Audited |
| | RMB'000 | RMB'000 |
| Prepayments | 521,576 | 589,500 |
| Prepaid land lease payments | 11,909 | 11,909 |
| Deposits and other receivables | 126,407 | 129,580 |
| | <u>659,892</u> | <u>730,989</u> |

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

The amounts due from the ultimate holding company, CNOOC group companies and associates included in the above can be analysed as follows:

| | 30 June 2012 | 31 December 2011 |
|--------------------------|---------------|------------------|
| | Unaudited | Audited |
| | RMB'000 | RMB'000 |
| Ultimate holding company | 1,140 | - |
| CNOOC group companies | 57,779 | 60,511 |
| Associates | 7,927 | 7,677 |
| | <u>66,846</u> | <u>68,188</u> |

The amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

Notes to interim condensed consolidated financial statements

13 Cash and cash equivalents, time deposits and pledged bank deposits

As at 30 June 2012, the Group had no pledged bank deposits (31 December 2011: RMB1,711,000) deposited with banks mainly for issuing letters of credit and guarantees in relation to the purchase of machinery and equipment.

The Group's cash and bank balances were denominated in RMB as at 30 June 2012 and 31 December 2011, except for amounts of RMB14,863,000 (31 December 2011: RMB57,021,000) which was translated from USD2,350,000 (31 December 2011: USD9,051,000); and RMB1,216,000 (31 December 2011: RMB12,000) which was translated from HKD1,491,000 (31 December 2011: HKD15,000).

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

As at 30 June 2012, included in the Group's cash and cash equivalents were RMB480,828,000 (31 December 2011: RMB322,373,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"). The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

14 Issued capital

| | Number of shares '000 | Nominal value RMB'000 |
|--|--------------------------|--------------------------|
| Registered capital | 4,610,000 | 4,610,000 |
| <i>Issued and fully paid:</i> | | |
| Domestic Shares of RMB1 each, currently not listed: | | |
| - State-owned shares | 2,739,000 | 2,739,000 |
| - Other legal person shares | 75,000 | 75,000 |
| Unlisted Foreign Shares of RMB1 each | 25,000 | 25,000 |
| H shares of RMB1 each | 1,771,000 | 1,771,000 |
| As at 30 June 2012 (unaudited) and 31 December 2011 (audited) | 4,610,000 | 4,610,000 |

Notes to interim condensed consolidated financial statements

15 Proposed Dividends

Pursuant to the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting principles and financial regulations; and (ii) the net profit determined in accordance with IFRSs.

As at 30 June 2012, the Company has paid a final 2011 dividend amounting to RMB737,600,000 (six months ended 30 June 2011: RMB414,900,000).

The board of directors of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

16 Trade payables and bills payable

The trade payables and bills payable are non-interest-bearing and are normally settled in 30 to 180 days. An aging analysis of trade payables and bills payable of the Group, based on invoice date, is as follows:

| | 30 June 2012 | 31 December 2011 |
|---------------------------------------|----------------|------------------|
| | Unaudited | Audited |
| | RMB'000 | RMB'000 |
| Within six months | 546,644 | 313,276 |
| Over six months but within one year | 7,978 | 4,861 |
| Over one year but within two years | 3,522 | 3,577 |
| Over two years but within three years | 3,371 | 90 |
| Over three years | 5,525 | 5,435 |
| | 567,040 | 327,239 |

The amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

As at 30 June 2012, the amount due to the ultimate holding company and CNOOC group companies included in the above trade payable balances was RMB457,000 (31 December 2011: Nil) and RMB344,128,000 (31 December 2011: RMB174,884,000) respectively.

Notes to interim condensed consolidated financial statements

17 Other payables and accruals

| | 30 June 2012 Unaudited RMB'000 | 31 December 2011 Audited RMB'000 |
|--|--------------------------------------|--|
| Advances from customers | 415,095 | 611,287 |
| Accruals | 72,083 | 9,258 |
| Accrued payroll | 162,934 | 229,999 |
| Other payables | 118,665 | 113,075 |
| Long-term liabilities due within one year | 1,798 | 1,798 |
| Payable to government | 84,883 | 84,883 |
| Tax payables | (59,518) | (87,966) |
| Port construction fee payable | 164,656 | 164,659 |
| Payables in relation to the construction and purchase of property, plant and equipment | 550,701 | 638,431 |
| | 1,511,297 | 1,765,424 |

The amounts due to the ultimate holding company and CNOOC group companies included in the above can be analyzed as follows:

| | 30 June 2012 Unaudited RMB'000 | 31 December 2011 Audited RMB'000 |
|-------------------------------------|--------------------------------------|--|
| Due to the ultimate holding company | - | - |
| Due to CNOOC group companies | 35,148 | 43,734 |
| | 35,148 | 43,734 |

The amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

18 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2012, the Group had the following capital commitments, principally relating to the construction or purchases of property, plant and equipment:

| | 30 June 2012 Unaudited RMB'000 | 31 December 2011 Audited RMB'000 |
|--------------------------------------|--------------------------------------|--|
| Contracted, but not provided for: | | |
| - Acquisition of plant and machinery | 1,047,617 | 1,201,649 |
| Authorised, but not contracted for: | | |
| - Acquisition of plant and machinery | 2,648,856 | 3,488,718 |
| | 3,696,473 | 4,690,367 |

Notes to interim condensed consolidated financial statements

18 Commitments and contingent liabilities (continued)

(b) Operating lease commitments

(i) As lessor

The Group leases certain of its buildings under operating lease arrangements with leases negotiated for terms from one year to twenty years to CNOOC group companies.

As at 30 June 2012 and 31 December 2011, the Group had total future minimum lease receivables from CNOOC New Energy (Hainan) Bio-energy & Chemical Co., Ltd. and CNOOC Green Materials Ltd. under non-cancellable operating leases falling due as follows:

| | 30 June 2012 | 31 December 2011 |
|---|--------------|------------------|
| | Unaudited | Audited |
| | RMB'000 | RMB'000 |
| Within one year | 1,326 | 1,425 |
| In the second to fifth years, inclusive | 1,988 | 1,348 |
| After five years | 3,804 | 4,072 |
| | 7,118 | 6,845 |

(ii) As lessee

The Group leases certain of its properties and vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one month to eleven years, and those for vehicles are for terms ranging between one year and four years.

As at 30 June 2012 and 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2012 | 31 December 2011 |
|---|---------------|------------------|
| | Unaudited | Audited |
| | RMB'000 | RMB'000 |
| Within one year | 27,587 | 5,681 |
| In the second to fifth years, inclusive | 8,926 | 6,148 |
| After five years | 1,208 | 3,065 |
| | 37,721 | 14,894 |

(c) Contingent liabilities

As at 30 June 2012, the Group had no significant contingent liabilities.

Notes to interim condensed consolidated financial statements

19 Related party transactions

During the period, the Group had the following material transactions with related parties:

(1) Recurring

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|------------------|
| | | 2012 | 2011 |
| | | Unaudited | Unaudited |
| | | RMB'000 | RMB'000 |
| (A) Included in revenue, other income and gains | | | |
| CNOOC group companies | | | |
| Sale of goods | (i) | 33,158 | 2,979 |
| Provision of transportation services | (ii) | 370 | 3,226 |
| Provision of packaging and assembling services | (iii) | 11,344 | 9,585 |
| Provision of other services | (iii) | 5,283 | 2,852 |
| | | <u>50,155</u> | <u>18,642</u> |
| (B) Included in cost of sales and other expenses | | | |
| (a) CNOOC group companies | | | |
| Purchase of raw materials | (i) | 1,198,215 | 1,114,076 |
| Transportation services | (ii) | 89,645 | 95,536 |
| Lease of offices | (iv) | 12,422 | 10,842 |
| Construction and installation services | (v) | 43,540 | 49,056 |
| Labour services | (vi) | 14,187 | 48,368 |
| Network services | (vi) | 1,516 | 1,114 |
| Logistics services | (vi) | 439 | 648 |
| | | <u>1,359,964</u> | <u>1,319,640</u> |

Notes to interim condensed consolidated financial statements

19 Related party transactions (continued)

(1) Recurring (continued)

| | Note | Six months ended 30 June | |
|--|-------|--------------------------|----------------------|
| | | 2012 | 2011 |
| | | Unaudited RMB'000 | Unaudited RMB'000 |
| (B) Included in cost of sales and other expenses(continued) | | | |
| (b) Included in finance income/costs | | | |
| CNOOC Finance | | | |
| Finance income | (vii) | 293 | 858 |
| Finance costs | (vii) | 6,957 | - |

Notes:

- (i) These transactions were conducted in accordance with terms agreed among the Group, its associates and CNOOC group companies.
- (ii) Transportation services were based on mutually agreed terms with reference to the market prices.
- (iii) Income from these services was determined by mutually agreed terms.
- (iv) Rental fees were based on mutually agreed terms with reference to the market rate.
- (v) The construction and installation fees were determined by reference to market prices.
- (vi) These services were charged based on mutually agreed terms.
- (vii) Finance income/costs were based on mutually agreed terms with reference to the market rate for expenses corresponding amounts and periods.

(2) Non-recurring

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|----------------------|
| | | 2012 | 2011 |
| | | Unaudited RMB'000 | Unaudited RMB'000 |
| Provision of utilities to a CNOOC group company | (i) | 8,786 | 5,292 |
| Fees and charges paid to a CNOOC group company | (ii) | 3,077 | 166 |
| Loans from CNOOC Finance | (iii) | 18,160 | - |

Notes:

- (i) The transaction was conducted in accordance with terms agreed between the Group and CNOOC group companies.
- (ii) Fees and charges were based on mutually agreed terms.
- (iii) Interest on the loans was based on market interest rates.

Notes to interim condensed consolidated financial statements

19 Related party transactions (continued)

(3) Balances with related parties

Details for following balances are set out in notes 11, 12, 13, 16 and 17 to the interim condensed consolidated financial statements. The balance with CNOOC Finance resulted from interests and loans. Others were mainly formed through routine trading transactions, reception of construction services, and other miscellaneous transactions with related parties.

| | Due from related parties | | Due to related parties | |
|--|--------------------------------------|--|--------------------------------------|--|
| | 30 June 2012 Unaudited RMB'000 | 31 December 2011 Audited RMB'000 | 30 June 2012 Unaudited RMB'000 | 31 December 2011 Audited RMB'000 |
| The ultimate holding company | 1,140 | - | 457 | - |
| CNOOC group companies (excluding CNOOC Finance) | 70,355 | 74,694 | 379,082 | 222,511 |
| Associates | 7,927 | 7,677 | - | - |
| CNOOC Finance | - | - | 218,354 | 200,115 |
| | | | 30 June 2012 Unaudited RMB'000 | 31 December 2011 Audited RMB'000 |
| Deposits placed by the Group with CNOOC Finance | | | 480,828 | 322,373 |

(4) Compensation of key management personnel of the Group

| | Six months ended 30 June | |
|---|------------------------------|------------------------------|
| | 2012 Unaudited RMB'000 | 2011 Unaudited RMB'000 |
| Short-term employee benefits | 1,198 | 1,485 |
| Post-employment benefits | 79 | 124 |
| Cash-settled share option expense | - | 1,003 |
| Total compensation paid to key management personnel | 1,277 | 2,612 |

Notes to interim condensed consolidated financial statements

19 Related party transactions (continued)

(5) Transactions with other state-owned enterprises (“SOE”) in the PRC

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. The sales of goods and rendering of services to these SOEs are individually not significant. The individually significant construction service provided by the SOE vendor is from an SOE, namely China National Chemical Engineering Group Corporation and its subsidiaries, in relation to the construction of DYK Chemical’s Phase II Expansion Project. For the period ended 30 June 2012, the Group has recorded in the additions to its property, plant and equipment for the purchases of construction services, with an aggregate amount of RMB59,000,000 (Six months ended 30 June 2011: RMB71,000,000). The related commitment as of 30 June 2012 was amount to RMB75,000,000 (31 December 2011: RMB76,000,000), which was included in the commitments in note 18 above.

In addition, the Group has certain of its cash, pledged bank deposits and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 30 June 2012 and 31 December 2011, as summarised below:

| | 30 June 2012 | 31 December 2011 |
|---------------------------|------------------|------------------|
| | Unaudited | Audited |
| | RMB’000 | RMB’000 |
| Cash and cash equivalents | 2,110,669 | 2,480,893 |
| Pledged bank deposits | - | 1,711 |
| Time deposits | 13,500 | 32,850 |
| | <u>2,124,169</u> | <u>2,515,454</u> |
| Long-term bank loans | <u>225,000</u> | 225,000 |

Deposit interest rates and loan interest rates are at the market rates.

20 Events after the reporting period

There is no material event after the reporting period.

21 Approval of interim condensed consolidated financial statements

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 21 August 2012.

Company Information

| | |
|--|--|
| Registered Office | No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC |
| Address of headquarter | Kaikang CNOOC Mansion, No.15, Sanqu, Anzhenxili, Chaoyang District, Beijing, The PRC |
| Principal place of business in the PRC | No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC |
| Representative Office in Hong Kong | 65/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong |
| Company Secretary | QUAN Changsheng |
| Authorized representatives | YANG Yexin No. 301, Building 5,12 Yongan Road, Basuo Town, Dongfang City Hainan Province, the PRC QUAN Changsheng Flat 1803,Building No.18 Zone 2, Yuhuili, Chaoyang District, Beijing |
| Alternate to authorized representatives | ZHANG Xuewen Flat D,16/F,On Wing Building 51-59 Bonham Strand East Sheung Wan, Hong Kong |
| Principal banker | Bank of China, Hainan Branch |
| Auditor | Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre, 8 Finance Street, Central Hong Kong |
| Hong Kong law legal adviser | Freshfields Bruckhaus Deringer 11th Floor,Two Exchange Square,Central,Hong Kong |
| The PRC law legal adviser | Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue |
| H Share registrar and transfer office | Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong |
| Investor Relations/Public Relations Hong Kong | Tel: (852) 22132533 Fax: (852) 25259322 |
| Beijing | Tel: (86) 010 84527249 Fax: (86) 010 84527254 |
| Webiste | www.chinabluechem.com.cn |
| Stock Code | Hong Kong Stock Exchange: 3983 |