# 中海石油化学股份有限公司
# China BlueChemical Ltd.

# 2014 / 中期報告
# Interim Report

股票代碼 / HKSE CODE 3983

# Contents

# Financial Highlights

## Selected data of interim condensed consolidated statement of profit or loss

For the six months ended 30 June 2014
(All amounts expressed in thousands of Renminbi, except for per share data)

| | six months ended 30 June | |
|---|---|---|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| **Revenue** | **5,263,729** | 5,222,016 |
| Cost of sales | **(3,859,154)** | (3,670,583) |
| **Gross profit** | **1,404,575** | 1,551,433 |
| Other income and gains | **86,263** | 93,369 |
| Selling and distribution costs | **(193,896)** | (120,153) |
| Administrative expenses | **(198,609)** | (174,258) |
| Other expenses | **(3,581)** | (37,334) |
| Finance income | **4,248** | 4,598 |
| Finance costs | **(286)** | - |
| Exchange gains, net | **4,235** | 3,515 |
| Share of (losses) profits of joint ventures | **(150)** | 1,051 |
| Share of (losses) profits of associates | **(380,443)** | 50 |
| **Profit before tax** | **722,356** | 1,322,271 |
| Income tax expenses | **(194,818)** | (285,016) |
| **Profit for the period** | **527,538** | 1,037,255 |
| Profit for the period attributable to: | | |
| Owners of the parent | **447,528** | 957,951 |
| Non-controlling interests | **80,010** | 79,304 |
| | **527,538** | 1,037,255 |
| Earnings per share attributable to ordinary owners of the parent | | |
| —Basic for the period (RMB) | **0.10** | 0.21 |

## Selected data of interim condensed consolidated statement of financial position

As at 30 June 2014
(All amounts expressed in thousands of Renminbi)

| | 30 June 2014 | 31 December 2013 |
|---|---|---|
| | (Unaudited) | (Audited) |
| **Assets** | | |
| Non-current assets | **13,100,529** | 13,448,801 |
| Current assets | **5,556,931** | 5,086,999 |
| **Total assets** | **18,657,460** | 18,535,800 |
| **Equity and liabilities** | | |
| **Total equity** | **15,199,068** | 15,501,231 |
| Non-current liabilities | **910,569** | 367,968 |
| Current liabilities | **2,547,823** | 2,666,601 |
| **Total equity and liabilities** | **18,657,460** | 18,535,800 |

# 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 (%) | | |
| | | 2014 | 2013 | Change % | 2014 | 2013 | Change |
| **Fertilisers** | | | | | | | |
| Urea | Fudao Phase I | **287,465** | 295,422 | (2.7) | **110.6** | 113.6 | (3.0) |
| | Fudao Phase II | **426,602** | 421,414 | 1.2 | **106.7** | 105.4 | 1.3 |
| | CNOOC Tianye | **259,656** | 297,804 | (12.8) | **99.9** | 114.5 | (14.6) |
| | Group total | **973,723** | 1,014,640 | (4.0) | **105.8** | 110.3 | (4.5) |
| Phosphate Fertilisers and Compound Fertilisers | DYK MAP | **16,190** | 31,747 | (49.0) | **21.6** | 42.3 | (20.7) |
| | DYK DAP Phase I (Note) | **150,163** | 155,190 | (3.2) | **85.8** | 88.7 | (2.9) |
| | DYK DAP Phase II | **274,896** | 226,837 | 21.2 | **110.0** | 90.7 | 19.3 |
| | Group total | **441,249** | 413,774 | 6.6 | **88.2** | 82.8 | 5.4 |
| **Chemical Products** | | | | | | | |
| Methanol | Hainan Phase I | **314,676** | 269,552 | 16.7 | **104.9** | 89.9 | 15.0 |
| | Hainan Phase II | **395,073** | 382,508 | 3.3 | **98.8** | 95.6 | 3.2 |
| | CNOOC Tianye | **103,906** | 103,489 | 0.4 | **103.9** | 103.5 | 0.4 |
| | Group total | **813,655** | 755,549 | 7.7 | **101.7** | 94.4 | 7.3 |
| POM | CNOOC Tianye POM | **13,529** | 5,998 | 125.6 | **45.1** | 20.0 | 25.1 |
| | Group total | **13,529** | 5,998 | 125.6 | **45.1** | 20.0 | 25.1 |

## Sales volume of the Group's various plants

Unit: tonne

| | | For the six months ended 30 June | | |
|---|---|---|---|---|
| | | 2014 | 2013 | Change % |
| **Fertilisers** | | | | |
| Urea | Fudao Phase I | **274,381** | 282,919 | (3.0) |
| | Fudao Phase II | **427,261** | 374,271 | 14.2 |
| | CNOOC Tianye | **224,229** | 300,290 | (25.3) |
| | Group total | **925,871** | 957,480 | (3.3) |
| Phosphate Fertilisers and Compound Fertilisers | DYK MAP | **9,718** | 10,270 | (5.4) |
| | DYK DAP Phase I (Note) | **153,355** | 124,194 | 23.5 |
| | DYK DAP Phase II | **257,238** | 199,504 | 28.9 |
| | Group total | **420,311** | 333,968 | 25.9 |
| **Chemical Products** | | | | |
| Methanol | Hainan Phase I | **310,011** | 267,768 | 15.8 |
| | Hainan Phase II | **384,375** | 379,363 | 1.3 |
| | CNOOC Tianye | **80,726** | 91,958 | (12.2) |
| | Group total | **775,112** | 739,089 | 4.9 |
| POM | CNOOC Tianye POM | **8,800** | 7,873 | 11.8 |
| | Group total | **8,800** | 7,873 | 11.8 |

Note: The DYK DAP Phase I Plant produced 116,212 tonnes of DAP and 33,951 tonnes of compound fertilisers, totaling to 150,163 tonnes, and sold 128,296 tonnes and 25,059 tonnes of compound fertilisers, totaling to 153,355 tonnes, respectively, in the first half of 2014. In the first half of 2013, the DYK DAP Phase I Plant produced 150,780 tonnes of DAP and 4,410 tonnes of compound fertilisers, respectively, totaling to 155,190 tonnes.

# CEO's Report

**Dear shareholders,**

Amid the continuous downturn in the global and domestic fertiliser markets during the first half of 2014, we achieved better operating results than our domestic peers through strengthening our refined production management and leveraging on our advantages in terms of geographical location, brand strength and export advantages.

## Review of the interim period

Our revenue for the first half of 2014 amounted to RMB 5,263.7 million and gross profit amounted to RMB 1,404.6 million, leading our industry in terms of profitability. Our net profit attributable to owners of the parent significantly decreased to RMB 447.5 million due to recognition of a one-off loss of RMB 376.0 million for the impairment on our long-term equity investment in Shanxi Hualu Yangpoquan Coal Mining Co., Ltd..

During the reporting period, our major plants achieved safe and stable operation. Utilisation rates of the urea and methanol plants were 105.8% and 101.7%, respectively, benefited from our refined production management and sufficient natural gas supply. Production volumes of phosphate fertilisers and compound fertiliser increased by 6.8% over the same period of last year with a significant improvement in the quality of the DAP and compound fertiliser. The production line A of our POM plant ran stable, while production line C of the POM plant restarted operation in April 2014 and produced qualified products.

As for our sales, we closely monitored the changes in domestic and international markets of chemical fertilisers and consolidated our sales in major domestic markets for chemical fertilisers. By leveraging on our advantages in terms of geographical location, brand strength and export advantages, we made great use of the favourable export tariff policies for urea and ammonium phosphate, achieving an export of 293,000 tonnes of urea and 35,000 tonnes of DAP in the first half of the year. We made active efforts in developing our sales channels of compound fertlisers with a sales volume of 25,000 tonnes in the first half of 2014.

With regard to our development plan, we endeavors to make progress for our coal-based urea project located in Hegang, Heilongjiang.

## Outlook for the second half of 2014

Looking forward to the second half of 2014, the uptrend of chemical fertilisers in the international market as well as favourable policies for the export tariff of chemical fertilisers in the PRC will boost exports of chemical fertilisers domestically, thereby effectively alleviating the oversupplies of chemical fertilisers in the PRC. Market demands for methanol will be further stimulated as the PRC economy stabilizes with a sign of rebound coupled with newly commissioned methanol-to-olefin projects.

In the second half of the year, we will continue to strengthen HSE and refined production management, and to achieve safe and stable operations for each production facility. Efforts will be made to increase export of urea and ammonium phosphate by leveraging on favourable export policies regarding urea and phosphate fertilisers, and to actively explore the market for compound fertilisers and POM with increased sales efforts. We will strive to accomplish the mechanical completion and commissioning preparation works for the trial operation of the coal-based urea project located in Hegang, Heilongjiang, ensuring that the trial production can successfully commence in the fourth quarter of this year.

Yang Yexin

CEO & President

# Management Discussion and Analysis

## Sector Review

### Fertiliser industry

In 2014, the PRC government plans to make further improvements to the national system for protection of food safety and strengthen the system for the support and protection of the agricultural sector with a view of establishing a long-term mechanism for a sustainable development in agriculture. In order to improve incentives to farmers to grow food crops and promote growth in food production, the PRC government continued to increase the minimum purchase prices of wheat and rice to RMB2.36 per kilogram and RMB2.70–RMB3.10 per kilogram, respectively, representing an increase of 5.4% and 2.2%–3.3%,respectively, over the relevant minimum purchase prices in 2013.

In the first half of 2014, growth in the national demand for chemical fertilisers in the agricultural sector remained steady. However, a continued oversupply of chemical fertilisers has intensified competition in the domestic chemical fertiliser market, resulting in a significant decline in profitability of the chemical fertiliser industry and an increase in the number of enterprises incurring loss.

On 15 February 2014, railway freight rates for chemical fertiliser transportation in the PRC were adjusted upward by RMB0.0154 to RMB0.113 per tonne-kilometre, representing an apparent increase in transportation costs of chemical fertilisers.

In 2014, export tariff rates for urea and ammonium phosphate during the peak season received a substantial cut from the PRC government. In particular, the peak-season export tariff rate for urea was reduced to 15% plus a margin of RMB40 per tonne, and the peakseason export tariff rate for MAP and DAP was reduced to 15% plus a margin of RMB50 per tonne. The low season period for exports of urea and ammonium phosphate remained unchanged. The low-season export tariff rates for urea and ammonium phosphate were adjusted to RMB40 per tonne and RMB50 per tonne, respectively. Due to the substantial decrease in peak-season export tariff rate, exports of urea and ammonium phosphate in the PRC increased significantly in the first half of 2014 as compared to the same period of last year, which remedied in part the oversupply in the chemical fertiliser market in the PRC.

**(I) Urea**

Domestic urea production volume in the first half of 2014 was approximately 35.57 million tonnes (in kind), representing a slight decrease as compared to the first half of 2013. Such decrease was mainly attributable to the continued low-level market prices of urea during the second quarter, resulting in decreasing utilisation rates in the urea industry. In the first half of 2014, the domestic export volume of urea was 4.17 million tonnes (in kind), representing a substantial increase as compared to the same period of last year.

In the first two months of 2014, domestic market price of urea fluctuated in a range between RMB1,750 to RMB1,800 per tonne. The price of urea in the domestic market continued to decrease since early March due to a drop in prices in the international market as well as a further drop in the domestic coal price. In mid to late May, the ex-factory price of certain areas fell below RMB1,400 per tonne. Subsequently, the urea price experienced a slight rebound with the main domestic market price of urea fluctuating in a range between RMB1,450 to RMB1,500 per tonne until the end of June.

**(II) Phosphate fertilisers**

In the first half of 2014, domestic production volume of ammonium phosphate was approximately 12.40 million tonnes (in kind), which was slightly higher than that in the first half of 2013. Export volume of ammonium phosphate was 1.87 million tonnes (in kind), representing a substantial increase as compared to the same period of last year.

In the first four months of 2014, domestic price of ammonium phosphate increased steadily. Following the low season of the demand for ammonium phosphate in May, domestic price of ammonium phosphate decreased slightly. As at the end of June, domestic market price of DAP maintained at approximately RMB2,600 per tonne.

### Chemical industry

In the first half of 2014, the methanol market was under pressure from a slow-down in the growth of domestic economy, a sluggish growth in the demand for methanol from traditional downstream sectors, and a significant increase in the domestic supply of methanol. Mid-to-low end domestic POM markets remained dominated by an excess of supply over demand.

**(I) Methanol**

In the first half of 2014, domestic production volume of methanol was approximately 17.41 million tonnes, representing a significant increase of approximately 28% as compared to the same period of last year.

In the first half of 2014, the domestic production volume of methanol increased significantly. The market price of methanol experienced monthly adjustments from its record high since December 2013. As at the end of June, the major domestic market price of methanol remained at approximately RMB2,600 to RMB2,700 per tonne.

### (II) POM

In the first half of 2014, domestic POM production volume reached approximately 107,000 tonnes, representing an increase of approximately 19% as compared to the first half of 2013 and the imported POM volume increased by 15% to 126,000 tonnes.

In the first half of 2014, an excess of supply remained over the demand in mid-to-low end domestic POM products. Mid-to-low end POM domestic market kept adjusting in a weak market. As at the end of June, the market price remained at approximately RMB8,600 per tonne.

## Business Review

During the reporting period, the major plants of the Company achieved safe and stable operation. Utilisation rate of the methanol plants of the Company had an apparent improvement as compared to the same period of last year benefited from an ample natural gas supply and our refined production management. Due to process optimization and technique reform, combined utilisation rate of our two ammonium phosphate plants reached 100% for the first time with a significant improvement in the quality of the DAP and high-end compound fertilisers. Our two urea plants in Hainan had the same level of utilisation rates as the same period of last year, whereas CNOOC Tianye Urea Plant had a significantly lower utilisation rate due to the planned maintenance on its major production facilities. Our POM production volume experienced a significant increase as production line A of the Company's POM plant was in good operating conditions and production line C of the Company's POM plant resumed operation in April 2014 with qualified products.

During the reporting period, due to the weak price of urea in the global market as well as a significant over-supply in the domestic market, the price of urea in the PRC continued to experience a downward trend. Despite having touched bottom in the second half of last year, phosphate fertilisers experienced only a limited turnaround in their market prices. In response to a weak market, the Company made timely adjustments to its sales strategy by leveraging on its advantages in terms of geographical location, brand strength and export advantages, making great use of the export tariff policies and achieving an export of 293,000 tonnes of urea while managing to consolidate its domestic sales channels of DAP. Domestic sales of DAP enjoyed a steady increase and 35,000 tonnes of DAP were exported in the first half of the year. For chemical products, despite a prolonged price adjustment of methanol in the domestic market from a high level since the end of last year, well-established sales channels in the regional methanol markets and excellent quality of our products led to smooth sales of methanol products of the Company. Sales volume of our POM products was higher than that of last year as well.

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 | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Production Volume *(tonnes)* | Sales volume *(tonnes)* | Utilisation rate *(%)* | Production Volume *(tonnes)* | Sales volume *(tonnes)* | Utilisation rate *(%)* |
| **Chemical fertilisers** | | | | | | |
| **Urea** | | | | | | |
| Fudao Phase I | **287,465** | **274,381** | **110.6** | 295,422 | 282,919 | 113.6 |
| Fudao Phase II | **426,602** | **427,261** | **106.7** | 421,414 | 374,271 | 105.4 |
| CNOOC Tianye | **259,656** | **224,229** | **99.9** | 297,804 | 300,290 | 114.5 |
| Group total | **973,723** | **925,871** | **105.8** | 1,014,640 | 957,480 | 110.3 |
| **Phosphate fertilisers and Compound fertilisers** | | | | | | |
| DYK MAP | **16,190** | **9,718** | **21.6** | 31,747 | 10,270 | 42.3 |
| DYK DAP Phase I (Note) | **150,163** | **153,355** | **85.8** | 155,190 | 124,194 | 88.7 |
| DYK DAP Phase II | **274,896** | **257,238** | **110.0** | 226,837 | 199,504 | 90.7 |
| Group total | **441,249** | **420,311** | **88.2** | 413,774 | 333,968 | 82.8 |
| **Chemical products** | | | | | | |
| **Methanol** | | | | | | |
| Hainan Phase I | **314,676** | **310,011** | **104.9** | 269,552 | 267,768 | 89.9 |
| Hainan Phase II | **395,073** | **384,375** | **98.8** | 382,508 | 379,363 | 95.6 |
| CNOOC Tianye | **103,906** | **80,726** | **103.9** | 103,489 | 91,958 | 103.5 |
| Group total | **813,655** | **775,112** | **101.7** | 755,549 | 739,089 | 94.4 |
| **POM** | | | | | | |
| CNOOC Tianye POM | **13,529** | **8,800** | **45.1** | 5,998 | 7,873 | 20.0 |
| Group total | **13,529** | **8,800** | **45.1** | 5,998 | 7,873 | 20.0 |

Note: The DYK DAP Phase I Plant produced 116,212 tonnes of DAP and 33,951 tonnes of compound fertilisers, totaling to 150,163 tonnes, and sold 128,296 tonnes of DAP and 25,059 tonnes of compound fertilisers, totaling to 153,355 tonnes, respectively, in the first half of 2014. In the first half of 2013, the DYK DAP Phase I Plant produced 150,780 tonnes of DAP and 4,410 tonnes of compound fertilisers, respectively, totaling to 155,190 tonnes.

**BB fertilisers**

In the first half of 2014, the Group produced a total of 28,649 tonnes of BB fertilisers with a sales volume of 30,534 tonnes.

## Financial Review

### Revenue and gross profit

During the reporting period, the Group's revenue was RMB5,263.7 million, an increase of RMB41.7 million, or 0.8%, from RMB5,222.0 million in the same period of 2013.

During the reporting period, the Group's external revenue from urea was RMB1,620.3 million, a decrease of RMB297.3 million, or 15.5%, from RMB1,917.6 million in the same period of 2013. The decrease was primarily attributable to (1) a decrease in revenue by RMB233.9 million due to a drop in the selling price of urea by RMB252.7 per tonne; and (2) a decrease in the sales volume of urea by 31,609 tonnes, leading to a decrease in our revenue by RMB63.4 million.

During the reporting period, the Group's external revenue from phosphate fertilisers and compound fertilisers was RMB1,089.3 million, an increase of RMB59.8 million, or 5.8%, from RMB1,029.5 million in the same period of 2013. The increase was primarily attributable to (1) an increase in the sales volume of phosphate fertilisers by 61,284 tonnes, resulting in an uplift in revenue by RMB157.6 million; (2) an increase in the sales volume of compound fertilisers by 25,059 tonnes, resulting in an increase in revenue by RMB73.0 million; and (3)a decrease in revenue by RMB170.8 million caused by a drop in the price of phosphate fertilisers by RMB511.2 per tonne.

During the reporting period, the Group's external revenue from methanol was RMB1,814.7 million, an increase of RMB237.9 million, or 15.1%, from RMB1,576.8 million in the same period of 2013. The increase was primarily attributable to (1) an increase in revenue by RMB153.6 million caused by an uplift in the selling price of methanol by RMB207.8 per tonne; and (2) an increase in the sales volume of methanol by 36,023 tonnes, resulting in an increase in revenue by RMB84.3 million.

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) increased by RMB41.2 million, or 5.9%, to RMB739.4 million as compared to RMB698.2 million in the same period of 2013, which was primarily attributable to (1) an increase in revenue by RMB8.7 million caused by an uplift in the sales volume of POM by 927 tonnes and an increase in the selling price of POM by RMB230.5 per tonne; (2) an increase in revenue by RMB55.0 million in the trading segment; and (3) a decrease in revenue by RMB11.4 million in the port operations segment and the transportation segment.

The Group's gross profit for the reporting period amounted to RMB1,404.6 million, a decrease of RMB146.8 million, or 9.5%, from RMB1,551.4 million for the same period of 2013. The decrease was primarily attributable to (1) a drop in both sales volume and selling price of urea, together with an increase in the export tariffs of urea by RMB90.0 million, resulting in an decrease in the gross profit of urea by RMB344.0 million; (2) an increase in gross profit of methanol by RMB177.8 million owing to an increase in both sales volume and selling price of methanol; and (3) an increase in the gross profit for other business by RMB19.4 million.

### Other income and gains

The Group's other gains for the reporting period amounted to RMB86.3 million, a decrease by RMB7.1 million, or 7.6%, from RMB93.4 million in the same period in 2013. The decrease was primarily attributable to (1) the fact that a net income of RMB38.4 million from the transfer of a portion of land by CNOOC Tianye in Inner Mongolia was recorded in the same period in 2013, while no such income was recorded in the first half of 2014; the decrease was partially offset by (2) an increase in gains from investments in entrusted asset management by RMB24.1 million; and (3) an increase in government subsidies by RMB6.3 million.

### Selling and distribution costs

The Group's selling and distribution costs for the reporting period amounted to RMB193.9 million, an increase of RMB73.7 million, or 61.3%, from RMB120.2 million in the same period of 2013. The increase was primarily attributable to (1) an increase in the sales volume of phosphate and compound fertilisers, together with an increase in the freight rates, resulting in the uplift of transportation expenses by RMB28.5 million; (2) an increase in loading and unloading, and miscellaneous port expenses by RMB19.2 million caused by an increase in the export of urea; (3) an increase in the transportation expenses and railways maintenance fees of the CNOOC Tianye POM by RMB12.6 million; and (4) an increase in the selling expenses in the trading segment.

## Administrative expenses

The Group's administrative expenses for the reporting period amounted to RMB198.6 million, an increase of RMB24.3 million, or 13.9%, from RMB174.3 million in the same period of 2013. The increase was primarily attributable to the actuarial gains on the severance benefit of CNOOC Tianye amounted to RMB21.5 million in the first half of 2013, resulting in an elimination of the management fees as required under the accounting standards, while no such elimination was recorded in the first half of 2014.

## Other expenses

The Group's other expenses for the reporting period amounted to RMB3.6 million, a decrease of RMB33.7 million, or 90.3%, from RMB37.3 million in the same period of 2013. The decrease was principally due to the establishment of CBC (Canada) Holding Corp. ("CBC (Canada)") jointly by the Company and Benewood Holdings Corporation Limited in 2013 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, a loss of RMB31.9 million was recognized on such derivative financial instruments, while as at 30 June 2014, the Company's estimated gain was RMB3.6 million.

## Finance income and finance costs

The Group's finance income for the reporting period decreased by RMB0.4 million, or 8.7%, to RMB4.2 million from RMB4.6 million in the same period of 2013.

The Group's finance costs for the reporting period amounted to RMB0.3 million, an increase by RMB0.3 million from RMB Nil million in the same period of 2013. The increase was primarily attributable to an increase in borrowings for our working capital.

## Exchange gains, net

During the reporting period, the Group recorded exchange gains of RMB4.2 million, an increase of RMB0.7 million, or 20%, compared with an exchange gain of RMB3.5 million in the same period of 2013, which was primarily attributable to (1) exchange gains of RMB6.7 million from the Group's export of urea settled in US dollars ("USD"); and (2) exchange losses of RMB2.5 million from our dividend payment.

## Share of profits of associates and joint ventures

The Group's share of losses of associates and joint ventures for the reporting period amounted to RMB380.6 million, a decrease of RMB381.7 million from the share of profits of associates and joint ventures of RMB1.1 million in the same period of 2013. The decrease was principally attributable to (1) a notice from the Intermediate People's Court of Xinzhou City, Shanxi Province (the "Xinzhou Court"), according to which all assets of Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal") , including mining rights, machineries and equipment, real estate, stock of raw coal and office supplies (the "Assets of Yangpoquan Coal") are to be put on auction in satisfaction of the defaulted and outstanding debts of Yangpoquan Coal owed to Hequ Branch of Industrial and Commercial Bank of China Limited. As a result of failure of the auction dated 15 August 2014, a notice was served by the Xinzhou Court on 20 August 2014 to conduct a second auction scheduled on 4 September 2014 in connection with the Assets of Yangpoquan Coal. Under relevant regulations of the PRC law, the base price of the second auction will not be less than 80% of the judicially appraised value of the Assets of Yangpoquan Coal recognised by the Xinzhou Court. In the event of a successful bid at the base price, the Company made an estimate of the recoverable amount of the Assets of Yangpoquan Coal as well as its share of the recoverable amount of the net assets of Yangpoquan Coal according to its shareholding, taking into account the carrying value of the Company's long-term equity investments, auction transaction taxes and the liabilities incurred by Yangpoquan Coal. An asset impairment loss of RMB376.0 million was recognised and presented as "share of (losses)/profits of associates" in the condensed consolidated statements of the Group; and (2) the share of loss attributable to the Group of RMB4.5 million, based on the loss incurred by Western Potash, a company held by CBC (Canada) as to 19.9%.

## Income tax expense

The Group's income tax expense for the reporting period was RMB194.8 million, a decrease of RMB90.2 million, or 31.6%, from RMB285.0 million in the same period of 2013.

## Net profit for the period

The Group's net profit for the reporting period was RMB527.5 million, a decrease by RMB509.8 million, or 49.1%, from RMB1,037.3 million in the same period of 2013.

The decrease in net profit was principally attributable to (1) a substantial decrease in the selling price of urea and phosphate fertilizer; (2) an increase in selling and distribution costs; and (3) a provision made by the Company for the impairment loss on the long-term equity investment in Yangpoquan Coal.

## Dividends

The board of directors of the Company (the "Board") did not recommend the payment of an interim dividend for the six months period ended 30 June 2014.

During the reporting period, the Company distributed the final dividend of RMB645.4 million in cash for 2013.

## 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 RMB315.5 million. Our capital expenditure primarily included: (1) RMB232.8 million for the Huahe 520,000 tonnes/year Urea Project; and (2) an investment of RMB82.7 million for upgrades and equipment purchases for our production plants.

## Pledge of assets

As at 30 June 2014, 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 2014 (calculated as interest-bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 5.34%.

## Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB2,934.0 million. For the reporting period, the net cash inflow from operating activities was RMB448.9 million, net cash outflow from investing activities was RMB352.0 million, net cash outflow from financing activities was RMB6.2 million, and the effect caused by the exchange movement on cash and cash equivalents was RMB0.4 million. As at 30 June 2014, the Group's cash and cash equivalents were RMB3,025.1 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 2014, the Group had 6,044 employees. The Croup 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 incentives to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Croup held 6,836 training courses, with a total of 70,468 enrolments and 376,071 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 risks in commodity prices 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 USD. During the reporting period, the Renminbi to USD exchange rate ranged between 6.0930 and 6.1710. Fluctuation in the RMB to USD exchange rate 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 2.3% 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

The Company was served an arbitration notice by China International Economic and Trade Arbitration Commission as requested by Yangpoquan Coal. Yangpoquan Coal alleged that it is unable to maintain a normal operation due to its disputes with the Company in respect of the management of Yangpoquan Coal and other matters and claimed compensation for damages in an amount of RMB1.1 billion for its losses suffered as a result of the aforesaid matters. The legal counsel of the Company is of the opinion that it is unlikely that the Company shall incur significant liabilities in relation to the arbitration.

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

### Material litigation and arbitration

As at 30 June 2014, the Company had no material litigation and arbitration.

## Sector Outlook

Looking forward to the second half of 2014, despite the coming low season for domestic chemical fertilisers, the positive trend of chemical fertilisers in the international market as well as favourable policies for the export tariff of chemical fertilisers will boost exports of urea and ammonium phosphate of the PRC, thereby effectively alleviating the oversupplies of chemical fertilisers in the PRC. In the chemical industry, as the PRC's economy stabilizes with a sign of rebound, demands for methanol and POM will grow steadily. For the second half of the year, newly commissioned domestic methanol-to-olefin projects will further stimulate market demands for methanol.

## Our Key Tasks in the Second Half of 2014

1. To continue to strengthen HSE and refined production management, and to achieve safe and stable operations for each production unit;

2. To closely track the changes in domestic and international markets of chemical fertilisers, increase export of urea and ammonium phosphate by leveraging on favourable export policies regarding urea and phosphate fertilisers, to be well-prepared for the domestic sales of chemical fertiliser in the autumn, and to actively explore the market for the application of compound fertilisers and POM with increased sales efforts;

3. To ensure the completion of annual production tasks and achievement of operation targets by tightening cost and expense control;

4. To strive to accomplish the mechanical completion and commissioning preparation works for the trial operation of the coal-based urea project located in Hegang, Heilongjiang, ensuring that the trial production can successfully commence in the fourth quarter of this year;

5. To endeavour to resolve as soon as possible the disputes with our joint venture partner of Yangpoquan Coal; and

6. To continue to look out for development opportunities in the PRC and overseas that fit the Company's 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 2014. The Group's unaudited interim results for the six months ended 30 June 2014 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 2014, 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## Disclosure of Directors' information

Pursuant to the requirements of Rule 13.51B (1) of the Listing Rules, changes in the information of the Directors of the Company are as follows:

At the AGM held on 23 May 2014, Mr. Zhou Dechun was appointed as a non-executive director of the Company and was appointed as a member of the Audit Committee of the Board and a member of the Investment Review Committee of the Board at the meeting of the Board held on the same day.

On the same day, Mr. Yang Shubo resigned as a non-executive Director, a member of the Audit Committee of the Board and a member of the Investment Review Committee of the Board of the Company due to other work commitments.

## 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 of the Company, during the six months ended 30 June 2014, all members of the Board and all supervisors have complied with the required standards as set out in the Model Code.

## Interests of substantial shareholders

As at 30 June 2014, to the best knowledge of any of the Directors and chief executives 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 of substantial shareholders and other persons (excluding Directors, Supervisors and chief executives of the Company) are set out as below:

| Names 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 shares in issue (%) |
|---|---|---|---|---|---|
| China National Offshore Oil Corporation (Note 1) | Beneficial owner through pledged interests in controlled corporation | **2,738,999,512 (L)** | **Domestic Shares** | **97.33 (L)** | **59.41 (L)** |
| Commonwealth Bank of Australia | Interests in controlled corporation | **156,004,000 (L) (Note 2)** | **H Shares** | **8.80 (L)** | **3.38 (L)** |
| GIC Private Limited | Investment manager | **105,246,171 (L)** | **H Shares** | **5.94 (L)** | **2.28 (L)** |
| JPMorgan Chase & Co. | Beneficial owner; Investment manager; custodian/approved lending agent | **97,114,132 (L)<br>0 (S)<br>93,590,056 (P)<br>(Note 3)** | **H Shares** | **5.48 (L)<br>0.00 (S)<br>5.28 (P)** | **2.11 (L)<br>0.00 (S)<br>2.03 (P)** |
| Blackrock, Inc. | Interests in controlled corporation | **93,681,263 (L)<br>88,000 (S)<br>(Note 4)** | **H Shares** | **5.29 (L)<br>0.00 (S)** | **2.03 (L)<br>0.00 (S)** |
| Mondrian Investment Partners Limited | Investment manager | **89,810,000 (L)** | **H Shares** | **5.07 (L)** | **1.95 (L)** |

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

(1) Mr. Li Hui, the Chairman and Non-executive Director of the Company, is also the deputy general manager of CNOOC.

(2) These Shares are held directly and/or indirectly by a number of controlled corporations of Commonwealth Bank of Australia, which are Colonial Holding Company Ltd, Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (UK Holdings) Ltd, First State Investments (Hong Kong) Ltd, SI Holdings Limited and First State Investment Management (UK) Limited.

(3) These Shares are held directly and/or indirectly by a number of controlled corporations of JPMorgan Chase & Co., which are J.P. Morgan Clearing Corp, J.P. Morgan Investment Management Inc., J.P. Morgan Whitefriars Inc., J.P. Morgan Securities plc, JPMorgan Chase Bank, N.A., JPMorgan Asset Management (UK) Limited, J.P. Morgan Capital Financing Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., J.P. Morgan Chase International Holdings, J.P. Morgan Securities LLC, J.P. Morgan Broker-Dealer Holdings Inc, J.P. Morgan Capital Holdings Limited, JPMorgan Asset Management Holdings Inc, J.P. Morgan Chase (UK) Holdings Limited, JPMorgan Asset Management Holdings (UK) Limited, J.P. Morgan Overseas Capital Corporation, JPMorgan Asset Management International Limited, JPMorgan Chase Bank, N.A. and J.P. Morgan International Finance Limited.

(4) These Shares are held directly and/or indirectly by a number of controlled corporations of Blackrock, Inc., which are Trident Merger, LLC, BlackRock Investment Management, LLC., BlackRock Holdco 2 Inc., BlackRock Financial Management, Inc., BlackRock Holdco 4 LLC, BlackRock Holdco 6 LLC, BlackRock Delaware Holdings, Inc., BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Advisors Holdings Inc., BlackRock Capital Holdings, Inc., BlackRock Advisors, LLC., BlackRock International Holdings Inc., BR Jersey International LP, BlackRock (Channel Islands) Ltd, BlackRock Cayco Ltd., BlackRock Trident Holding Company Limited, BlackRock Japan Holdings GK, BlackRock Japan Co Ltd, BlackRock (Institutional) Canada Ltd, BlackRock Holdings Canada Limited, BlackRock Asset Management Canada Limited, BlackRock Australia Holdco Pty Ltd, BlackRock Investment Management (Australia) Limited, BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Group Limited, BlackRock (Netherlands) B.V., Blackrock Advisors (UK) Limited, BlackRock International Limited, BlackRock Luxembourg Holdco S.a.r.l., BlackRock Investment Management Ireland Holdings Ltd, BlackRock Asset Management Ireland Limited, BlackRock (Luxembourg) S.A., BlackRock Investment Management (UK) Ltd and BlackRock Fund Managers Ltd.

Save as disclosed above, to the best knowledge of any of the Directors and chief executives of the Company, as at 30 June 2014, no person (other than a Director, Supervisor and chief executive of the Company or their respective associates) had any interests and short positions in the shares and underlying shares (as the case may be) of the Company which were required to be entered into the register kept pursuant to Section 336 of the SFO.

## Purchase, sale and redemption of the Company's listed securities

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## Interests and short positions of directors, supervisors and chief executive in shares

As at 30 June 2014, none of the Directors, Supervisors, chief executives or their associates had or was deemed to have any interests or short positions 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 to have or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules.

# 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 40, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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
28 August 2014

# Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2014

| | Notes | Six months ended 30 June 2014 (Unaudited) RMB'000 | Six months ended 30 June 2013 (Unaudited) RMB'000 |
|---|---|---|---|
| **Revenue** | 4 | **5,263,729** | 5,222,016 |
| Cost of sales | | **(3,859,154)** | (3,670,583) |
| **Gross profit** | | **1,404,575** | 1,551,433 |
| Other income and gains | 4 | **86,263** | 93,369 |
| Selling and distribution costs | | **(193,896)** | (120,153) |
| Administrative expenses | | **(198,609)** | (174,258) |
| Other expenses | | **(3,581)** | (37,334) |
| Finance income | | **4,248** | 4,598 |
| Finance costs | | **(286)** | - |
| Exchange gains, net | | **4,235** | 3,515 |
| Share of (losses) profits of joint ventures | | **(150)** | 1,051 |
| Share of (losses) profits of associates | | **(380,443)** | 50 |
| **Profit before tax** | | **722,356** | 1,322,271 |
| Income tax expenses | 5 | **(194,818)** | (285,016) |
| **Profit for the period** | 6 | **527,538** | 1,037,255 |
| | | | |
| Profit for the period attributable to: | | | |
| Owners of the parent | | **447,528** | 957,951 |
| Non-controlling interests | | **80,010** | 79,304 |
| | | **527,538** | 1,037,255 |
| | | | |
| Earnings per share attributable to ordinary owners of the parent | | | |
| - Basic for the period (RMB) | 7 | **0.1** | 0.21 |

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

For the six months ended 30 June 2014

| | Six months ended | |
|---|---|---|
| | 30 June 2014 (Unaudited) RMB'000 | 30 June 2013 (Unaudited) RMB'000 |
| **Profit for the period** | **527,538** | 1,037,255 |
| **Other comprehensive income that may be reclassified** subsequently to profit or loss | | |
| Fair value gains on unlisted investments during the period | **60,264** | 36,126 |
| Less: Reclassification adjustment upon maturity of unlisted investments | **(60,264)** | (36,126) |
| Exchange differences arising on translation | **2,871** | - |
| **Total comprehensive income for the period** | **530,409** | 1,037,255 |
| Total comprehensive income for the period attributable to: | | |
| Owners of the parent | **450,399** | 957,951 |
| Non-controlling interests | **80,010** | 79,304 |
| | **530,409** | 1,037,255 |

# Interim Condensed Consolidated Statement of Financial Position

At 30 June 2014

| | Notes | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 8 | **10,727,860** | 10,810,741 |
| Prepayments for property, plant and equipment | | **176,647** | 160,770 |
| Mining and exploration rights | | **475,686** | 476,353 |
| Prepaid lease payments | 9 | **615,035** | 623,119 |
| Intangible assets | | **119,799** | 125,078 |
| Investments in joint ventures | | **213,485** | 213,635 |
| Investments in associates | 10 | **448,901** | 828,092 |
| Available-for-sale investments | | **600** | 600 |
| Deferred tax assets | | **310,516** | 198,413 |
| Other long-term prepayment | | **12,000** | 12,000 |
| | | **13,100,529** | 13,448,801 |
| **Current assets** | | | |
| Inventories | | **1,504,983** | 1,365,805 |
| Trade receivables | 11 | **276,620** | 111,589 |
| Bills receivable | 11 | **50,977** | 54,400 |
| Prepayments, deposits and other receivables | 12 | **699,227** | 572,626 |
| Pledged bank deposits | | **31** | 5,665 |
| Time deposits with original maturity over three months | | **-** | 42,944 |
| Cash and cash equivalents | 13 | **3,025,093** | 2,933,970 |
| | | **5,556,931** | 5,086,999 |
| **Total assets** | | **18,657,460** | 18,535,800 |

# Interim Condensed Consolidated Statement of Financial Position - continued

At 30 June 2014

| | Notes | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Issued capital | 14 | **4,610,000** | 4,610,000 |
| Reserves | | **9,351,002** | 8,900,603 |
| Proposed dividends | 15 | **-** | 645,400 |
| Equity attributable to owners of the parent | | **13,961,002** | 14,156,003 |
| Non-controlling interests | | **1,238,066** | 1,345,228 |
| **Total equity** | | **15,199,068** | 15,501,231 |
| **Non-current liabilities** | | | |
| Benefits liability | | **20,852** | 23,964 |
| Interest-bearing bank borrowings | 16 | **576,000** | 31,000 |
| Deferred tax liabilities | | **60,529** | 62,175 |
| Deferred revenue | | **137,438** | 135,677 |
| Other long-term liabilities | | **115,750** | 115,152 |
| | | **910,569** | 367,968 |
| **Current liabilities** | | | |
| Interest-bearing bank borrowings | 16 | **281,535** | - |
| Trade payables | 17 | **557,086** | 418,048 |
| Bills payable | 17 | **145,493** | 120,416 |
| Other payables and accruals | 18 | **1,381,498** | 1,798,602 |
| Obligation arising from a put option to a non-controlling shareholder | 19 | **97,663** | 92,794 |
| Derivative financial instruments | 19 | **38,959** | 47,485 |
| Income tax payable | | **45,589** | 189,256 |
| | | **2,547,823** | 2,666,601 |
| **Total liabilities** | | **3,458,392** | 3,034,569 |
| **Total equity and liabilities** | | **18,657,460** | 18,535,800 |
| **Net current assets** | | **3,009,108** | 2,420,398 |
| **Total assets less Current liabilities** | | **16,109,637** | 15,869,199 |
| **Net assets** | | **15,199,068** | 15,501,231 |

**Yang Yexin**
*Director*

**Lee Kit Ying**
*Director*

# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

| | 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) |
| **Balance at 1 January 2014** | **4,610,000** | **1,007,237** | **878,806** | **30,832** |
| Profit for the year | - | - | - | - |
| **Other comprehensive income for the period** | - | - | - | - |
| Total comprehensive income for the period | - | - | - | - |
| Appropriation of safety fund | - | - | - | **20,045** |
| Utilisation of safety fund | - | - | - | **(7,731)** |
| Final 2013 dividends declared | - | - | - | - |
| Dividends paid to non-controlling interests | - | - | - | - |
| **Balance at 30 June 2014 (unaudited)** | **4,610,000** | **1,007,237** | **878,806** | **43,146** |
| **Balance at 1 January 2013** | 4,610,000 | 1,009,215 | 752,357 | 3,345 |
| Profit for the period | - | - | - | - |
| **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 | - | - | - | - |
| **Balance at 30 June 2013 (unaudited)** | 4,610,000 | 1,009,215 | 752,357 | 4,050 |

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 RMB'000 | Proposed dividends RMB'000 | Translation reserve RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|
| **6,990,696** | **645,400** | **(6,968)** | **14,156,003** | **1,345,228** | **15,501,231** |
| **447,528** | **-** | **-** | **447,528** | **80,010** | **527,538** |
| **-** | **-** | **2,871** | **2,871** | **-** | **2,871** |
| **447,528** | **-** | **2,871** | **450,399** | **80,010** | **530,409** |
| **(20,045)** | **-** | **-** | **-** | **-** | **-** |
| **7,731** | **-** | **-** | **-** | **-** | **-** |
| **-** | **(645,400)** | **-** | **(645,400)** | **-** | **(645,400)** |
| **-** | **-** | **-** | **-** | **(187,172)** | **(187,172)** |
| **7,425,910** | **-** | **(4,097)** | **13,961,002** | **1,238,066** | **15,199,068** |
| 6,142,951 | 691,500 | - | 13,209,368 | 1,417,305 | 14,626,673 |
| 957,951 | - | - | 957,951 | 79,304 | 1,037,255 |
| 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 |

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

| | Six months ended | |
|---|---|---|
| | 30 June 2014 (Unaudited) RMB'000 | 30 June 2013 (Unaudited) RMB'000 |
| Net cash from operating activities | **448,897** | 942,388 |
| Net cash used in investing activities: | | |
| Purchases of property, plant and equipment | **(459,750)** | (435,348) |
| Addition to investment in an associate | **-** | (192,389) |
| Addition to prepaid land lease payments | **-** | (142,526) |
| Addition to mining rights | **(444)** | - |
| Addition to investment in a joint venture | **-** | (92,747) |
| Disposal of prepaid land lease payments | **13,031** | 26,500 |
| Tax payment on disposal of prepaid land lease payments | **(18,000)** | - |
| Decrease in time deposit | **42,944** | - |
| Decrease in pledged bank deposit | **5,634** | 3,995 |
| Purchase of available-for-sale investment | **(5,048,930)** | (1,216,100) |
| Disposal of available-for-sale investment | **5,109,194** | 1,252,226 |
| Interest received | **4,248** | 5,333 |
| Other investing cash flows | **45** | (4,350) |
| | **(352,028)** | (795,406) |
| Net cash used in financing activities: | | |
| Dividends paid | **(645,400)** | (691,500) |
| Dividends paid to non-controlling interests | **(187,172)** | (175,278) |
| Contribution from a non-controlling shareholder | **-** | 96,258 |
| Purchase of non-controlling interests | **-** | (10,000) |
| Distribution to a non-controlling shareholder upon liquidation of a subsidiary | **-** | (42,482) |
| Bank borrowing raised | **826,535** | 5,000 |
| Interest paid | **(178)** | (2,508) |
| | **(6,215)** | (820,510) |
| Net increase/(decrease) in cash and cash equivalents | **90,654** | (673,528) |
| Cash and cash equivalents at 1 January | **2,933,970** | 2,563,666 |
| Effect of foreign exchange rate changes | **469** | - |
| Cash and cash equivalents at 30 June, represented by bank balances and cash | **3,025,093** | 1,890,138 |

# Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

## 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 are 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, compound fertiliser 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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 2. Principal accounting policies - continued

In the current interim period, the Group has applied, for the first time, the following new interpretations and amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB that are relevant, among others, for the preparation of Group's condensed consolidated financial statements, and the application of which has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements:

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12, and IAS 27 | Investment Entities |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRIC 21 | Levies |

## 3. Operating segment information

Information reported to the Chief Executive Officer, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods and services delivered or produced. During the current interim period, the Group reported the manufacture and sale of compound fertiliser of which started in second half of 2013 under the phosphorus and compound fertiliser segment following changes in information reviewed and used by the Chief Executive Officer, previously included in others segment in last annual financial statements. Saved as the said change, the measure reported for resources allocation and segment's performance assessment is the same as last annual financial statements. Hence, the Group has reportable operating segments as follows:

(a) the urea segment is engaged in the manufacture and sale of urea;

(b) the phosphorus and compound fertiliser segment is engaged in the manufacture and sale of MAP, DAP and compound fertiliser;

(c) the methanol segment is engaged in the manufacture and sale of methanol; and

(d) the "others" segment mainly comprises segments engaged in manufacture and sale of Bulk Blending (the "BB") fertiliser, POM and woven plastic bags, trading of fertilisers and chemicals, port operations and provision of transportation services.

Segment performance is evaluated based on segment result and is measured consistently with profit before tax in the consolidated financial statements. However, segment result for each operating segment does not include interest and unallocated income, corporate and other unallocated expenses, finance costs, net exchange gains, change in fair value of derivative financial instrument, share of (losses)/profits of joint ventures and associates and income taxes, which are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are determined on an arm's length basis in a manner similar to transactions with third parties. Inter-segment sales are eliminated on consolidation.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 3. Operating segment information - continued

| | Urea RMB'000 | Phosphorus and compound fertiliser RMB'000 | Methanol RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Six months ended 30 June 2014 (Unaudited)** | | | | | | |
| Segment revenue: | | | | | | |
| Sales to external customers | 1,620,343 | 1,089,315 | 1,814,704 | 739,367 | - | 5,263,729 |
| Inter-segment sales | - | - | - | 186,792 | (186,792) | - |
| Total | 1,620,343 | 1,089,315 | 1,814,704 | 926,159 | (186,792) | 5,263,729 |
| Segment results: | | | | | | |
| Segment profit before tax | 447,418 | 7,320 | 622,239 | 1,055 | - | 1,078,032 |
| Interest and unallocated income | | | | | | 62,269 |
| Corporate and other unallocated expenses | | | | | | (45,244) |
| Exchange gains, net | | | | | | 4,235 |
| Change in fair value of derivative financial instrument | | | | | | 3,657 |
| Share of losses of joint ventures | | | | | | (150) |
| Share of losses of associates | | | | | | (380,443) |
| Profit before tax | | | | | | 722,356 |
| **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 |

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 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 2014 (Unaudited) RMB'000 | 30 June 2013 (Unaudited) RMB'000 |
| **Revenue** | | |
| Sale of goods | **5,073,027** | 5,014,547 |
| Rendering of services | **190,702** | 207,469 |
| | **5,263,729** | 5,222,016 |
| **Other income and gains** | | |
| Gain on maturity of available-for-sales financial assets | **60,264** | 36,126 |
| Gain on disposal of items of property, plant and equipment | **38** | - |
| Gain on disposal of prepaid land lease payments | **-** | 38,361 |
| Income from sale of other materials | **9,850** | 10,734 |
| Income from rendering of other services | **4,380** | 2,228 |
| Gross rental income | **1,141** | 119 |
| Government grants | **10,020** | 3,465 |
| Others | **570** | 2,336 |
| | **86,263** | 93,369 |

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 5. Income tax expenses

| | Six months ended | |
|---|---|---|
| | 30 June 2014 | 30 June 2013 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Current tax in the PRC | **308,567** | 282,578 |
| Deferred tax | **(113,749)** | 2,438 |
| | **194,818** | 285,016 |

(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%.

CNOOC Fudao Limited and Hubei Dayukou Chemical Co., Ltd., subsidiaries of the Company, are entitled to preferential EIT rate of 15% for the three years ended 31 December 2013 after being assessed as high-tech enterprises. During the six months ended 30 June 2014, EIT rate of 25% applies.

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.

Hainan Basuo Port Limited, a subsidiary of the Company, is entitled to 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) Foreign taxes

No provision for Canadian and Hong Kong income tax has been made as the Group's subsidiaries had no assessable profits arising in Canada and Hong Kong for both periods.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 6. Profit for the period

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

| | Six months ended | |
|---|---|---|
| | 30 June 2014 (Unaudited) RMB'000 | 30 June 2013 (Unaudited) RMB'000 |
| Cost of inventories sold | **3,686,565** | 3,404,503 |
| Cost of services provided | **152,065** | 218,081 |
| Depreciation of property, plant and equipment | **413,425** | 398,572 |
| Amortisation of mining rights | **1,111** | 852 |
| Amortisation of prepaid land lease payments | **8,084** | 7,976 |
| Amortisation of intangible assets | **5,726** | 5,658 |
| Changes in fair value of derivative financial instruments | **(8,526)** | 31,882 |
| Change in fair value of obligation arising from a put option to a non-controlling shareholder | **4,869** | - |
| Write-back of bad debts recovered | **(8)** | - |
| Write-down of inventories to net realisable value, included in cost of sales | **20,524** | 18,194 |

## 7. Earnings per share

| | Six months ended | |
|---|---|---|
| | 30 June 2014 (Unaudited) RMB'000 | 30 June 2013 (Unaudited) RMB'000 |
| Profit for the period attributable to owners of the parent | **447,528** | 957,951 |

| | Six months ended | |
|---|---|---|
| | 30 June 2014 '000 | 30 June 2013 '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 2014

## 8. Property, plant and equipment

During the six months ended 30 June 2014, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB330,596,000 (six months ended 30 June 2013: RMB340,716,000). Property, plant and equipment with carrying amount of approximately to RMB52,000 (six months ended 30 June 2013: RMB775,000) were disposed of during the six months ended 30 June 2014.

## 9. Prepaid lease payments

There is no addition nor disposal of land use right during the six months ended 30 June 2014. During the six months ended 30 June 2013, the Group acquired RMB142,526,000 land use rights and disposed of RMB21,868,000 land use rights.

In June 2014, CNOOC Hualu Shanxi Coal Chemical Co., Ltd. ("Hualu"), a 51% subsidiary of the Group, was notified by the local land bureau that the idle land, of which the land use right is held by Hualu, is to be seized without compensation according to <Notification to Seize the State Owned Construction Land Use Right> (the "Notification") issued by the local land bureau. According to the Notification, Hualu is requested to deregister the land use right certificate of its idle land on or before 25 July 2014, or else the local land bureau will announce that land use right certificate as invalid. The legal counsel of the Group is of the opinion that the <Confirmation Letter of Idle Land>, which is a document prepared by the local land bureau prior to the issuance of the Notification, is factually incorrect. The management of the Group has communicated with the government and up to the date of approval of these condensed consolidated financial statements, the local land bureau has not yet announced the land use right certificate as invalid. In August 2014, administrative appeal to local government was made by the Group against the Notification. Based on the progress of the incident, the management is of the view that it is unlikely that the land use right will be seized without compensation in the near future. In conjunction with the assessment by the management of the recoverable amounts of the land use right and related assets in Hualu, no impairment provision is considered necessary as of 30 June 2014.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 10. Investment in associates

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Cost of investment in associates | **822,261** | 821,009 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received, including impairment of Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. (note) | **(373,360)** | 7,083 |
| | **448,901** | 828,092 |

The above associate is accounted for using the equity method in these consolidated financial statements.

The Group's other receivables with its associates are disclosed in note 12.

Particulars of the associates of the Group are set out as follows:

| Name of the entity | Place and date of incorporation and operation | Registered capital '000 | | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|---|
| Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal") (山西華鹿陽坡泉煤礦有限公司 (以下簡稱"陽坡泉煤礦")) | PRC<br>3 August 2001 | **RMB52,000** | Direct<br>Indirect | **49**<br>**-** | Mining and sale of coal |
| China Basuo Overseas Shipping Agency Co., Ltd. (中國八所外輪代理有限公司) | PRC<br>24 May 2000 | **RMB1,800** | Direct<br>Indirect | **-**<br>**36.56** | Provision of overseas shipping services |
| Western Potash Corporation (西鉀公司) | Canada<br>5 April 2007 | **CAD$140,944** | Direct<br>Indirect | **-**<br>**19.9** | Acquisition, evaluation, and exploration of mineral properties containing potash |

During the current interim period, according to a notice from the Intermediate People's Court of Xinzhou City, Shanxi Province ("the Xinzhou Court"), all assets of Yangpoquan Coal, including mining rights, machineries and equipment, real estate, stock of raw coal and office supplies (the "Assets of Yangpoquan Coal") are to be foreclosed through auction in satisfaction of the defaulted and outstanding debts of Yangpoquan Coal in the amount of RMB302,678,000 owed to Hequ Branch of Industrial and Commercial Bank of China Limited. Due to the failure of the auction originally scheduled on 15 August 2014, a second round auction is scheduled to be held on 4 September 2014. According to the relevant laws and regulations in China, the base price of the auction will be set at an amount of not lower than 80% of the judicial appraised value recognised by the Xinzhou Court. Should the auction be completed at the base price, taking consideration together with the carrying amount of investment in Yangpoquan Coal, the relevant taxes and other costs to be incurred and the carrying amounts of liabilities of Yangpoquan Coal, the Group share of net assets of Yangpoquan Coal of fair value less cost of sales is RMB277,258,000. Accordingly, an impairment of RMB375,972,000 is recognised and presented as "share of losses/profits of associates".

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 11. 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 2014<br>(Unaudited)<br>RMB'000 | 31 December 2013<br>(Audited)<br>RMB'000 |
|---|---|---|
| Within six months | **314,538** | 162,258 |
| Over six months but within one year | **11,659** | 2,311 |
| Over one year but within two years | **418** | 504 |
| Over two years but within three years | **982** | 916 |
| | **327,597** | 165,989 |

As at 30 June 2014, the amounts due from CNOOC, its subsidiaries, and associates, (other than the ultimate holding company collectively referred to as the " CNOOC group companies") included in the above trade receivable balances are in aggregate RMB41,292,000 (31 December 2013: RMB14,763,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

As at 30 June 2014, the Group has transferred bills receivable through endorsement to its suppliers to settle its payables amounted to RMB56,167,000 (31 December 2013: RMB41,824,000). The directors considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant. Hence, the Group has derecognised these bills receivable and payables to suppliers in its entirety, given the limited exposure in respect of the settlement obligation of these bills receivable.

All the bills receivables endorsed to suppliers of the Group have a maturity date of less than six months from the end of the reporting period.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 12. Prepayments, deposits and other receivables

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Prepayments | **326,464** | 179,658 |
| Prepaid lease payments | **15,484** | 15,484 |
| Deposits and other receivables | **98,914** | 126,611 |
| Value Added Tax ("VAT") recoverable | **258,365** | 250,873 |
| | **699,227** | 572,626 |

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

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Ultimate holding company | **26** | 1,355 |
| CNOOC group companies | **62,014** | 26,066 |
| Associates | **8,155** | 8,155 |
| Joint ventures | **-** | 807 |
| | **70,195** | 36,383 |

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

## 13. Bank balances and cash

The Group's bank balances and cash were denominated in RMB as at 30 June 2014 and 31 December 2013, except for amounts of RMB64,720,000 (31 December 2013: RMB22,801,000) which was translated from US$10,520,000 (31 December 2013: US$3,740,000); and RMB1,976,000 (31 December 2013: RMB3,082,000) which was translated from HK$2,470,000 (31 December 2013: HK$3,921,000); and RMB43,751,000 (31 December 2013: RMB44,362,000) which was translated from CAD$7,584,000 (31 December 2013: CAD$7,748,000).

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

As at 30 June 2014, included in the Group's bank balances and cash were RMB504,627,000 (31 December 2013: RMB572,920,000) 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.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 14. 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 2014 (unaudited)** and 31 December 2013 (audited) | **4,610,000** | **4,610,000** |

## 15. Proposed dividends

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

During the current interim period, a final dividend of RMB0.14 per share in respect of the year ended 31 December 2013 (six months ended 30 June 2013: RMB0.15 per share in respect of the year ended 31 December 2012) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB645,400,000 (six months ended 30 June 2013: RMB691,500,000).

The board of directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

## 16. Interest-bearing bank borrowings

During the six months ended 30 June 2014, the Group obtained new unsecured bank loans amounting to RMB636,000,000 (six months ended 30 June 2013: RMB31,000,000), RMB60,000,000 of the said loans are repayable by June 2015 carrying fixed interest rate of 6%; and RMB576,000,000 of the loans are repayable between 2017 and 2023 carrying variable interest rate range from 6.40% to 6.55%, of which proceeds are to be used for financing working capital and acquisition of property, plant and equipment, respectively.

In the same period, the Group also raised new loans secured by its trade receivables amounting to RMB221,535,000 (six months ended 30 June 2013: nil), carrying variable interest rates at 1.85% over 2-month London InterBank Offered Rate ("LIBOR") and 2.6% over 6-month LIBOR. The said loans are repayable in August and December 2014, of which the proceeds are to be used for financing working capital.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 17. 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 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Within six months | **647,202** | 517,717 |
| Over six months but within one year | **40,014** | 12,538 |
| Over one year but within two years | **13,884** | 6,730 |
| Over two years but within three years | **80** | 80 |
| Over three years | **1,399** | 1,399 |
| | **702,579** | 538,464 |

As at 30 June 2014, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances amounted to RMB162,631,000 (31 December 2013: RMB205,815,000).

## 18. Other payables and accruals

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Advances from customers | **323,203** | 475,273 |
| Accruals | **566** | 5,163 |
| Accrued payroll | **181,289** | 247,593 |
| Other payables | **270,587** | 312,303 |
| Long-term liabilities due within one year | **1,798** | 1,798 |
| Interest payable | **981** | 109 |
| Payables to government | **84,883** | 84,883 |
| Other tax payables | **58,837** | 98,188 |
| Port construction fee payable | **164,656** | 164,656 |
| Payables in relation to the construction and purchase of property, plant and equipment | **294,698** | 408,636 |
| | **1,381,498** | 1,798,602 |

As at 30 June 2014, the amounts due to CNOOC group companies included in the above other payables and accruals balances amounted to RMB42,211,000 (31 December 2013: RMB79,497,000).

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 19. 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 CAD$24,000,000 (equivalent to approximately RMB141,363,000) and CAD$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 CAD$0.71 per share and the total consideration is CAD$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 (both i and ii are hereinafter referred to 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 CAD$16,000,000 plus a yield at LIBOR for U.S. dollar plus 3.5%.

As at 30 June 2014, Benwood has not exercised the Put Option.

At initial recognition, the obligation arising from the Put Option to 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 CAD$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 2014 approximated CAD$16,930,000 (equivalent to RMB97,663,000) (31 December 2013: CA$16,206,000 (equivalent to RMB92,794,000)).

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 WPC; 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 Western 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 2014

## 19. 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. As at 30 June 2014, the Company has not exercised the Call Option.

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 net to RMB38,959,000 as at 30 June 2014 (31 December 2013: RMB47,485,000).

The fair values of the Put Option and Call Option as at 30 June 2014 have been determined by using a Black-Scholes option pricing model with the following assumptions:

| | CAD$'000 |
|---|---|
| Exercise price | **16,930** |
| Share price | **10,240** |
| Time to maturity | **0.5 year** |
| Risk free rate | **0.96%** |
| Volatility | **51.14%** |
| Dividend yield | **0%** |
| Probability of Conditional Events occur | **50%** |

(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 2014

## 20. Fair value measurements of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the condensed consolidated financial statements not measured at fair value on a recurring basis (but fair value disclosures are required) approximate their fair values. The following methods and assumptions were used to estimate the fair values:

The fair values of trade receivables, bills receivable, financial assets included in prepayments, deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, bills payable, current portion of interest-bearing bank borrowings, financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

As at 30 June 2014, the fair values of the non-current portion of interest-bearing bank borrowings with carrying amounts of RMB576,000,000 (31 December 2013: RMB31,000,000) approximate to their carrying amounts largely due to their variable interest rate.

The recurring fair value measurement and fair value hierarchy for the derivative financial instrument and obligation arising from put option granted to a non-controlling shareholder, are as follows:

| Financial assets /financial liabilities | Fair value as at 30 June 2014 (Unaudited) RMB'000 | Fair value as at 31 December 2013 (Audited) 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 | **38,959** | 47,485 | Level 3 | Black-Scholes option pricing model. Key inputs include volatility and, expected life of the option | Expected volatility and expected life of the option | The higher the volatility, the higher the fair value (note i)<br><br>The longer the life of the option, the higher the fair value (note ii) |
| Obligation arising from a put option to a non-controlling shareholder | **97,663** | 92,794 | 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 RMB84,000/RMB78,000.

Note ii: If the expected life to the valuation model were 0.3 year longer/shorter while all the other variables were held constant, the carrying amount of the derivative financial instruments would increase/decrease by approximate RMB408,000/RMB178,000.

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 20. Fair value measurements of financial instruments - continued

**Reconciliation of Level 3 fair value measurements of derivative financial instruments**

| | 30 June 2014<br>(Unaudited)<br>RMB'000 |
|---|---|
| At 1 January 2014 | **47,485** |
| Fair value gain | **(8,526)** |
| At 30 June 2014 | **38,959** |

The fair value gain for the period in the profit or loss related to derivative financial instruments held at the end of the reporting period, and is 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.

## 21. Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2014, the Group had the following capital commitments:

| | 30 June 2014<br>(Unaudited)<br>RMB'000 | 31 December 2013<br>(Audited)<br>RMB'000 |
|---|---|---|
| Construction or purchases of property, plant and equipment | | |
| Contracted, but not provided for | **348,403** | 462,721 |
| Authorised, but not contracted for | - | 978,050 |
| | **348,403** | 1,440,771 |

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 21. Commitments and contingent liabilities - continued

(b) Operating lease commitments

(i) As lessor

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

As at 30 June 2014 and 31 December 2013, the Group had total future minimum lease receivables from CNOOC group companies under non-cancellable operating leases falling due as follows:

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Within one year | 2,517 | 453 |
| In the second to fifth years, inclusive | 6,827 | 1,511 |
| After five years | 6,354 | 3,387 |
| | 15,698 | 5,351 |

(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 2014 and 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Within one year | 6,227 | 12,748 |
| In the second to fifth years, inclusive | 3,189 | 4,789 |
| After five years | 995 | 1,169 |
| | 10,411 | 18,706 |

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 22. Related party transactions

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

| | Six months ended | |
|---|---|---|
| | 30 June 2014 (Unaudited) RMB'000 | 30 June 2013 (Unaudited) RMB'000 |
| (A) Included in revenue, other income and gains | | |
| CNOOC group companies | | |
| Sale of goods | **70,020** | 55,291 |
| Provision of transportation services | **122** | 153 |
| Provision of packaging and assembling services | **25,131** | 9,444 |
| Provision of other services | **837** | 1,652 |
| | **96,110** | 66,540 |
| (B) Included in cost of sales and other expenses | | |
| CNOOC group companies | | |
| Purchase of raw materials | **1,124,044** | 1,088,937 |
| Transportation services | **57,413** | 74,730 |
| Lease of offices | **12,979** | 13,282 |
| Construction and installation services | **1,430** | 16,419 |
| Labour services | **10,438** | 9,453 |
| Network services | **184** | 1,401 |
| Logistics services | **1,520** | - |
| | **1,208,008** | 1,204,222 |
| (C) Others | | |
| CNOOC Finance | | |
| Finance income | **1,984** | 2,005 |
| Finance cost | **2** | - |
| Fees and charges paid to CNOOC group companies | **2,172** | 4,597 |

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 22. Related party transactions - continued

(2) Balances with related parties

Details for following balances are set out in Notes 11, 12, 13, 17 and 18 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 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
| The ultimate holding company | **26** | 1,355 | **-** | - |
| CNOOC group companies (excluding CNOOC Finance) | **103,306** | 60,390 | **208,116** | 288,811 |
| Associates | **8,155** | 8,155 | | - |
| Jointly ventures | **-** | 807 | | - |
| CNOOC Finance | **-** | - | **20,132** | 111 |

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Deposits placed by the Group with CNOOC Finance | **504,627** | 572,920 |

(3) Compensation of key management personnel of the Group

| | Six months ended | |
|---|---|---|
| | 30 June 2014 (Unaudited) RMB'000 | 30 June 2013 (Unaudited) RMB'000 |
| Short-term employee benefits | **1,350** | 1,270 |
| Post-employment benefits | **88** | 85 |
| | **1,438** | 1,355 |

# Notes to the Interim Condensed Consolidated Financial Statements - continued

For the six months ended 30 June 2014

## 22. 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, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs.

The Group's deposits and borrowings with certain state-owned banks in the PRC as at 30 June 2014 and 31 December 2013 are summarised below:

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Cash and cash equivalents | **3,025,093** | 2,933,970 |
| Pledged bank deposits | **31** | 5,665 |
| Time deposits | **-** | 42,944 |
| | **3,025,124** | 2,982,579 |
| Short-term bank loans | **281,535** | - |
| Long-term bank loans | **576,000** | 31,000 |

## 23. Events after the reporting period

In July 2014, Yangpoquan Coal commenced arbitration against the Company in respect of its interrupted operation in Yangpoquan Coal due to its disputes with the Company regarding the management of Yangpoquan Coal and other matters and claims compensation for damages for its losses suffered as a result of the aforesaid matters. A hearing date has not been scheduled. The Group has been advised by its legal counsel that it is not probable that a significant liability will arise. Accordingly, no provision in relation to this claim has been recognised in these condensed consolidated financial statements.

## 24. Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2014.

# 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<br>No. 301, Building 5,12 Yongan Road, Basuo Town, Dongfang City<br>Hainan Province, the PRC<br>Quan Changsheng<br>Flat 1803, Builiding No.18 Zone 2, Yuhuili, Chaoyang District, Beijing |
| **Alternate to authorized representatives** | Yu Jianwei<br>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<br>35/F One Pacific Place, 88 Queensway, Hong Kong |
| **Hong Kong law legal adviser** | Freshfields Bruckhaus Deringer<br>11th Floor, Two Exchange Square, Central, Hong Kong |
| **The PRC law legal adviser** | Jun He Law Offices<br>China Resources Building, 20th Floor, 8 Jianguomenbei Avenue |
| **H Share registrar and transfer office** | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716 17th Floor, Hopewell Centre<br>183 Queen's Road East, Wanchai, Hong Kong |
| **Investor Relations/Public Relations**<br>**Hong Kong** | <br>Tel: (852) 22132502<br>Fax: (852) 25259322 |
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| **Webiste** | www.chinabluechem.com.cn |
| **Stock Code** | Hong Kong Stock Exchange: 3983 |