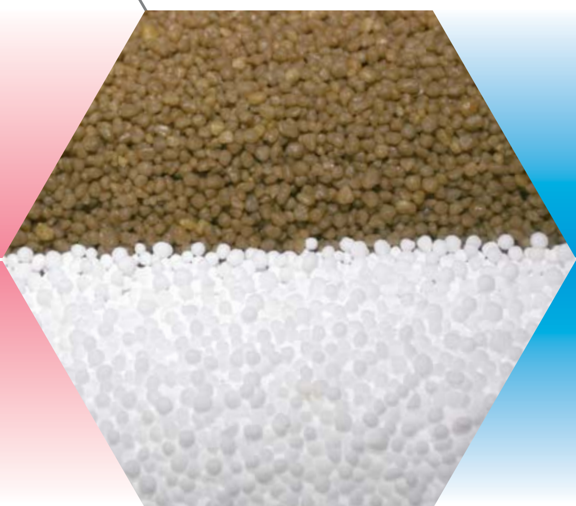
中海石油化學股份有限公司
China BlueChemical Ltd.

2013 / 中期報告
Interim Report



股票代碼 / HKSE CODE 3983

Contents

Financial Highlights

Selected data of interim condensed consolidated of profit or loss statement

For the six months ended 30 June 2013
(All amounts expressed in thousands of Renminbi, except for per share data)

	six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited/restated)
Revenue	5,222,016	5,001,295
Cost of sales	(3,670,583)	(3,480,811)
Gross profit	1,551,433	1,520,484
Other income and gains	93,369	74,792
Selling and distribution costs	(120,153)	(87,816)
Administrative expenses	(174,258)	(184,705)
Other expenses	(37,334)	(13,200)
Finance income	4,598	7,940
Finance costs	-	(8,316)
Exchange gains (losses), net	3,515	(1,561)
Share of profits (losses) of joint ventures	1,051	(679)
Share of profits of associates	50	58
Profit before tax	1,322,271	1,306,997
Income tax expenses	(285,016)	(296,657)
Profit for the period	1,037,255	1,010,340
Profit for the period attributable to:		
Owners of the parent	957,951	908,454
Non-controlling interests	79,304	101,886
	1,037,255	1,010,340
Earnings per share attributable to ordinary owners of the parent		
—Basic for the period (RMB)	0.21	0.20

Selected data of interim condensed consolidated statement of financial position

As at 30 June 2013
(All amounts expressed in thousands of Renminbi)

	30 June 2013	31 December 2012
	(Unaudited)	(Audited/restated)
Assets		
Non-current assets	12,715,441	12,427,326
Current assets	4,204,153	4,680,009
Total assets	16,919,594	17,107,335
Equity and liabilities		
Total equity	14,755,046	14,626,673
Non-current liabilities	217,643	273,545
Current liabilities	1,946,905	2,207,117
Total equity and liabilities	16,919,594	17,107,335

Operational Highlights

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

		For the six months ended 30 June					
		Production volume (tonnes)			Utilisation Rate (%)		
		2013	2012	Change %	2013	2012	Change
Fertilisers							
Urea	Fudao Phase I	295,422	241,289	22.4	113.6	92.8	20.8
	Fudao Phase II	421,414	359,142	17.3	105.4	89.8	15.6
	CNOOC Tianye	297,804	247,632	20.3	114.5	95.2	19.3
	Group total	1,014,640	848,063	19.6	110.3	92.2	18.1
Phosphate Fertilisers	DYK MAP	31,747	18,169	74.7	42.3	24.2	18.1
	DYK DAP Phase I	150,780	198,527	(24.1)	86.2	113.4	(27.2)
	DYK DAP Phase II (Note)	226,837	-	-	90.7	-	-
	Group total	409,364	216,696	88.9	81.9	86.7	(4.8)
Chemical Products							
Methanol	Hainan Phase I	269,552	321,586	(16.2)	89.9	107.2	(17.3)
	Hainan Phase II	382,508	373,673	2.4	95.6	93.4	2.2
	CNOOC Tianye	103,489	57,754	79.2	103.5	57.8	45.7
	Group total	755,549	753,013	0.3	94.4	94.1	0.3
POM	CNOOC Tianye POM	5,998	16,529	(63.7)	20.0	55.1	(35.1)
	Group total	5,998	16,529	(63.7)	20.0	55.1	(35.1)

Note: The DYK DAP Phase II Plant went into commercial operation on 1 August 2012. Its production volume in 2012 was included from the date of the commencement of commercial operation.

Sales volume of the Group's various plants

Unit: tonne

		For the six months ended 30 June		
		2013	2012	Change %
Fertilisers				
Urea	Fudao Phase I	282,919	249,641	13.3
	Fudao Phase II	374,271	366,564	2.1
	CNOOC Tianye	300,290	237,077	26.7
	Group total	957,480	853,282	12.2
Phosphate Fertilisers	DYK MAP	10,270	17,927	(42.7)
	DYK DAP Phase I	124,194	197,979	(37.3)
	DYK DAP Phase II	199,504	–	–
	Group total	333,968	215,906	54.7
Chemical Products				
Methanol	Hainan Phase I	267,768	305,461	(12.3)
	Hainan Phase II	379,363	397,126	(4.5)
	CNOOC Tianye	91,958	36,480	152.1
	Group total	739,089	739,067	0.0
POM	CNOOC Tianye POM	7,873	16,438	(52.1)
	Group total	7,873	16,438	(52.1)

CEO's Report

Dear shareholders,

During the first half of 2013, the domestic fertiliser and chemical industries had been facing tougher business environment due to intense competition in the global fertiliser market, lackluster recovery of global economy, and moderated economic growth in China. To address these challenges, the Company has made every effort to improve safety and production management, enhance sales and strictly control cost and expenditures. As a result, the Company achieved sound performance in the first half.

Review of the interim period

For the first half of 2013, the Company reported revenue of RMB5,222 million, an increase of 4.4% over the corresponding period of last year. Our net profit attributable to owners of the parent amounted to RMB958 million, representing a 5.4% growth over the corresponding period of last year.

In terms of production, the Company ensured the safe and efficient operation at all its major plants, with Fudao Phase I Urea Plant and CNOOC Tianye Urea Plant and Methanol Plant in Inner Mongolia all breaking their respective records for long-period operation. During the first half of the year, the Company's urea production volume reached historical high to over 1.01 million tonnes. The Company's Phosphate Fertiliser Plant reported stable operations, while Production Line A of the Company's CNOOC Tianye POM Plant in Inner Mongolia also reported stable operation and notable improvements in product quality as a result of the consistent efforts in process optimisation and techniques upgrades.

In terms of sales, the Company's sales volume of urea and phosphate increased by 12.2% and 54.7%, respectively, over the same period of last year due to timely adjustments to the sales strategy through close monitoring of market changes and increased promotion in our products. The sales prices of the Company's POM products also increased steadily every month during the reporting period.

With regards to the development, the Company made diligent efforts to advance the construction of the coal-based urea project in Hegang, Heilongjiang and the preparation for the launch of the project in CNOOC Tianye in Inner Mongolia to convert its production from natural gas-based to coal-based. Following the payment by Guizhou Jinlin, a company in which the Company held a 45% equity interest, of the consideration for the mining rights of phosphorous mine, there has been a significant breakthrough in the approval process for the mine. Meanwhile, the 10,000-tonne rare earth separation plant of Guizhou Jinlin, a demonstrative project for industrialization, has passed the inspection and acceptance procedure conducted by the relevant government authorities. In addition, CBC Canada, a subsidiary of the Company, has formed expert teams to commence detailed project evaluation after subscribing for 19.9% shares in Western Potash Corp. of Canada.

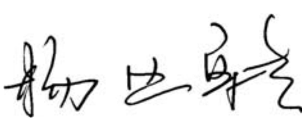
Outlook for the second half of 2013

Looking forward to the second half of the year, the fertiliser industry will face challenges of low season and the increased global supply. Regarding methanol, the increased demand and tight supply will drive up the global prices.

In the second half of the year, the Company will continue to enhance HSE and refined production management to facilitate safe and stable operation at all production plants, while ensuring the success of the trial production of high-end compound fertilisers at DYK Chemical DAP Phase I to pave way for the partial conversion of the phosphate fertiliser plant to the production of high-end compound fertilisers. In view of the highly competitive marketplace, the Company will increase its export of urea and phosphate products, pay great attention to autumn sales and winter buffer inventory in domestic fertiliser market, strive to achieve the annual sales objectives, and promote the sales of our compound fertilisers. In terms of development, the Company will advance the construction of the coal-based urea project in Hegang, Heilongjiang on schedule and commence the construction of the underground pipelines for the project in CNOOC Tianye in Inner Mongolia to convert its production from natural gas-based to coal-based. Meanwhile, we will work with Western Potash Corp. of Canada to conduct an in-depth feasibility study on the potash project and its financing arrangements.

YANG Yexin

CEO & President



Management Discussion and Analysis

Sector Review

Fertiliser industry

In 2013, the PRC government firmly supports and protects the agricultural sector and continues to reinforce policies for strengthening, benefiting as well as enriching the agricultural sector, rural areas and farmers, with a total investment of RMB1,379.9 billion allocated to the agricultural sector, rural areas and farmers for 2013, an increase of approximately 12% over 2012. Meanwhile, in order to promote growth in grain production and motivate farmers to farm grains, the PRC government has continued to raise the minimum purchase prices of wheat and rice to RMB2.24 per kilogram and RMB2.64 to RMB3.00 per kilogram, respectively, representing an increase of 9.8% and 7.1% to 10%, respectively, over the relevant minimum purchase price in 2012.

In the first half of 2013, growth in global demand for chemical fertilisers in the agricultural sector remained steady, but a significant increase in the supply of chemical fertilisers had led to an excess of supply over demand in the global chemical fertiliser market.

In 2013, low-season export tariff rate for domestic urea has been reduced to 2%, from 7% in 2012, and export benchmark price for domestic urea has increased to RMB2,260 per tonne, from RMB2,100 per tonne in 2012; low-season export tariff rate for domestic ammonium phosphate has been reduced to 5%, from 7% in 2012, export benchmark price for MAP has increased to RMB3,200 per tonne, from RMB2,900 per tonne in 2012 and export benchmark price for DAP has increased to RMB3,500 per tonne, from RMB3,400 per tonne in 2012, while low-season export period for ammonium phosphate has been extended by one month.

(I) Urea

Domestic urea production volume in the first half of 2013 was approximately 35.94 million tonnes (in kind), representing an increase of approximately 10% over the same period in 2012.

In the first quarter of 2013, the domestic market price of urea fluctuated within a narrow range of RMB2,250 to RMB2,300 per tonne. As the production cost of domestic coal-based urea was dragged down by a significant drop in the domestic coal price, the supply of urea increased significantly, which led to a drop in the domestic market price of urea since mid-April 2013. As at the end of June, the domestic market price of urea dropped to between RMB1,750 and RMB1,800 per tonne.

(II) Phosphate fertilisers

In the first half of 2013, domestic production volume of ammonium phosphate was approximately 12.30 million tonnes (in kind), representing an increase of approximately 6% over the same period in 2012.

In the first four months of 2013, the domestic market price of ammonium phosphate remained stable. From mid-May, the domestic price of DAP began falling significantly as the domestic ammonium phosphate market entered its low season in May and the international price of phosphate fertiliser dropped due to the combined effect of a cut in subsidies to ammonium phosphate products by, and currency depreciation in, India, a major importer. As at the end of June, the domestic market price of DAP dropped to approximately RMB2,850 per tonne.

Chemical industry

In the first half of 2013, while growth in the demand for methanol from traditional downstream sectors was adversely affected by the slowdown of domestic economic growth, the demand for methanol in the PRC market was primarily driven by the demand for methanol as an alternative energy and methanol-to-olefin.

The growth in the demand for POM in the domestic market has been sluggish as a result of the slowdown of the international economic recovery and domestic economic growth.

(1) Methanol

In the first half of 2013, domestic methanol production volume was approximately 13.64 million, representing an increase of approximately 8% over the same period in 2012.

In the first quarter of 2013, the major domestic markets for methanol remained stable with the prices fluctuating within a narrow range of RMB2,700 to RMB2,850 per tonne. Since late April, methanol price has slightly dropped due to the effect of a decrease in energy prices. As at the end of June, the price of methanol in major domestic markets was approximately RMB2,550 per tonne.

(2) POM

In the first half of 2013, domestic POM production volume was approximately 90,000 tonnes, representing a decrease of approximately 30% over the same period in 2012.

As the price of mid-to-low end POM in the domestic market was lower than its production cost, a decrease in the utilization rate of domestic POM manufacturers in the first half of 2013 resulted in a reduction in the supply of POM. As a result, severe oversupply of mid-to-low end POM has been alleviated. In the first half of 2013, the price of mid-to-low end POM in the domestic market started to rebound to RMB9,500 per tonne at the end of June, from RMB8,200 per tonne at the beginning of 2013.

Business Review

During the reporting period, the Company ensured the safe and stable operation at its major plants. Fudao Phase I Urea Plant, CNOOC Tianye Urea Plant and CNOOC Tianye Methanol Plant have all broken their respective records for long-period operation. Having benefited from a sufficient supply of natural gas and refined production management, the Company increased its urea production volume in the first half of 2013 to a new record; despite the significant increase in the utilization rate of CNOOC Tianye Methanol Plant, due to the overhauls of Hainan Phase I Methanol Plant and the shutdown for inspection of the upstream natural gas field on Hainan Phase II Methanol Plant, the utilization rate of our methanol plants remained unchanged as compared to the same period last year. Due to the inspection and repair carried out by DYK DAP Phase I for the trial production of high-end compound fertilisers and the inspection and repair carried out by DYK DAP Phase II, the utilization rate of our phosphate fertilisers plants was lower than that in the same period last year. The Company continued to control its POM production volume in alignment with its sales, and inspection and repair of POM plant have been conducted as planned to further optimize production techniques of POM as well as enhance product quality, resulting in a relatively lower level utilization rate of our POM plant.

During the reporting period, increasingly fierce competition in the domestic and international markets of chemical fertilisers put pressure on the sales of our chemical fertiliser products. Responding to such challenge, the Company has adjusted its sales strategies in due course, strengthened the trend-tracking and research work on the domestic market of chemical fertilisers, explored new sales channels while solidifying our existing sales network, and further implemented incentive measures for distributors to ensure the sales of our chemical fertiliser products.

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					
	2013			2012		
	Production Volume *(tonnes)*	Sales volume *(tonnes)*	Utilisation rate *(%)*	Production Volume *(tonnes)*	Sales volume *(tonnes)*	Utilisation rate *(%)*
Chemical fertilisers						
Urea						
Fudao Phase I	295,422	282,919	113.6	241,289	249,641	92.8
Fudao Phase II	421,414	374,271	105.4	359,142	366,564	89.8
CNOOC Tianye	297,804	300,290	114.5	247,632	237,077	95.2
Group total	1,014,640	957,480	110.3	848,063	853,282	92.2
Phosphate fertilisers						
DYK MAP	31,747	10,270	42.3	18,169	17,927	24.2
DYK DAP Phase I	150,780	124,194	86.2	198,527	197,979	113.4
DYK DAP Phase II (Note)	226,837	199,504	90.7	–	–	–
Group total	409,364	333,968	81.9	216,696	215,906	86.7
Chemical products						
Methanol						
Hainan Phase I	269,552	267,768	89.9	321,586	305,461	107.2
Hainan Phase II	382,508	379,363	95.6	373,673	397,126	93.4
CNOOC Tianye	103,489	91,958	103.5	57,754	36,480	57.8
Group total	755,549	739,089	94.4	753,013	739,067	94.1
POM						
CNOOC Tianye POM	5,998	7,873	20.0	16,529	16,438	55.1
Group total	5,998	7,873	20.0	16,529	16,438	55.1

Note: The DYK DAP Phase II Plant commenced commercial operation on 1 August 2012. Its production volume in 2012 was included from the date of the commencement of commercial operation.

BB fertilisers

In the first half of 2013, the Group produced a total of 33,605 tonnes of BB fertilisers with a sales volume of 32,365 tonnes.

Compound fertilisers

In the first half of 2013, the Group produced a total of 4,410 tonnes of compound fertilisers.

Financial Review

Revenue and gross profit

During the reporting period, the Group's revenue was RMB5,222.0 million, an increase of RMB220.7 million, or 4.4%, from RMB5,001.3 million in the same period of 2012.

During the reporting period, the Group's external revenue from urea was RMB1,917.6 million, an increase of RMB61.9 million, or 3.3%, from RMB1,855.7 million in the same period of 2012. The increase was primarily attributable to: (1) the long-period operation of the Group's three urea plants with high utilisation rates, helped by a sufficient supply of natural gas in the reporting period, resulting in a substantial increase in the production volume of urea and an increase in the sales volume of urea by 104,198 tonnes as compared to the same period last year, leading to an increase in revenue by RMB208.7 million, with such increase partially offset by (2) a decrease in revenue by RMB146.8 million due to a drop in urea price by RMB172.1 per tonne.

During the reporting period, the Group's external revenue from phosphate fertilisers was RMB1,029.5 million, an increase of RMB369.0 million, or 55.9%, from RMB660.5 million in the same period of 2012. The increase was primarily attributable to the commencement of commercial production of DYK DAP Phase II in August 2012 which contributed to an increase in the production volume of phosphate fertilisers in the first half of 2013, and an increase in the sales volume of phosphate fertilisers by 118,062 tonnes as compared to the same period last year, resulting in an uplift in revenue by RMB363.9 million.

During the reporting period, the Group's external revenue from the methanol segment was RMB1,576.8 million, a decrease of RMB89.2 million, or 5.4%, from RMB1,666.0 million in the same period of 2012. The decrease was primarily attributable to a decrease in revenue by RMB89.2 million caused by a drop in the selling price of methanol by RMB120.6 per tonne.

During the reporting period, the Group's external revenue from other segments (primarily comprising manufacture and sales of BB fertilisers, POM and woven plastic bags, trading in fertilisers and chemicals, port operations and provision of transportation services) decreased by RMB120.9 million, or 14.8%, to RMB698.2 million as compared to RMB819.1 million in the same period of 2012, which was primarily attributable to (1) a significant decrease in the POM production volume of CNOOC Tianye in Inner Mongolia in the reporting period, with a decrease in revenue by RMB65.2 million caused by a drop in sales volume of POM by 8,565 tonnes as compared to the same period last year; and (2) a decrease in revenue by RMB48.0 million caused by a drop in sales volume of BB fertilisers by 15,615 tonnes.

The Group's gross profit for the reporting period amounted to RMB1,551.4 million, an increase of RMB30.9 million, or 2.0%, from RMB1,520.5 million for the corresponding period of 2012. The increase was primarily attributable to (1) a substantial increase in production volume and sales volume of urea driven by the long-period operation of the Group's three urea plants with high utilisation rates in the reporting period, resulting in an increase in revenue; an increase in production volume had reduced the cost of sales of urea per unit, driving up the gross profit of urea by RMB142.0 million; (2) a decrease in gross profit of methanol by RMB158.6 million for the reporting period owing to an increase in maintenance charges for two methanol plants in Hainan and a decrease in the selling price of methanol; (3) an increase in gross profit of phosphate fertiliser by RMB55.0 million for the reporting period owing to an increase in sales volume of phosphate fertiliser and a decrease in costs of raw materials; and (4) a decrease in the gross profit for other businesses by RMB7.5 million mainly reflecting losses sustained by the POM business.

Other income and gains

The Group's other gains for the reporting period amounted to RMB93.4 million, an increase by RMB18.6 million, or 24.8%, from RMB74.8 million in the same period in 2012. The increase was primarily attributable to: (1) a net income of RMB38.4 million from the transfer of a portion of land by CNOOC Tianye in Inner Mongolia during the reporting period; and (2) a decrease in gains from entrusted asset management investments by RMB15.9 million.

Selling and distribution costs

The Group's selling and distribution costs for the reporting period amounted to RMB120.2 million, an increase of RMB32.4 million, or 36.9%, from RMB87.8 million in the same period of 2012. The increase was primarily attributable to (1) an increase in transportation expenses of RMB47.3 million due to the adjustment of the selling price of DYK phosphate fertiliser from ex-factory price to price delivered to the destination and export of phosphate in the reporting period; and (2) decrease in selling expenses due to decreases in trading volume of Guangxi Fudao and sales volume of POM.

Administrative expenses

The Group's administrative expenses for the reporting period amounted to RMB174.3 million, a decrease of RMB10.4 million, or 5.6%, from RMB184.7 million in the same period of 2012.

Other expenses

The Group's other expenses for the reporting period amounted to RMB37.3 million, an increase of RMB24.1 million, or 182.6%, from RMB13.2 million in the same period of 2012. The increase was principally due to (1) the establishment of CBC (Canada) Holding Corp. ("CBC (Canada)") jointly by the Company and Benewood Holdings Corporation Limited in the reporting period for the acquisition of 19.9% equity interests in Western Potash Corp. ("Western Potash") in Canada. Pursuant to the joint venture agreement, Benewood Holdings Corporation Limited was granted an unconditional put option by the Company and the Company was entitled to a conditional call option, and the options were valued by using Black-Scholes Option Pricing Model. As at 30 June 2013, the loss on such derivative financial instruments was RMB31.9 million, which was partially offset by (2) a decrease in non-operating expense of RMB7.8 million.

Finance income and finance costs

The Group's finance income for the reporting period decreased by RMB3.3 million, or 41.8%, to RMB4.6 million from RMB7.9 million in the same period of 2012. The decrease was principally due to (1) a drop in the interest rate for deposits in domestic banks; and (2) a decrease in the balance of our deposits as compared to the same period of 2012.

The Group's finance costs for the reporting period amounted to RMB nil, a decrease by RMB8.3 million, or 100%, from RMB8.3 million in the same period of 2012. The decrease was primarily attributable to the fact that the Company only had minimum bank borrowings in the reporting period.

Exchange gains (losses), net

During the reporting period, the Group recorded exchange gains of RMB3.5 million, an increase of RMB5.1 million compared with exchange losses of RMB1.6 million in the same period of 2012, which was primarily attributable to (1) exchange gains of RMB1.5 million from dividend payment in the reporting period as compared to exchange losses of RMB1.6 million from dividend payment in the same period last year; and (2) exchange gains of RMB2.0 million from translation from foreign currency to RMB upon the consolidation of CBC (Canada) into the Group.

Income tax expense

The Group's income tax expense for the reporting period was RMB285.0 million, a decrease of RMB11.7 million, or 3.9%, from RMB296.7 million in the same period of 2012. The decrease was primarily attributable to: (1) the decrease in income tax expense by RMB15.2 million due to downward adjustment of the applicable income tax rate to 21.6% for the Group during the reporting period, which was partially offset by (2) the increase in enterprise income tax expense by RMB3.5 million due to the increase in the Group's profit before taxation for the reporting period.

Net profit for the period

The Group's net profit for the reporting period was RMB1,037.3 million, an increase by RMB27.0 million, or 2.7%, from RMB1,010.3 million in the same period of 2012.

Increase in net profit was principally attributable to (1) a substantial increase in production volume and sales volume of urea and phosphate fertiliser, a decrease in cost of sales per unit and a drop in the applicable income tax rate, which was partially offset by (2) a decrease in selling prices of the Group's core products and (3) a decrease in the valuation of the call and put options for equity interests in CBC (Canada).

Dividends

The board of directors of the Company did not recommend the payment of an interim dividend for the six months period ended 30 June 2013.

During the reporting period, the Company distributed the final dividend of RMB691.5 million in cash for 2012.

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of acquisitions, property, plant and equipment as well as prepaid land lease payments amounted to RMB749.4 million. Capital expenditure primarily included: (1) RMB383.2 million for the Huahe 520,000 tonnes/year Urea Project; (2) the capital injection of RMB92.8 million into Guizhou Jinlin by the Company for the payment of mining rights for phosphoric ores; (3) an investment of RMB192.4 million for the acquisition of equity interests in Western Potash by CBC (Canada), a subsidiary of the Group; and (4) an investment of RMB81.0 million for upgrades and equipment purchases for production plants.

Pledge of assets

As at 30 June 2013, the Group did not pledge any assets.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to safeguard its normal production and operations, maximising shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. The gearing ratio of the Group as at 30 June 2013 (calculated as interest-bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 0%, in line with that as at 31 December 2012.

Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB2,563.7 million. The net cash inflow from operating activities was RMB942.4 million, net cash outflow from investing activities was RMB795.4 million, and net cash outflow from financing activities was RMB820.5 million for the reporting period. As at 30 June 2013, the Group's cash and cash equivalents were RMB1,890.1 million. The Group has sufficient working capital to meet the funds required for its day-to-day operation and future development.

Human resources and training

As at 30 June 2013, the Group had 6,007 employees. The Company has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 2,913 training courses, with a total of 101,074 enrolments and 336,034 training hours according to its annual training plan.

Market risks

The major market risks of the Group are exposure to changes in selling prices of key products and in costs of raw materials (mainly natural gas, phosphate ore, ammonia and sulphur), fuels (mainly coal), energy costs and 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 short-term and 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 ("USD"). During the reporting period, the Renminbi to USD exchange rate ranged between 6.1598 and 6.2898. RMB to USD exchange fluctuation may affect our revenue from sales of products, import of our equipment and raw materials.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.4% during the reporting period, which did not have a significant effect on the Group's operating results for the period.

Subsequent events and contingent liabilities

After the reporting period and up to the date of this report, the Group had no material subsequent events or material contingent liabilities.

Material litigation and arbitration

As at 30 June 2013, the Group had no material litigation or arbitration.

Sector Outlook

Looking forward to the second half of 2013, a depressed international price of chemical fertiliser, the start of the low season for the use of chemical fertiliser and the expansion of production capacity of chemical fertiliser will intensify the competition in the domestic chemical fertiliser market, but domestic policies on the stockpiling of chemical fertiliser in the low season and the production cost of chemical fertiliser will bolster the domestic market price of chemical fertiliser.

For chemical products, the steady growth in China's economy, the rapid development of methanol as an alternative energy and methanol-to-olefin will drive the domestic demand for methanol, and a relatively low utilization rate of domestic POM manufacturers will contribute to maintain a balance between supply and demand of POM in the domestic market.

Our Key Tasks in the second half of 2013

1. To continue to strengthen the refined production management, ensure safe, stable and highly efficient operation of the Company's major plants, further optimize POM production techniques, endeavor to ensure stable operation of the A line of our POM plants at a high utilisation rate, and enhance quality of POM products and ensure the success of the trial production of high-end compound fertilisers at DYK DAP Phase I;
2. To closely monitor market changes, increase export of our urea and phosphate fertilisers by fully leveraging on favourable export policies regarding urea and phosphate fertilisers, properly arrange domestic sales of chemical fertilisers and trial sales of high-end compound fertilisers taking advantage of the imminent commencement of the stockpiling of chemical fertilisers in the low season, well prepare for the commencement of production of the B and C lines of our POM plants by exploring markets for POM's application;
3. To advance the construction of the coal-based urea project in Hegang, Heilongjiang, ensuring the commencement of the trial production in the fourth quarter of 2014;
4. To advance the project in CNOOC Tianye in Inner Mongolia to convert its production from natural gas-based to coal-based as planned;
5. To conduct research on potash development project with Western Potash;
6. To resolve as soon as possible the dispute with the joint venture partner of the Yangpoquan coal mine in Hualu, Shanxi; and
7. To continue to look out for merger and acquisition opportunities in China and overseas that fit the Company's development strategy.

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 2013. The Group's unaudited interim results for the six months ended 30 June 2013 have been reviewed independently by the Company's external auditor, Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu has any disagreement over the accounting treatments adopted in preparing the interim results during the reporting period.

Compliance with corporate governance code

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. During the six months ended 30 June 2013, the Company has complied with all code provisions of the Corporate Governance Code as 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").

Disclosure of information of directors

Mr. Yang Yexin was appointed as Chairman of CBC (Canada) Holding Corp. in May 2013 and appointed as a director of Western Potash Corp., a company listed on Toronto Stock Exchange in Canada, in June 2013.

Mr. Lee Kwan Hung was appointed as an independent non-executive director of Shenzhen High-Tech Holdings Limited (renamed as Landsea Green Properties Co., Ltd. effective from 29 August 2013), a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2013.

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 2013, all members of the Board and all supervisors have complied with the Model Code.

Substantial shareholders' interests

As at 30 June 2013, to the best knowledge of the Directors and chief executive of the Company, pursuant to the register 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 shareholders	Capacity	Number of Shares held (shares)	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	2,788,999,756 (L) (Note 2)	Domestic Shares	99.11 (L)	60.50 (L)
Commonwealth Bank of Australia	Interests in controlled corporation	195,818,000 (L) (Note 3)	H Shares	11.06 (L)	4.25 (L)
Blackrock, Inc.	Interest in controlled corporation	125,980,261 (L) 1,706,000 (S) (Note 4)	H Shares	7.11 (L) 0.09 (S)	2.73 (L) 0.04 (S)
JP Morgan Chase & Co.	Beneficial owner; Investment manager; custodian/approved lending agent	124,073,067 (L) 0 (S) 120,667,067 (P) (Note 5)	H Shares	7.01 (L) 0.00 (S) 6.81 (P)	2.69 (L) 0.00 (S) 2.62 (P)
Government of Singapore Investment Corporation Pte Ltd	Investment manager	107,230,965 (L)	H Shares	6.05 (L)	2.33 (L)
The Bank of New York Mellon Corporation	Interests in controlled corporation	106,361,569 (L) 102,826,689 (P) (Note 6)	H Shares	6.01 (L) 5.81 (P)	2.31 (L) 2.23 (P)
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 2,788,999,756 domestic shares, 2,738,999,512 shares are held as beneficial owner and 50,000,244 shares are held as having security interests in shares through a controlled corporation, CNOOC Finance Corporation Limited ("CNOOC Finance").

(3) These shares are held directly by a number of controlled corporations of Commonwealth Bank of Australia, which are First State Investments (Hong Kong) Ltd, and First State Investment Management (UK) Limited.

(4) These shares are held directly by a number of controlled corporations of BlackRock, Inc., which are BlackRock Investment Management, LLC., BlackRock Financial Management, Inc., BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Advisors, LLC., BlackRock Asset Management Canada Limited, BlackRock Japan Co. Ltd., BlackRock Investment Management (Australia) Limited, BlackRock Asset Management Australia Limited, BlackRock Asset Management North Asia Limited, Blackrock Advisors (UK) Limited, BlackRock (Netherlands) B.V., BlackRock (Luxembourg) S.A., BlackRock Asset Management Ireland Limited, BlackRock Investment Management (UK) Limited, BlackRock Fund Managers Limited and BlackRock International Limited.

(5) These shares 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, J.P. Morgan Investment Management Inc. and JP Morgan Asset Management (UK) Limited.

(6) These shares are held directly by a controlled corporation of The Bank of New York Mellon Corporation, which is The Bank of New York Mellon.

Save as disclosed above, and so far as the Directors and chief executives of the Company are aware, as at 30 June 2013, no person (other than a Director, Supervisor and chief executive of the Company) had any interests and short positions in the shares or underlying shares (as the case may be) of the Company which were required to be recorded into the register kept pursuant to Section 336 of the SFO.

Purchase, sale and redemption of the company's listed securities

For the six months ended 30 June 2013, 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 2013, the following Directors 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. Wu Mengfei resigned as the Chairman and non-executive Director of the Company with effect from 29 July 2011. He was granted share appreciation rights of 1,053,000 shares during his term in office.

(2) Mr Liang Mingchu ceased to be Vice President of the Company with effect from 23 February 2012. He was granted share appreciation rights of 616,000 shares during his term in office.

Save as disclosed above, as at 30 June 2013, 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

Deloitte.
德勤

To the Board of Directors of China Bluechemical Ltd.

Introduction

We have reviewed the condensed consolidated financial statements of China BlueChemical Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 43, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain 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"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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 these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
29 August 2013

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 (Unaudited) RMB'000	Six months ended 30 June 2012 (Unaudited/ restated) RMB'000
Revenue	4	5,222,016	5,001,295
Cost of sales		(3,670,583)	(3,480,811)
Gross profit		1,551,433	1,520,484
Other income and gains	4	93,369	74,792
Selling and distribution costs		(120,153)	(87,816)
Administrative expenses		(174,258)	(184,705)
Other expenses		(37,334)	(13,200)
Finance income		4,598	7,940
Finance costs		-	(8,316)
Exchange gains (losses), net		3,515	(1,561)
Share of profits (losses) of joint ventures		1,051	(679)
Share of profits of associates		50	58
Profit before tax		1,322,271	1,306,997
Income tax expenses	5	(285,016)	(296,657)
Profit for the period	6	1,037,255	1,010,340
Profit for the period attributable to:			
Owners of the parent		957,951	908,454
Non-controlling interests		79,304	101,886
		1,037,255	1,010,340
Earnings per share attributable to ordinary owners of the parent			
- Basic for the period(RMB)	7	0.21	0.20
- Diluted for the period(RMB)	7	0.21	0.20

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

	Six months ended	
	30 June 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited/ restated) RMB'000
Profit for the period	1,037,255	1,010,340
Other comprehensive income that may be reclassified subsequently to profit or loss		
Fair value gains on unlisted investments during the period	36,126	51,989
Less: Reclassification adjustment upon maturity of unlisted investments	(36,126)	(51,989)
Total comprehensive income for the period	1,037,255	1,010,340
Total comprehensive income for the period attributable to:		
Owners of the parent	957,951	908,454
Non-controlling interests	79,304	101,886
	1,037,255	1,010,340

Interim Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Notes	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited/ restated) RMB'000
Assets			
Non-current assets			
Property, plant and equipment	8	9,938,784	9,997,415
Prepayments for property, plant and equipment		396,054	396,926
Mining rights		477,547	478,399
Prepaid land lease payments		624,554	514,211
Intangible assets		119,214	124,872
Investments in joint ventures		214,949	121,151
Investments in associates		846,872	654,433
Available-for-sale investments		600	600
Deferred tax assets		96,867	139,319
		12,715,441	12,427,326
Current assets			
Inventories		1,721,310	1,633,194
Trade receivables	9	116,915	96,520
Bills receivable	9	122,333	83,890
Prepayments, deposits and other receivables	10	353,457	298,744
Pledged bank deposits		-	3,995
Bank balances and cash	11	1,890,138	2,563,666
		4,204,153	4,680,009
Total assets		16,919,594	17,107,335

Interim Condensed Consolidated Statement of Financial Position - continued

At 30 June 2013

	Notes	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited/ restated) RMB'000
Equity and liabilities			
Capital and reserves			
Issued capital	12	4,610,000	4,610,000
Reserves		8,865,819	7,907,868
Proposed dividends	13	-	691,500
Equity attributable to owners of the parent		13,475,819	13,209,368
Non-controlling interests		1,279,227	1,417,305
Total equity		14,755,046	14,626,673
Non-current liabilities			
Benefits liability		23,659	48,590
Interest-bearing bank borrowings		5,000	-
Other long-term liabilities		156,223	152,180
Deferred tax liabilities		32,761	72,775
		217,643	273,545
Current liabilities			
Trade payables	14	391,465	405,282
Bills payable	14	88,450	23,100
Other payables and accruals	15	1,247,591	1,632,245
Obligation arising from a put option to a non-controlling shareholder	16	94,242	-
Derivative financial instruments	16	31,882	-
Income tax payable		93,275	146,490
		1,946,905	2,207,117
Total liabilities		2,164,548	2,480,662
Total equity and liabilities		16,919,594	17,107,335
Net current assets		2,257,248	2,472,892
Total assets less current liabilities		14,972,689	14,900,218
Net assets		14,755,046	14,626,673

YANG Yexin
Director

Lee Kit Ying
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of the parent			
	Issued capital RMB'000	Capital reserve RMB'000 (Note i)	Statutory surplus reserve RMB'000 (Note ii)	Special reserve RMB'000 (Note iii)
As at 1 January 2013	4,610,000	1,009,215	752,357	3,345
Profit and total comprehensive income for the period	-	-	-	-
Liquidation of a subsidiary	-	-	-	-
Contribution from a non-controlling shareholder	-	-	-	-
Obligation arising from a put option to a non-controlling shareholder	-	-	-	-
Appropriation of safety fund	-	-	-	4,563
Utilisation of safety fund	-	-	-	(3,858)
Dividends paid to non-controlling interests	-	-	-	-
Final 2012 dividends declared	-	-	-	-
As at 30 June 2013 (unaudited)	4,610,000	1,009,215	752,357	4,050
As at 1 January 2012	4,610,000	1,009,725	611,377	10,939
Profit and total comprehensive income for the period	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-
Appropriation and utilisation of safety fund, net	-	-	-	4,146
Final 2011 dividends declared	-	-	-	-
As at 30 June 2012 (unaudited and restated)	4,610,000	1,009,725	611,377	15,085

Note:

i. The capital reserve mainly comprises of (i) share premium arising from the issuance of H shares; and (ii) contribution and distribution from/to ultimate holding company.

ii. Statutory surplus reserve represents statutory reserve fund. In accordance with relevant PRC rules and regulations, the Group's PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund at financial year end, until the accumulated total of the fund reaches 50% of their registered capital. The appropriation to the statutory reserve fund is determined by the articles of association of the Company's subsidiaries and approval by the boards of directors of the subsidiaries.

iii. Special reserve represents safety fund. The Group's PRC subsidiaries are required to appropriate an amount of safety fund, in accordance with relevant PRC rules and regulations. Safety fund is used to improve, renovate and maintain safety facilities and equipment and update the safety supplies for the operation personnel, etc.

Retained profits	Proposed dividends	Total	Non-controlling interests	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				–
6,142,951	691,500	13,209,368	1,417,305	14,626,673
957,951	-	957,951	79,304	1,037,255
-	-	-	(42,104)	(42,104)
-	-	-	94,242	94,242
-	-	-	(94,242)	(94,242)
(4,563)	-	-	-	-
3,858	-	-	-	-
-	-	-	(175,278)	(175,278)
-	(691,500)	(691,500)	-	(691,500)
7,100,197	-	13,475,819	1,279,227	14,755,046
5,157,374	737,600	12,137,015	1,430,653	13,567,668
908,454	-	908,454	101,886	1,010,340
112	-	112	(658)	(546)
(4,146)	-	-	-	-
-	(737,600)	(737,600)	(188,348)	(925,948)
6,061,794	-	12,307,981	1,343,533	13,651,514

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended	
	30 June 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited/ restated) RMB'000
Net cash from operating activities	942,388	1,330,632
Net cash used in investing activities:		
Purchases of property, plant and equipment	(435,348)	(836,269)
Addition to investment in an associate	(192,389)	-
Addition to prepaid land lease payments	(142,526)	-
Addition to investment in a joint venture	(92,747)	-
Proceeds from disposal of prepaid land lease payments	26,500	-
Other investing cash flows	41,104	55,809
	(795,406)	(780,460)
Net cash used in financing activities:		
Dividends paid	(691,500)	(737,600)
Dividends paid to non-controlling interests	(175,278)	(188,348)
Contribution from a non-controlling shareholder	96,258	-
Purchase of non-controlling interests	(10,000)	(497)
Distribution to a non-controlling shareholder upon liquidation of a subsidiary	(42,482)	-
Bank borrowing raised	5,000	-
Other financing cash flows	(2,508)	9,408
	(820,510)	(917,037)
Net decrease in cash and cash equivalents	(673,528)	(366,865)
Cash and cash equivalents at 1 January	2,563,666	2,767,420
Cash and cash equivalents at 30 June, represented by bank balances and cash	1,890,138	2,400,555

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

1 Corporate information and basis of preparation

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 HK$1.90 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").

The immediate holding company and ultimate holding company of the Company is China National Offshore Oil Corporation ("CNOOC"), a state-owned enterprise established in the PRC.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2 Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, certain new, revised or amendments to International Financial Reporting Standards ("IFRSs") ("new and revised IFRSs") that are mandatorily effective for the current interim period. The application of these new and revised IFRSs in the current interim period, except for those described below, has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

A. Application of new and revised IFRSs

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current period, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. The application of IFRS 10 has had no material impact on the condensed consolidated financial statements after the assessment carried out by the directors. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements. The application of IFRS 12 will result in more disclosures in the consolidated financial statements for the year ending 31 December 2013.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

2 Principal accounting policies - continued

A. Application of new and revised IFRSs - continued

New and revised Standards on consolidation, joint arrangements, associates and disclosures - continued

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*, has been incorporated in IAS 28 (as revised in 2011).

IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements - joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements - jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of IFRS 11. The directors concluded that the Group's investment in Guizhou Jinlin Chemical Co., Ltd. ("Guizhou Jinlin") and Yantai Port Fertilizer Logistics Co., Ltd. ("Yantai Logistics"), which were classified as jointly controlled entities under IAS 31 and were accounted for using the proportionate consolidation method, should be classified as joint ventures under IFRS 11 and accounted for using the equity method.

The change in accounting of the Group's investment in Guizhou Jinlin and Yantai Logistics have been applied in accordance with the relevant transitional provisions set out in IFRS 11. The initial investment as at 1 January 2012 for the purposes of applying the equity method is measured as the aggregate of the carrying amounts of the assets and liabilities that the Group had previously proportionately consolidated (see the tables below for details). Also, the directors of the Company performed an impairment assessment on the initial investment as at 1 January 2012 and concluded that no impairment loss is required. The measure reported for resource allocation and segment's performance assessment is revised in the current period as a result of the application of IFRS 11 and details are set out in Note 3. Comparative amounts have been restated to reflect the aforesaid changes in accounting for the Group's investment in Guizhou Jinlin and Yantai Logistics.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

2 Principal accounting policies - continued

A. Application of new and revised IFRSs - continued

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

IFRS 13 applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for "fair value" and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under the current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosures requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in Note 17.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

IAS 19 Employee Benefits (as revised in 2011)

In the current period, the Group has applied IAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a "net interest" amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group considered that there is no material financial impact arising from the application of IAS 19 (as revised in 2011).

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

2 Principal accounting policies - continued

A. Application of new and revised IFRSs - continued

IFRIC 20 Stripping Cost in the Production Phase of a Surface Mine

IFRIC 20 *Stripping Cost in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of a mine ("production stripping costs"). Under the Interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part. Previously, the Group accounted for the stripping costs in production phase of a surface mine in inventories and amortised with the units of production method.

The Group has applied the relevant transitional provisions and restated the comparative amounts. The unamortised costs previously recorded in inventories are reclassified as a part of property, plant and equipment to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances is depreciated on units of production method of the identified component of the ore body to which each predecessor stripping asset balance relates (see the tables below for details).

Amendments to IAS 34 Interim Financial Reporting

(as part of the Annual Improvements to IFRSs 2009-2011 Cycle)

The Group has applied the amendments to IAS 34 *Interim Financial Reporting* as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle for the first time in the current interim period. The amendments to IAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker ("CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment. There has been no material change in the amounts of total assets and total liabilities of reportable segments since disclosed in the last annual financial statements after taking into account the impact arising from the application of the new and revised IFRSs and no such information is presented in the condensed consolidated financial statements.

Summary of the effects of the above changes in accounting policies

The effects of changes in accounting policies described above on the results for the current and prior period by line items are as follows:

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	IFRS 11 RMB'000	IFRIC 20 RMB'000	IFRS 11 RMB'000	IFRIC 20 RMB'000
Decrease in revenue	(9,059)	-	-	-
Decrease in cost of sales	(9,460)	-	-	-
Decrease in other income and gains	(223)	-	(240)	-
Decrease in administrative expenses	(1,063)	-	(1,520)	-
Decrease in finance income	(238)	-	(601)	-
Decrease in finance costs	(48)	-	-	-
Increase in share of profits (losses) of joint ventures	1,051	-	(679)	-
Profit and total comprehensive income for the period	-	-	-	-

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

2 Principal accounting policies - continued

A. Application of new and revised IFRSs - continued

Summary of the effects of the above changes in accounting policies – continued

The effects of the above changes on the financial positions of the Group as at 1 January 2012 and 31 December 2012 are as follows:

	As at 1/1/2012 (originally stated)	IFRS 11	IFRIC 20	Other	As at 1/1/2012 (restated)	As at 31/12/2012 (originally stated)	IFRS 11	IFRIC 20	Other	As at 31/12/2012 (restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	9,347,634	(37,055)	43,155	-	9,353,734	10,031,001	(72,431)	38,845	-	9,997,415
Prepayments for property, plant and equipment	-	-	-	458,350	458,350	-	-	-	396,926	396,926
Mining rights	482,868	(2,917)	-	-	479,951	481,304	(2,905)	-	-	478,399
Intangible assets	129,685	(46)	-	-	129,639	124,905	(33)	-	-	124,872
Investments in joint ventures	-	121,084	-	-	121,084	-	121,151	-	-	121,151
Inventories	1,473,422	-	(43,155)	-	1,430,267	1,672,210	(171)	(38,845)	-	1,633,194
Trade receivables	147,272	-	-	-	147,272	97,830	(1,310)	-	-	96,520
Prepayments, deposits and other receivables	730,989	(21,145)	-	(458,350)	251,494	723,822	(28,152)	-	(396,926)	298,744
Available-for-sale investments	-	-	-	-	-	11,610	(11,610)	-	-	-
Time deposits	32,850	(32,850)	-	-	-	13,500	(13,500)	-	-	-
Bank balances and cash	2,803,266	(35,846)	-	-	2,767,420	2,578,880	(15,214)	-	-	2,563,666
Other long-term liabilities	(129,802)	-	-	-	(129,802)	(153,598)	1,418	-	-	(152,180)
Deferred tax liabilities	(71,796)	-	-	-	(71,796)	(72,870)	95	-	-	(72,775)
Other payables and accruals	(1,765,424)	8,775	-	-	(1,756,649)	(1,654,907)	22,662	-	-	(1,632,245)
Total effects on net assets	13,180,964	-	-	-	13,180,964	13,853,687	-	-	-	13,853,687

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

2 Principal accounting policies - continued

A. Application of new and revised IFRSs - continued

Summary of the effects of the above changes in accounting policies - continued

Impact on cash flows for the six months ended 30 June 2013 and 2012 on the application of IFRS 11

	Six months ended	
	30 June 2013 RMB'000	30 June 2012 RMB'000
Increase in net cash from operating activities	9,152	5,145
Net cash used in investing activities:		
Decrease in purchase of available-for-sale investments	-	11,610
Decrease in non-pledged time deposits with original maturity of three months or more when acquired	(13,500)	(19,350)
Decrease in purchases of property, plant and equipment	91,431	8,254
Increase in addition to investment in a joint venture	(89,037)	-
Decrease in other investing activities	(227)	(215)
	(11,333)	299
Net cash used in financing activities:		
Decrease in other financing activities	(518)	(51)
Net cash (outflow) inflow	(2,699)	5,393

Impact on earnings per share

The above changes in accounting policies has no impact on the basic earnings per share or diluted earnings per share for the six months ended 30 June 2013 and 2012.

B. Adoption of new accounting policy in the interim period

Obligation arising from put and call options on shares of a subsidiary written to / granted from a non-controlling shareholder

Put option written to and call option granted from a non-controlling shareholder, which will be settled other than by exchange of fixed amount of cash for a fixed number of shares in a subsidiary are accounted for as derivatives and are recognised at fair value upon initial recognition. Any changes of fair value in subsequent reporting dates are recognised in profit or loss.

The gross financial liability arising from the put option is recognised when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the Group. The liability for the share redemption amount is initially recognised and measured at present value of the estimated repurchase price with the corresponding debit to the non-controlling interests. In subsequent periods, the remeasurement of the present value of the estimated gross obligation under the written put option to the non-controlling shareholder is recognised in profit or loss.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

3 Operating segment information

The accounting policies of the reportable segments are the same as the Group's accounting policies. The measure reported for resource allocation and segment's performance assessment is revised in the current period upon the application of the new and revised IFRSs as detailed in Note 2 and the corresponding segment information for the six months ended 30 June 2012 has been restated accordingly. There is no other change in reported measure since last annual financial statements.

The following is an analysis of the Group's revenue and results by reportable segments:

	Urea RMB'000	Phosphorus fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Six months ended 30 June 2013 (Unaudited)						
Segment revenue:						
Sales to external customers	1,917,582	1,029,462	1,576,817	698,155	-	5,222,016
Inter-segment sales	31,853	-	11,807	247,688	(291,348)	-
Total	1,949,435	1,029,462	1,588,624	945,843	(291,348)	5,222,016
Segment results:						
Segment profit before tax	840,032	31,991	481,020	(23,793)	-	1,329,250
Interest and unallocated income						48,020
Corporate and other unallocated expenses						(27,733)
Exchange gains, net						3,515
Change in fair value of derivative financial instrument						(31,882)
Share of profits of joint ventures						1,051
Share of profits of associates						50
Profit before tax						1,322,271
Six months ended 30 June 2012 (Unaudited/restated)						
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	(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	33,109	633,482	(36,709)	-	1,334,200
Interest and unallocated income						14,148
Corporate and other unallocated expenses						(30,853)
Finance costs						(8,316)
Exchange losses, net						(1,561)
Share of losses of joint ventures						(679)
Share of profits of associates						58
Profit before tax						1,306,997

(1) Inter-segment sales are eliminated on consolidation.

(2) Segment result for each operating segment does not include interest and unallocated income, corporate and other unallocated expenses, finance costs, net exchange gains (losses), share of profits (losses) of joint ventures and associates.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

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 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited/ restated) RMB'000
Revenue		
Sale of goods	5,014,547	4,801,341
Rendering of services	207,469	199,954
	5,222,016	5,001,295
Other income and gains		
Gain on maturity of unlisted investments	36,126	51,989
Gain on disposal of prepaid land lease payments	38,361	-
Income from sale of other materials	10,734	8,987
Income from rendering of other services	2,228	4,003
Gross rental income	119	363
Government grants	3,465	5,143
Others	2,336	4,307
	93,369	74,792

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

5 Income tax expenses

	Six months ended	
	30 June 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited) RMB'000
Current tax in the PRC	282,578	294,568
Deferred tax	2,438	2,089
	285,016	296,657

(a) Enterprise income tax ("EIT")

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

CNOOC Tianye Limited, a subsidiary of the Company, is entitled to preferential tax rate of 15% for the three years ending 31 December 2014 after being assessed as a high-tech enterprise.

Hubei Dayukou Chemical Co., Ltd., a subsidiary of the Company, is entitled to a preferential EIT rate of 15% for the three years ending 31 December 2013 after being assessed as a high-tech enterprise.

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

(b) Hong Kong profits tax

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both periods.

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 2013 and 2012.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

6 Profit for the period

The Group's profit for the period is arrived at after charging:

	Six months ended	
	30 June 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited/ restated) RMB'000
Cost of inventories sold	3,404,503	3,237,427
Cost of services provided	218,081	164,332
Depreciation of property, plant and equipment	398,572	379,348
Amortisation of mining rights	852	655
Amortisation of prepaid land lease payments	7,976	5,963
Amortisation of intangible assets	5,658	4,813
Changes in fair value of derivative financial instruments, included in other expenses	31,882	-
Write-down of inventories to net realisable value, included in cost of sales	18,194	51,079

7 Earnings per share

	Six months ended	
	30 June 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited) RMB'000
Profit for the period attributable to owners of the parent	957,951	908,454

	Six months ended	
	30 June 2013 '000	30 June 2012 '000
Number of ordinary shares	4,610,000	4,610,000

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

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

8 Property, plant and equipment

During the six months ended 30 June 2013, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB340,716,000 (six months ended 30 June 2012: RMB955,178,000). Property, plant and equipment with carrying amount of approximately to RMB775,000 (six months ended 30 June 2012: RMB1,986,000) were disposed of during the six months ended 30 June 2013.

9 Trade receivables and bills receivable

Sales of the Group's fertilisers including urea, MAP and DAP are normally settled on an advance receipt basis either by cash or by bank acceptance drafts from customers. 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 generally on one-month credit, except for some high-credit customers, where payments may be extended.

An aging analysis of trade receivables and bills receivable 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 2013 (Unaudited) RMB'000	31 December 2012 (Audited/restated) RMB'000
Within six months	234,602	170,153
Over six months but within one year	2,027	8,040
Over one year but within two years	1,237	2,123
Over two years	1,382	94
	239,248	180,410

As at 30 June 2013, the amount due from CNOOC's subsidiaries, joint ventures and associates ("CNOOC group companies") included in the above balances was RMB13,271,000 (31 December 2012: RMB13,806,000). The amount due is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

10 Prepayments, deposits and other receivables

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited/restated) RMB'000
Prepayments to suppliers	161,738	165,930
Prepaid land lease payments	15,350	13,012
Deposits and other receivables	176,369	119,802
	353,457	298,744

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

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Ultimate holding company	1	1
CNOOC group companies	101,233	71,413
Associates of the Company	7,927	7,927
	109,161	79,341

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

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

11 Bank balances and cash

The Group's bank balances and cash were denominated in RMB as at 30 June 2013 and 31 December 2012, except for amounts of RMB2,197,000 (31 December 2012: RMB5,106,000) which was translated from US$350,000 (31 December 2012: US$812,000); and RMB516,000 (31 December 2012: RMB2,474,000) which was translated from HK$647,000 (31 December 2012: HK$3,051,000); and RMB48,254,000 (31 December 2012: nil) which was translated from CA$8,192,000 (31 December 2012: nil).

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 2013, included in the Group's bank balances and cash were RMB427,551,000 (31 December 2012: RMB598,665,000) 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.

12 Issued capital

	Number of shares '000	Nominal value RMB'000
Registered capital	4,610,000	4,610,000
Issued and fully paid:		
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 2013 (unaudited) and 31 December 2012 (audited)	4,610,000	4,610,000

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

13 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.

During the current interim period, a final dividend of RMB0.15 per share in respect of the year ended 31 December 2012 (six months ended 30 June 2012: RMB0.16 per share in respect of the year ended 31 December 2011) was declared and paid to the owners of the parent. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB691,500,000 (six months ended 30 June 2012: RMB737,600,000).

The board of directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

14 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 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within six months	451,633	403,328
Over six months but within one year	15,831	13,753
Over one year but within two years	1,347	3,944
Over two years but within three years	5,858	2,733
Over three years	5,246	4,624
	479,915	428,382

As at 30 June 2013, the amount due to the ultimate holding company and CNOOC group companies included in the above balances was RMB520,000 (31 December 2012: RMB50,000) and RMB224,718,000 (31 December 2012: RMB225,407,000) respectively.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

15 Other payables and accruals

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited/restated) RMB'000
Advances from customers	215,623	431,094
Accruals	16,610	10,781
Accrued payroll	172,974	223,712
Other payables	215,876	244,588
Long-term liabilities due within one year	1,798	1,798
Payables to government	84,966	85,024
Port construction fee payable	164,656	164,656
Payables in relation to the construction and purchase of property, plant and equipment	375,088	470,592
	1,247,591	1,632,245

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

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Due to the ultimate holding company	266	585
Due to CNOOC group companies	62,787	66,929
	63,053	67,514

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

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

16 Obligation arising from a put option to a non - controlling shareholder and derivative financial instruments

On 28 May 2013, the Company entered into an agreement (the "Agreement") with Benewood Holdings Corporation Limited ("Benewood"), a third party to incorporate CBC (Canada) Holding Corp ("CBC"). The Company and Benewood agreed to invest CA$24,000,000 (equivalent to approximately RMB141,363,000) and CA$16,000,000 (equivalent to approximately RMB94,242,000) to hold 60% and 40% equity interest in CBC respectively. CBC is considered a subsidiary of the Company as the Company controls CBC unilaterally by its 60% voting rights.

On 20 June 2013, CBC subscribed 45,040,876 newly issued common shares of Western Potash Corporation ("WPC"), a company listed on Toronto Stock Exchange, at a price of CA$ 0.71 per share and the total consideration is CA$31,979,000 (approximately RMB192,389,000). After completion of the transaction, CBC held 19.9% of all issued and outstanding common shares in WPC and WPC is accounted for as an associate of the Company.

Pursuant to terms in the Agreement, the Company has granted a put option (the "Put Option") to Benewood, exercisable at any time after one year from 18 June 2013 and prior to the earlier of:

i two years from the date of 18 June 2013; and

ii ten business days after the date on which a decision to mine ("Decision to Mine") is made by WPC; provided further that, if a decision to mine is made by WPC prior to the one year anniversary from 18 June 2013, Benewood may exercise the Put Option within ten business days from the date of the decision to mine (the "Exercise Period").

Benewood have the right to sell to the Company, and require the Company to acquire all of the Benewood's equity interest of CBC during the Exercise Period at a cash consideration. The consideration will consist of the initial investment made by Benewood at an amount of CA$16,000,000 plus a yield at London InterBank Offered Rate ("LIBOR") for U.S. dollar plus 3.5%.

At initial recognition, the obligation arising from the Put Option to the Benewood represents the present value of the obligation to deliver the share redemption amount at discount rate of 3.91%, based on the interest yield curve of LIBOR, amounting to approximately CA$16,000,000 (equivalent to RMB94,242,000). This amount has been recognised as a liability in the condensed consolidated statement of financial position with a corresponding debit to the non-controlling interests. The fair value of the liability as at 30 June 2013 approximated CA$16,000,000 (equivalent to RMB94,242,000).

Under the same Agreement, Benewood granted a call option (the "Call Option") to the Company, which is exercisable at any time prior to the earlier of (a) two years from the date of 18 June 2013; and (b) ten business days after the date on which a Decision to Mine is made by Western; in events of the following Conditional Events:

i Benewood fails to contribute its full pro rata share of financing required by an adopted program and budget of CBC;

ii the Company and Benewood fail to agree in respect of a future investment in WPC or any future cooperation between the CBC and WPC with respect to joint development of the Milestone Project; or

iii a decision is made by the board of directors of CBC to transfer to a third party all of the shareholding interest held by the CBC in WPC on or prior to the second anniversary of 18 June 2013.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

16 Obligation arising from a put option to a non - controlling shareholder and derivative financial instruments - continued

Notwithstanding (b), if, the Company and Benewood are unable to agree on the future development plan of the CBC prior to the expiration of the Call Option for any reason, the Company may exercise of the Call Option on the day of such expiry.

The Put Option which will be settled other than by exchange of fixed amount of cash for a fixed number of shares of a subsidiary and Call Option are accounted for as derivative financial instruments and are recognised at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value of the Put Option and Call Option is nil upon initial recognition and approximates to RMB31,882,000 as at 30 June 2013.

The fair values of the Put Option and Call Option as at 30 June 2013 have been determined by using a Black-Scholes option pricing model with the following assumptions:

	CA$'000
Exercise price	16,951
Share price	12,937
Time to maturity	1.5 years
Risk free rate	1.2138%
Volatility	52.23%
Dividend yield	0%
Probability of Conditional Events occur	20%

(i) Time to maturity was estimated as the remaining number of years until the expected exercise time as estimated by the management

(ii) The risk free rate was extracted from the Canada Sovereign

(iii) The volatility is estimated with reference to historical volatility of WPC

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

17 Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured on recurring basis at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets /financial liabilities	Fair value as at 30 June 2013 (Unaudited) RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Put option and Call option classified as derivative financial instruments	31,882	Level 3	Black-Scholes option pricing model. Key inputs include volatility and, expected life of the option as disclosed in Note 16	Expected volatility and expected life of the option	The higher volatility, the higher the fair value (note i) The longer life, the higher the fair value (note ii)
Obligation arising from a put option to a non-controlling shareholder	94,242	Level 2	Discounted cash flow. Key input includes discount rate based on interest yield curve of LIBOR	N/A	N/A

Note i: If the expected volatility to the valuation model were 2% higher/lower while all the other variables were held constant, the carrying amount of the derivative financial instruments would increase/decrease by approximate RMB595,000/RMB593,000.

Note ii: If the expected life to the valuation model were 0.5 year longer/shorter while all the other variables were held constant, the carrying amount of the derivative financial instruments would increase/decrease by approximate RMB1,926,000/RMB2,334,000.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

17 Fair value measurements of financial instruments - continued

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	30 June 2013 (Unaudited) RMB'000
Upon issuance of Put Option and Call Option	-
Total losses in profit or loss	31,882
At 30 June 2013	31,882

The total losses for the period in the profit or loss related to derivative financial instruments held at the end of the reporting period. Fair value losses on the derivative financial instruments are presented as "other expenses" in condensed consolidated statement of profit or loss.

Fair value measurements and valuation processes

The management has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers or use internal resources to perform the valuation depending on the complexity and significance of the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model as appropriate. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

18 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2013, the Group had the following capital commitments:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Construction or purchases of property, plant and equipment		
Contracted, but not provided for	946,207	1,074,404
Authorised, but not contracted for	1,720,003	2,310,121

(b) Operating lease commitments

(i) As lessor

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

As at 30 June 2013 and 31 December 2012, the Group had total future minimum lease receivables from CNOOC group companies under non-cancellable operating leases falling due as follows:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited/restated) RMB'000
Within one year	337	337
In the second to fifth years, inclusive	1,347	1,347
After five years	3,567	3,736
	5,251	5,420

(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 2013 and 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within one year	21,452	9,511
In the second to fifth years, inclusive	2,270	6,675
After five years	-	1,932
	23,722	18,118

(c) Contingent liabilities

As at 30 June 2013, the Group had no significant contingent liabilities.

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

19 Related party transactions

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

	Six months ended	
	30 June 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited) RMB'000
(A) Included in revenue, other income and gains		
CNOOC group companies		
Sale of goods	55,291	33,158
Provision of transportation services	153	370
Provision of packaging and assembling services	9,444	11,344
Provision of other services	1,652	5,283
	66,540	50,155
(B) Included in cost of sales and other expenses		
CNOOC group companies		
Purchase of raw materials	1,088,937	1,198,215
Transportation services	74,730	89,645
Lease of offices	13,282	12,422
Construction and installation services	16,419	43,540
Labour services	9,453	14,187
Network services	1,401	1,516
Logistics services	-	439
	1,204,222	1,359,964
(C) Others		
CNOOC Finance		
Finance income	2,005	293
Finance costs	-	6,957
Provision of utilities to CNOOC group companies	-	8,786
Fees and charges paid to CNOOC group companies	4,597	3,077
Loans from CNOOC Finance	-	18,160

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

19 Related party transactions - continued

(2) Balances with related parties

Details for following balances are set out in Notes 9, 10, 11, 14 and 15 to the condensed consolidated financial statements. Those balances 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 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
The ultimate holding company	1	1	786	635
CNOOC group companies (excluding CNOOC Finance)	114,504	85,219	287,505	292,176
Associates of the Company	7,927	7,927	-	-
CNOOC Finance	-	-	-	160

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Deposits placed by the Group with CNOOC Finance	427,551	598,665

(3) Compensation of key management personnel of the Group

	Six months ended	
	30 June 2013 (Unaudited) RMB'000	30 June 2012 (Unaudited) RMB'000
Short-term employee benefits	1,270	1,198
Post-employment benefits	85	79
	1,355	1,277

Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2013

19 Related party transactions - continued

(4) 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.

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 2013 and 31 December 2012, as summarised below:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited/restated) RMB'000
Bank balances and cash	1,462,587	1,961,006
Pledged bank deposits	-	3,995
	1,462,587	1,965,001
Long-term bank loans	5,000	-

20 Events after the reporting period

There is no material event after the reporting period.

21 Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2013.

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,Builiding 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	Deloitte Touche Tohmatsu 35/F One Pacific Place,88 Queensway, 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) 22132502 Fax: (852) 25259322
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Stock Code	Hong Kong Stock Exchange: 3983