中海石油化學股份有限公司
China BlueChemical Ltd.*

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

(Stock code: 03983)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

1. Revenue amounted to RMB10,796.9 million

2. Gross profit amounted to RMB2,685.6 million

3. Net profit attributable to owners of the parent amounted to RMB105.3 million

4. Basic earnings per share was RMB0.02

5. Proposed final dividend of RMB0.01 per share for the year and special dividend of RMB0.11 per share

(I) AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	4	**10,796,886**	10,723,636
Cost of sales		**(8,111,276)**	(7,500,309)
Gross profit		**2,685,610**	3,223,327
Other income and gains	4	**211,853**	156,336
Selling and distribution expenses		**(425,012)**	(347,042)
Administrative expenses		**(518,396)**	(476,320)
Other expenses		**(110,221)**	(76,025)
Finance income		**8,305**	10,669
Finance costs	5	**(9,456)**	(2,571)
Net exchange gains/(losses)		**8,499**	(8,792)
Share of losses of joint ventures		**(577)**	(263)
Share of losses of associates		**(477,000)**	(9,350)
Impairment of assets	6	**(1,260,395)**	(122,711)
Profit before tax	7	**113,210**	2,347,258
Income tax	8	**(16,157)**	(554,162)
Profit for the year		**97,053**	1,793,096
Profit for the year attributable to:			
Owners of the parent		**105,293**	1,647,081
Non-controlling interests		**(8,240)**	146,015
		97,053	1,793,096
Earnings per share attributable to ordinary owners of the parent — Basic for the year *(RMB)*		**0.02**	0.36

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**97,053**	1,793,096
Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax		
Fair value gains on unlisted investment during the year	**163,226**	73,546
Less: Reclassification adjustment relating to disposal upon maturity	**(163,226)**	(73,546)
	—	—
Exchange differences arising on translation	**(16,345)**	(11,611)
Other comprehensive expense for the year, net of tax	**(16,345)**	(11,611)
Total comprehensive income for the year	**80,708**	1,781,485
Total comprehensive income for the year attributable to:		
Owners of the parent	**88,948**	1,640,113
Non-controlling interests	**(8,240)**	141,372
	80,708	1,781,485

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**9,908,502**	10,810,741
Prepayments for property, plant and equipment		**65,192**	160,770
Mining and exploration rights		**474,410**	476,353
Prepaid lease payments		**569,533**	623,119
Intangible assets		**16,236**	125,078
Investments in joint ventures		**213,058**	213,635
Investments in associates		**337,798**	828,092
Available-for-sale investment		**600**	600
Deferred tax assets		**688,418**	198,413
Other long-term prepayment		**12,000**	12,000
		12,285,747	13,448,801
CURRENT ASSETS			
Inventories		**1,227,525**	1,365,805
Trade receivables	9	**141,493**	111,589
Bills receivable		**66,271**	54,400
Prepayments, deposits and other receivables		**686,635**	572,626
Pledged bank deposits		**5,709**	5,665
Time deposits with original maturity over three months		—	42,944
Cash and cash equivalents		**5,525,928**	2,933,970
		7,653,561	5,086,999
TOTAL ASSETS		**19,939,308**	18,535,800

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Issued capital		**4,610,000**	4,610,000
Reserves		**8,436,351**	8,900,603
Proposed dividends	10	**553,200**	645,400
		13,599,551	14,156,003
Non-controlling interests		**1,149,735**	1,345,228
TOTAL EQUITY		**14,749,286**	15,501,231
NON-CURRENT LIABILITIES			
Benefits liability		**25,898**	23,964
Interest-bearing bank borrowings		**1,951,000**	31,000
Deferred tax liabilities		**58,866**	62,175
Deferred revenue		**144,077**	135,677
Other long-term liabilities		**116,559**	115,152
		2,296,400	367,968
CURRENT LIABILITIES			
Interest-bearing bank borrowings		**139,256**	—
Trade payables	11	**430,170**	418,048
Bills payable	11	**27,833**	120,416
Other payables and accruals		**1,569,405**	1,798,602
Obligations under finance lease		**565,992**	—
Obligation arising from a put option to a non-controlling shareholder		**87,398**	92,794
Derivative financial instruments		**50,072**	47,485
Income tax payable		**23,496**	189,256
		2,893,622	2,666,601
TOTAL LIABILITIES		**5,190,022**	3,034,569
TOTAL EQUITY AND LIABILITIES		**19,939,308**	18,535,800
NET CURRENT ASSETS		**4,759,939**	2,420,398
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,045,686**	15,869,199
NET ASSETS		**14,749,286**	15,501,231

(II) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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's 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, PRC.

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

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

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

The consolidated financial statements are presented in RMB, which is the same as the functional currency of the Company.

2. ADOPTION OF NEW ACCOUNTING POLICIES

2.1 Application of the new and revised International Financial Reporting Standards ("IFRSs")

In the current year, the Group has applied, for the first time, an interpretation and certain amendments to IFRSs that are mandatorily effective for the current year.

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

The application of interpretation and amendments to IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2.2 New and revised IFRSs not yet effective and not early adopted

IFRS 9	Financial Instrument[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendment to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendment to IAS 1	Discourse Initiative[5]
Amendment to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendment to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendment to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Except for IFRS 9 and IFRS 15, the directors of the Company do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements.

IFRS 9 issued in 2009 introduced new requirements for classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and that have contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 15 Revenue from Contracts with Customers

In 2014, IFRS15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as)the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e, when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 9 and IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

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 year, the Group reported the manufacture and sale of compound fertiliser, which commenced operation in 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. The segment information of 2013 has been restated in the consolidated financial statement to conform to this change. 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.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment performance is evaluated based on segment result and is measured consistently with profit before tax in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Inter-segment sales are determined on an arm's length basis in a manner similar to transactions with third parties.

Operating segments

	Urea *RMB'000*	Phosphorus and compound fertiliser *RMB'000*	Methanol *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Year ended 31 December 2014						
Segment revenue:						
Sales to external customers	**3,390,203**	**2,636,490**	**3,284,176**	**1,486,017**	**—**	**10,796,886**
Inter-segment sales	**—**	**—**	**—**	**275,820**	**(275,820)**	**—**
Total	**3,390,203**	**2,636,490**	**3,284,176**	**1,761,837**	**(275,820)**	**10,796,886**
Segment profit before tax	**780,492**	**82,759**	**993,169**	**(1,227,722)**	**—**	**628,698**
Interest and unallocated income						**185,534**
Corporate and other unallocated expenses						**(234,753)**
Exchange gains, net						**8,499**
Change in fair value of derivative financial instrument						**2,809**
Share of losses of joint ventures						**(577)**
Share of losses of associates						**(477,000)**
Profit before tax						**113,210**
As at 31 December 2014						
Total segment assets	**8,184,363**	**3,080,415**	**2,894,761**	**2,081,064**	**(89,885)**	**16,150,718**
Unallocated						**3,788,590**
Total assets						**19,939,308**
Total segment liabilities	**2,597,867**	**1,310,965**	**485,548**	**637,280**	**(100,297)**	**4,931,363**
Unallocated						**258,659**
Total liabilities						**5,190,022**
Other segment information:						
Depreciation and amortization	**267,361**	**237,984**	**217,168**	**133,303**	**—**	**855,816**
Impairment of property, plant and equipment	**61,151**	**—**	**—**	**1,056,362**	**—**	**1,117,513**
Impairment of prepaid lease payment	**38,653**	**—**	**—**	**—**	**—**	**38,653**
Impairment of intangible assets	**—**	**—**	**—**	**104,229**	**—**	**104,229**
Investments in associates	**—**	**—**		**337,798**	**—**	**337,798**
Investments in joint ventures	**—**	**—**		**213,058**	**—**	**213,058**
Capital expenditure*	**828,738**	**113,152**	**2,399**	**23,056**	**—**	**967,345**

	Urea	Phosphorus and compound fertiliser	Methanol	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		(Restated)		
Year ended 31 December 2013						
Segment revenue:						
Sales to external customers	3,672,779	2,156,136	3,585,285	1,309,436	—	10,723,636
Inter-segment sales	64,476	12,355	—	380,582	(457,413)	—
Total	3,737,255	2,168,491	3,585,285	1,690,018	(457,413)	10,723,636
Segment profit before tax	1,383,859	(79,198)	1,333,593	(233,808)	—	2,404,446
Interest and unallocated income						134,406
Corporate and other unallocated expenses						(120,288)
Exchange losses, net						(8,792)
Change in fair value of derivative financial instrument						(52,901)
Share of losses of joint ventures						(263)
Share of losses of associates						(9,350)
Profit before tax						2,347,258
As at 31 December 2013						
Total segment assets	5,995,403	3,231,848	3,179,960	3,439,309	(151,906)	15,694,614
Unallocated						2,841,186
Total assets						18,535,800
Total segment liabilities	954,890	2,014,393	671,966	1,286,403	(1,971,876)	2,955,776
Unallocated						78,793
Total liabilities						3,034,569
Other segment information:						
Depreciation and amortization	268,304	221,453	226,501	109,231	—	825,489
Impairment of property, plant and equipment	—	16,991	—	105,720	—	122,711
Investments in associates	653,230	—	—	174,862	—	828,092
Investments in joint ventures	—	—	—	213,635	—	213,635
Capital expenditure*	1,441,615	125,983	12,607	333,137	—	1,913,342

* Capital expenditure consists of acquisition, additions to property, plant and equipment, intangible assets, mining rights and prepaid lease payments.

1 Inter-segment revenues are eliminated on consolidation.

2 Profit for each operating segment does not include interest and unallocated income, corporate and other unallocated expenses, exchange gains(losses), change in fair value of derivative financial instrument, share of losses of joint ventures and share of losses of associates.

3 Segment assets do not include deferred tax assets, available-for-sale financial assets, cash and bank balances managed on corporate level, assets of centralised cost centre and inter-segment balances.

4 Segment liabilities do not include interest payables, dividends payable, deferred tax liabilities, liabilities of centralised cost centre and inter-segment balances.

Geographic information

(a) Revenue from external customers, based on their locations

	2014	2013
	RMB'000	*RMB'000*
Sales to external customers:		
— PRC	**8,707,000**	9,404,418
— Others	**2,089,886**	1,319,218
	10,796,886	10,723,636

(b) Non-current assets

All of the non-current assets are located in the PRC.

Information about major customer

No single customer contributed 10% or more to the Group's revenue for both 2014 and 2013.

4. REVENUE, OTHER INCOME AND GAINS

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

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

	2014	2013
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**10,431,699**	10,339,640
Rendering of services	**365,187**	383,996
	10,796,886	10,723,636
Other income and gains		
Gain on maturity of unlisted investments	**163,226**	73,546
Gain on disposal of property, plant and equipment	**443**	2
Gain on disposal of prepaid lease payments	**—**	38,361
Income from sale of other materials	**25,384**	14,719
Income from rendering of other services	**3,085**	18,081
Gross rental income	**1,092**	696
Government grants	**18,461**	7,314
Indemnities received	**162**	3,617
	211,853	156,336

5. FINANCE COSTS

	2014	2013
	RMB'000	*RMB'000*
Interest on bank and financial institution borrowings wholly repayable within five years	**59,905**	410
Finance charges payable under other-long term liabilities and obligations under finance lease	**5,045**	1,706
Total interest expense on financial liabilities not at fair value through profit or loss	**64,950**	2,116
Less: Interest capitalised on qualifying assets	**(55,494)**	(410)
	9,456	1,706
Unwinding of discounts	**—**	865
	9,456	2,571

6. IMPAIRMENT OF ASSETS

	2014	2013
	RMB'000	*RMB'000*
Impairment of property, plant and equipment	**1,117,513**	122,711
Impairment of prepaid lease payment	**38,653**	—
Impairment of intangible assets	**104,229**	—
	1,260,395	122,711

The impairment charges for the year relate to assets of CNOOC Hualu Shanxi Coal Chemical Co., Ltd. ("CNOOC Hualu"), a 51% subsidiary of the Company, and the POM plant and related assets of CNOOC Tianye, a 92.27% subsidiary of the Company.

In June 2014, pursuant to <Notification to Seize the State Owned Construction Land Use Right> (the "Notification") issued by the local land bureau, CNOOC Hualu was requested to deregister without compensation the land use right certificate of its idle land on or before 25 July 2014, or else the local land bureau will invalidate that land use right certificate. An appeal was made subsequently by CNOOC Hualu to the local government and the local government affirmed the decision set out in the Notification.

Though the local land bureau has not invalidated the land use right certificate as at 31 December 2014, management is of the view, judging from the progress of the incident, that the land use right will probably be seized without compensation in the near future. Therefore, management assessed the recoverable amounts of the land use right and related construction in progress on the land (included in property, plant and equipment), of which net carrying amounts amounted to RMB38,653,000 and RMB61,151,000, respectively as of 31 December 2014, to be nil, and full impairment was made accordingly in profit and loss.

As of the date of this report, directors are of the view that there is no evidence the payables for acquisition of the land use right under the Notification amounting to RMB26,339,000 (2013: RMB24,653,000), presented under "Other long-term liabilities" and "Other payables and accruals", are no longer payable.

As at 31 December 2014, in the light of the continuous weak market prices for mid-to-low end POM reported in other segment caused by the severe overcapacity of POM production in China, the directors, as assisted by an independent valuer, conducted a review of the recoverable amount of the POM plant and related assets. The review led to the recognition of an impairment loss of RMB1,056,362,000 (2013: RMB122,711,000) and RMB104,229,000 (2013: RMB nil) in profit or loss for property, plant and equipment and intangible assets (mainly patents and licenses), respectively. The recoverable amount of the POM plant and related assets has been determined on the basis of their value in use, at a discount rate of 10% (2013: 10%).

7. PROFIT BEFORE TAX

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

	2014	2013
	RMB'000	*RMB'000*
Cost of inventories sold	**7,805,792**	7,029,829
Cost of services provided	**298,264**	339,198
Depreciation	**827,567**	797,051
Amortisation of mining rights	**2,387**	2,046
Amortisation of prepaid lease payments	**15,854**	15,637
Amortisation of intangible assets included in administrative expense	**10,008**	10,755
Auditors' remuneration	**3,900**	3,900
Employee benefit expense (including directors' and supervisors' remuneration):		
Wages and salaries	**660,915**	529,845
Defined contribution pension scheme	**91,945**	78,882
Early retirement benefits and post-employment allowances	**6,555**	1,028
Medical benefit costs	**43,436**	36,779
Housing fund	**50,268**	42,053
	853,119	688,587
Reversal of allowance for doubtful receivables*	**(8)**	(273)
Loss on disposal of property, plant and equipment*	**83,873**	31,592
Change in fair value of obligation arising from a put option to a non-controlling shareholder*	**(5,396)**	5,416
Change in fair value of a derivative financial instrument*	**2,587**	47,485
Write-down of inventories to net realisable value, included in cost of sales	**7,220**	30,419

* These items are included in "other expenses" on the face of the consolidated statement of profit or loss.

8. INCOME TAX

	2014	2013
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax	**492,597**	615,905
Deferred tax	**(493,314)**	(69,694)
	(717)	546,211
Under provision in prior year	**16,874**	7,951
	16,157	554,162

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate.

(a) Enterprise income tax ("EIT")

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

CNOOC Fudao Limited, a subsidiary of the Company, is entitled to preferential EIT rate of 15% for the three years ending 31 December 2016 after being assessed as a high-tech enterprise.

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

Hubei Dayukou Chemical Co., Ltd., a subsidiary of the Company, is entitled to a preferential EIT rate of 15% for the three years ending 31 December 2016 after being assessed as a high-tech enterprise.

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

(b) Hong Kong profits tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(c) Corporate income tax in Canada

No provision for Canadian income tax has been made as the companies comprising the Group had no assessable profits arising in Canada for Canada since it incorporated on 27 May 2013.

The tax charge for the year can be reconciled to the profit per the consolidated statement of profit or loss as follows:

	2014	2013
	RMB'000	*RMB'000*
Profit before tax	**113,210**	2,347,258
Tax at the statutory tax rate of 25%	**28,302**	586,814
Effect of income that is exempt from taxation	**(675)**	(781)
Income tax on concessionary rate	**(70,660)**	(71,102)
Underprovision in respect of prior years	**16,874**	7,951
Tax effect of share of losses of joint ventures and associates	**1,859**	2,403
Tax effect of tax losses not recognised	**17,864**	13,305
Tax effect of deductible temporary differences not recognised	**7,929**	6,837
Expenses not deductible for tax	**14,664**	8,735
Income tax	**16,157**	554,162
The Group's effective income tax rate	**14%**	23.61%

9. TRADE RECEIVABLES

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

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

Group	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**141,500**	111,596
Less: allowance for doubtful debts	**(7)**	(7)
	141,493	111,589

An ageing analysis of the trade receivables of the Group as at the end of the reporting year, based on invoice dates and net of allowance for doubtful debts, is as follows:

	2014	2013
	RMB'000	*RMB'000*
Within six months	**133,366**	107,858
Over six months but within one year	**3,727**	2,311
Over one year but within two years	**3,476**	504
Over two years	**924**	916
	141,493	111,589

As at 31 December 2014, the amount due from CNOOC (the "ultimate holding company"), 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 was RMB29,478,000 (2013: RMB14,763,000). The amount due is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

10. DIVIDENDS

	2014	2013
	RMB'000	*RMB'000*
Proposed final dividend — RMB0.12 (2013: RMB0.14) per ordinary share	**553,200**	645,400

The proposed 2013 final dividend was approved at the annual general meeting on 31 May 2014. The proposed 2014 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2014 annual general meeting.

Upon listing of the Company's shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the profit after tax as determined under Chinese Accounting Standards for Business Enterprises (CAS) and IFRS.

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] No. 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

11. TRADE AND BILLS PAYABLES

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

Group	**2014**	2013
	RMB'000	*RMB'000*
Within six months	**365,143**	517,717
Over six months but within one year	**76,992**	12,538
Over one year but within two years	**12,952**	6,730
Over two years but within three years	**1,508**	80
Over three years	**1,408**	1,399
	458,003	538,464

As at 31 December 2014, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances amounted to RMB131,518,000 (2013: RMB205,815,000).

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Sector Review

Fertiliser Industry

In 2014, the PRC government insisted on the immutable importance of agriculture, continued to strengthen its efforts in implementing favorable policies for farmers and increased the minimum purchase prices for wheat and rice to encourage farmers to grow grain. Cultivated area across the nation amounted to 112,740,000 hectares in 2014, an increase by 0.7% from last year. Total grain production for the year increased by 0.9% to 607,100,000 tonnes, achieving a growth in grain production for 11 consecutive years. Grain security and agricultural modernization have been top-priorities on government's agenda which lays solid foundation for the continued development of the fertiliser industry.

In 2014, demand for chemical fertilisers in the PRC continued to grow steadily, but profitability of the chemical fertiliser industry was significantly compromised as prices of chemical fertilisers were in a trough due to intense market competition caused by the prolonged oversupply in the chemical fertiliser industry.

On 15 February 2014, the railway freight rates for chemical fertiliser transportation in China was adjusted upward by RMB0.0154 to RMB0.113 per tonne-kilometre, causing a significant increase in the transportation cost of chemical fertilisers.

In 2014, high-season export tariff rates for urea and ammonium phosphate were adjusted downward to a significant extent by the PRC government. High-season export tariff rate for urea was reduced to 15% plus RMB40 per tonne. High-season export tariff rates for MAP and DAP were reduced to 15% plus RMB50 per tonne, while the high- and low-season export windows for urea and ammonium phosphate remained unchanged. Low-season export tariff rates for urea and ammonium phosphate were adjusted to RMB40 per tonne and RMB50 per tonne, respectively. Thanks to favorable export tariff policies for urea and ammonium phosphate, the export volumes of urea and ammonium phosphate of China surged in 2014, alleviating the oversupply in the domestic chemical fertiliser industry.

(1) Urea

Domestic urea production volume in 2014 was approximately 71.40 million tonnes (in kind), a decrease of approximately 1% over 2013. Export volume of urea increased significantly by approximately 65% over 2013 to a record high of 13.62 million tonnes (in kind).

In January and February 2014, the domestic market prices of urea fluctuated steadily within a narrow range between RMB1,750 and RMB1,800 per tonne. As a result of the drop in the urea price in the international market and the further decline of the domestic coal prices, domestic market prices for urea underwent prolonged depression from early March. In mid- to late May, the ex-factory prices of urea in some regions decreased below RMB1,400 per tonne, hitting the lowest point of the year. In the second half of 2014, urea prices in the international market began to rise and the domestic market prices of urea rebounded with the opening of the low-season export window for urea in the nation. In mid-October, the domestic market prices of urea rebounded to approximately RMB1,700 per tonne. But at the end of 2014, the domestic market prices of urea fell slightly to the range between RMB1,600 and 1,650 per tonne as a result of the drop in international bulk commodity prices caused by the drastic decrease of energy prices in international markets.

(2) *Phosphate Fertilisers*

In 2014, domestic production volume of ammonium phosphate was approximately 28.59 million tonnes (in kind), an increase of approximately 10% over 2013. Export volume of ammonium phosphate was 7.21 million tonnes (in kind), an increase of approximately 59% over 2013.

Domestic prices of ammonium phosphate increased steadily during the first four months of 2014. As demands for ammonium phosphate entered the low season in May, domestic prices for ammonium phosphate decreased slightly. At the end of June, market prices of DAP in the domestic market remained at approximately RMB2,600 per tonne. In the second half of 2014, due to the increase in the international market prices of ammonium phosphate, domestic market prices of ammonium phosphate started to rebound from July, up to approximately RMB3,000 per tonne for domestic market prices of DAP at the end of 2014.

Chemical industry

The chemical industry was adversely affected in 2014 by the slower economic growth in the PRC and the drop in prices of international bulk commodity caused by the drastic fall of international oil prices in the second half of the year.

Commencing on 1 September 2014, the PRC government lifted the non-residential maximum "city-gate" price of legacy natural gas by RMB400 per thousand cubic meters, significantly escalating the production cost of domestic methanol producers who use natural gas as raw materials.

(1) *Methanol*

In 2014, domestic methanol production volume was approximately 37.41 million tonnes, an increase of approximately 30% over the same period of last year. Methanol import volume was approximately 4.33 million tonnes, a decrease of approximately 11% as compared with that of 2013, and methanol export volume was approximately 750,000 tonnes, a decrease of approximately 2.6%.

Domestic methanol market prices were adjusted downward monthly in the first half of 2014 from the high point in December 2013 as a result of the significant increase in methanol supply in the nation. From June to November, the commencement of the operation of new methanol-to-olefin equipment lifted the domestic market demands for methanol, keeping the prices of methanol in major domestic markets in the range of RMB2,600 to RMB2,800 per tonne. Since mid-December, domestic methanol market prices significantly declined due to the drastic fall of international oil prices in the second half of the year. At the end of 2014, the price of methanol in major domestic markets declined to approximately RMB2,000 per tonne.

(2) POM

In 2014, domestic POM production volume was approximately 250,000 tonnes, remaining flat as compared to that of 2013.

Oversupply continued to be a problem affecting mid- to low-end POM products in the nation in 2014, with market prices decreasing gradually from RMB9,000 per tonne at the beginning of the year to approximately RMB8,300 per tonne at the end of the year. The mid- to low-end POM industry in the nation suffered losses in general.

2. Business Review

Production Management

During the reporting period, the Company continued to strengthen its HSE management and refined production management and all major plants were in safe and steady operation. Fudao Phase I Urea Plant and CNOOC Tianye Urea Plant achieved long-cycle operations with two over-100-day working cycles, while an over-200-day working cycle of operation was achieved by Fudao Phase II Urea Plant, Hainan Phase I Methanol Plant, Hainan Phase II Methanol Plant and CNOOC Tianye Methanol Plant, respectively. DYK DAP Phase II was in continuous operation for 113 days, the best record of long-cycle operations since the commencement of operation of the plant.

Details of production of the Group's plants in 2014 are set out as follows:

	For the year ended 31 December			
	2014		2013	
	Production *(tonnes)*	**Utilisation rate** *(%)*	Production *(tonnes)*	Utilisation rate *(%)*
Chemical fertilisers				
Urea				
Fudao Phase I	**559,398**	**107.6**	570,460	109.7
Fudao Phase II	**881,121**	**110.1**	862,021	107.8
CNOOC Tianye	**531,931**	**102.3**	590,111	113.5
Group total	**1,972,450**	**107.2**	2,022,592	109.9
Phosphate Fertilisers and Compound Fertilisers				
DYK MAP	**43,039**	**28.7**	73,464	49.0
DYK DAP Phase I *(Note)*	**301,558**	**86.2**	295,736	84.5
DYK DAP Phase II	**568,408**	**113.7**	473,448	94.7
Group total	**913,005**	**91.3**	842,648	84.3
Chemical Products				
Methanol				
Hainan Phase I	**602,985**	**100.5**	581,540	96.9
Hainan Phase II	**766,894**	**95.9**	791,170	98.9
CNOOC Tianye	**180,281**	**90.1**	200,340	100.2
Group total	**1,550,160**	**96.9**	1,573,050	98.3
POM				
CNOOC Tianye POM	**29,581**	**49.3**	16,002	26.7
Group total	**29,581**	**49.3**	16,002	26.7

Note: In 2014, DYK DAP Phase I Plant produced 255,686 tonnes of DAP and 45,872 tonnes of compound fertilisers, amounting to 301,558 tonnes in total. In 2013, DYK DAP Phase I Plant produced 269,344 tonnes of DAP and 26,392 tonnes of compound fertilisers, amounting to 295,736 tonnes in total.

Sales Management

During the reporting period, confronting with a depressed chemical fertiliser market dragged down by oversupply and intense market competition, the Company made great efforts in stabilising its domestic sales channels by leveraging its advantages in terms of its brand, geographical location and export logistics, making full use of favorable export tariff policies for chemical fertilisers to achieve an annual export volume of 863,000 tonnes of urea. Sales volume of DAP increased significantly as compared to the same period of last year thanks to the significant improvement in product quality, with export volume remarkably increased to 249,000 tonnes. Sales volume of compound fertiliser of the Company increased to 42,000 tonnes as our efforts in market expansion produced initial results.

Urea

The following table sets out the Group's urea sales volumes by final sales destinations of products during the preceding two financial years:

	For the year ended 31 December			
	2014		2013	
Sales region	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**178,626**	**9.1**	179,929	8.8
Northern China	**225,300**	**11.5**	379,880	18.7
Eastern China	**83,059**	**4.2**	143,818	7.1
South-eastern China	**66,663**	**3.4**	85,502	4.2
Southern China	**439,137**	**22.5**	591,311	29.1
Hainan	**99,366**	**5.1**	147,750	7.3
International	**863,420**	**44.2**	504,993	24.8
Total	**1,955,571**	**100.0**	2,033,183	100.0

Phosphate fertilisers and compound fertilisers

The following table sets out the Group's phosphate fertilisers and compound fertilisers sales volumes by final sales destinations of products during the preceding two financial years:

	For the year ended 31 December			
	2014		2013	
Sales region	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**382,426**	**38.5**	340,256	42.2
Northern China	**230,243**	**23.2**	214,317	26.6
Eastern China	**81,253**	**8.2**	61,764	7.7
South-eastern China	**26,264**	**2.6**	22,950	2.8
Southern China	**23,921**	**2.4**	14,521	1.8
International	**249,123**	**25.1**	152,303	18.9
Total	**993,230**	**100.0**	806,111	100.0

Methanol

The following table sets out the Group's methanol sales volumes by final sales destinations of products during the preceding two financial years:

	For the year ended 31 December			
	2014		2013	
Sales region	**Volume** ***(tonnes)***	**Percentage** ***(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**53,417**	**3.6**	80,470	5.2
Northern China	**78,872**	**5.4**	86,959	5.6
Eastern China	**129,152**	**8.8**	144,708	9.3
South-eastern China	**153,413**	**10.4**	115,769	7.5
Southern China	**922,032**	**62.6**	1,041,781	67.3
Hainan	**92,828**	**6.3**	38,521	2.5
International	**42,916**	**2.9**	40,683	2.6
Total	**1,472,630**	**100.0**	1,548,891	100.0

POM

In 2014, the Group sold a total of 29,470 tonnes of POM.

BB fertilisers

In 2014, the Group produced a total of 83,103 tonnes of BB fertilisers with a sales volume of 81,765 tonnes.

Sea-land logistics services

In 2014, Basuo Port completed a record high volume of throughput of 9.54 million tonnes.

3. Financial Review

Sales revenue

During the reporting period, the Group's revenue was RMB10,796.9 million, an increase of RMB73.3 million or 0.7% from RMB10,723.6 million in 2013.

During the reporting period, the Group's external revenue from urea was RMB3,390.2 million, a decrease of RMB282.6 million or 7.7% from RMB3,672.8 million in 2013. The decrease was primarily attributable to: (1) the decrease in sales volume of urea by 77,612 tonnes compared with 2013, contributing to a decrease in revenue of RMB140.2 million; and (2) the decrease in the selling price of urea by RMB73 per tonne, resulting in a decrease in revenue of RMB142.4 million.

During the reporting period, the Group's external revenue from phosphate and compound fertilisers segment was RMB2,636.5 million, an increase of RMB480.4 million or 22.3% from RMB2,156.1 million in 2013. The increase was primarily attributable to: (1) the increase in sales volume of phosphate and compound fertilisers by 187,119 tonnes as compared with that of 2013, contributing to an increase in revenue of RMB496.7 million; which was partially offset by (2) the decrease in price of phosphate and compound fertilisers by RMB20 per tonne, resulting in a decrease in revenue of RMB16.3 million.

During the reporting period, the Group's external revenue from the methanol segment was RMB3,284.2 million, a decrease of RMB301.1 million or 8.4% from RMB3,585.3 million in 2013. The decrease was primarily attributable to: (1) a decrease in sales volume of methanol by 76,261 tonnes, resulting in a decrease in revenue of RMB176.5 million; (2) a decrease in selling price of methanol by RMB85 per tonne, contributing to a decrease in revenue of RMB124.6 million.

During the reporting period, the Group's revenue from other segments (primarily comprising production and sales of BB fertilisers, POM and woven plastic bags, trading in chemical fertilisers and chemicals, port operations and provision of transportation services) increased by RMB176.6 million or 13.5% from RMB1,309.4 million in 2013 to RMB1,486.0 million in 2014. The increase was primarily attributable to: (1) a significant increase in the POM sales volume of CNOOC Tianye in Inner Mongolia during the reporting period by 12,626 tonnes as compared with the same period last year, resulting in a rise in sales revenue of POM by RMB84.3 million, despite a decrease in the selling price of POM by RMB334 per tonne; and (2) an increase in revenue of our trading business by RMB140.6 million, which was partially offset by (3) a decrease in revenue from Basuo Port and woven plastic bag business by RMB42.8 million.

Cost of sales

During the reporting period, the Group's cost of sales was RMB8,111.3 million, an increase of RMB611.0 million or 8.1% from RMB7,500.3 million in 2013.

During the reporting period, the Group's cost of sales for urea was RMB2,195.6 million, an increase by RMB142.2 million or 6.9% from RMB2,053.4 million in 2013. The increase was primarily attributable to: (1) an increase in export tariff for urea by RMB116.0 million over 2013; (2) a decrease in production volume due to an overhaul and equipment check-up of CNOOC Tianye in Inner Mongolia and Hainan Fudao Phase I Urea Plant, causing an increase in unit production cost and resulting in a rise in our cost of sales by RMB104.6 million; which were partially offset by (3) a decrease in sales volume of urea by 77,612 tonnes over 2013, leading to a decrease in cost of sales by RMB78.4 million.

The Group's cost of sales for phosphate and compound fertilisers for the reporting period was RMB2,307.2 million, an increase of RMB296.6 million or 14.8% from RMB2,010.6 million in 2013. The increase was primarily attributable to: (1) an increase in sales volume of phosphate and compound fertilisers by 187,119 tonnes over 2013, resulting in an increase in cost of sales of RMB434.7 million; which was partially offset by (2) a drop in price of raw materials for phosphate and compound fertilisers, contributing to a decrease in cost of sales of RMB138.1 million.

The Group's cost of sales for methanol for the reporting period was RMB2,130.7 million, an increase of RMB15.8 million or 0.7% from RMB2,114.9 million in 2013. The increase was primarily attributable to: (1) the overhaul of CNOOC Tianye Methanol Plant in Inner Mongolia, a decrease in production in Hainan Methanol Phase II and the increase in natural gas prices in Hainan leading to an increase in our cost of sales by RMB119.9 million, which was partially offset by (2) the decrease of sales volume of methanol by 76,261 tonnes over 2013, leading to a decrease in cost of sales of RMB104.1 million.

The Group's cost of sales from other segments for the reporting period increased by RMB156.4 million or 11.8% from RMB1,321.4 million in 2013 to RMB1,477.8 million in 2014. The increase was primarily attributable to: (1) a significant increase in sales volume of POM by 12,626 tonnes which led to an increase in cost of sales by RMB53.2 million despite a decrease in unit cost of sales of POM by RMB4,334 per tonne; and (2) an increase in cost of trading businesses by RMB102.6 million.

Gross profit

The Group's gross profit for the reporting period was RMB2,685.6 million, a decrease of RMB537.7 million or 16.7% from RMB3,223.3 million in 2013. The decrease was primarily attributable to: (1) a decrease in gross profit for urea by RMB424.8 million; (2) an increase in gross profit for phosphate and compound fertilisers by RMB183.8 million; (3) a decrease in gross profit for methanol by RMB316.9 million; and (4) an increase in gross profit for other segments by RMB20.2 million.

Other income and gains

The Group's other gains for the reporting period amounted to RMB211.9 million, an increase by RMB55.6 million or 35.6% from other gains of RMB156.3 million in 2013. The increase was primarily attributable to: (1) increase in short-term bank wealth management gains by RMB89.7 million; (2) increase in government grant by RMB11.1 million; and (3) a one-off gain of RMB38.4 million from the disposal of a parcel of land by CNOOC Tianye in 2013, which did not occur in the reporting period.

Selling and distribution costs

The Group's selling and distribution costs for the reporting period amounted to RMB425.0 million, an increase of RMB78.0 million or 22.5% from RMB347.0 million in 2013. The increase was primarily attributable to: (1) an increase in transportation expenses of RMB41.0 million over 2013 due to the increase in the sales volume of phosphate fertiliser by 23.2% and the increase in railway freights by RMB1.5 cent per tonne-kilometre; and (2) the increase in loading and unloading, transportation and miscellaneous port expenses by RMB32.5 million caused by an increase in export of urea by 358,427 tonnes.

Administrative expenses

The Group's administrative expenses for the reporting period amounted to RMB518.4 million, an increase of RMB42.1 million or 8.8% from RMB476.3 million in 2013. The increase was primarily attributable to: (1) an increase in staff costs by RMB28.3 million over 2013; and (2) writing-off of management expenses of RMB21.5 million according to our accounting principles for CNOOC Tianye's dismissal of welfare actuarial gains in 2013, which did not occur in 2014.

Other expenses

The Group's other expenses for the reporting period amounted to RMB110.2 million, an increase of RMB34.2 million, or 45.0%, from RMB76.0 million for the same period of 2013. The increase was primarily due to: (1) cessation of work for the construction of the raw material conversion project of CNOOC Tianye which increased non-operating expenses by RMB81.0 million; which was partially offset by (2) a decrease in the loss as at 31 December 2014 by RMB55.7 million over 2013, as valued by using Black-Scholes Option Pricing Model, on the derivative financial instrument granted under the joint venture agreement regarding the establishment of CBC (Canada) Holding Corp. jointly by the Company and Benewood Holdings Corporation Limited for the acquisition of 19.9% equity interests in Western Potash Corp. 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.

Finance income and finance costs

The Group's finance income for the reporting period decreased by RMB2.4 million, or 22.4%, to RMB8.3 million from RMB10.7 million in 2013. The decrease was primarily due to a decrease in the average daily balance of our deposits as compared with 2013 as a result of an increase in short-term bank wealth management funds in 2014.

The Group's finance costs for the reporting period amounted to RMB9.5 million, an increase by RMB6.9 million, or 265.4%, from RMB2.6 million in 2013. The increase was primarily attributable to: (1) the new financial leasing business engaged by DYK leading to an increase in finance costs by RMB3.2 million (2) an increase in trading business of the Group increasing the finance costs for trading by RMB2.1 million; and (3) an increase in current liability loans.

Asset impairment losses

During the reporting period, the Group's asset impairment loss was RMB1,260.4 million, an increase of RMB1,137.7 million or 927.2% as compared with RMB122.7 million in 2013. The increase was primarily attributable to: (1) the prolonged loss from CNOOC Tianye's POM business, resulting in a provision of RMB1,160.6 million made for asset impairment loss of the entire carrying value of the net asset of POM plant in 2014 in accordance with IAS 36, an increase of RMB1,054.8 million as compared with that of 2013; (2) asset impairment loss of RMB99.8 million recorded for the seizure of land use rights by local authorities for the project construction land of CNOOC Hualu Shanxi Coal Chemical Co., Ltd.

Net exchange gains/(losses)

During the reporting period, the Group recorded exchange gains of RMB8.5 million, an increase by RMB17.3 million from exchange losses of RMB8.8 million in 2013. The increase was primarily attributable to the effect of depreciation of RMB on the US$ settlement for export of our products.

Share of loss of associate and joint venture

During the reporting period, the share of loss of associate and joint venture was RMB477.6 million, an increase of RMB468.0 million as compared with the share of loss of associate and joint venture of RMB9.6 million in 2013. The change was mainly due to a long-term equity impairment loss of RMB470.1 million made by the Company in connection with the 49% interest held by the Company in Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal"). The Intermediate People's Court of Xinzhou City, Shanxi Province commenced an auction in 2014 against all assets, including mining rights, machineries and equipment, real estate, stock of raw coal and office supplies of Yangpoquan Coal in satisfaction of the defaulted debt of Yangpoquan Coal owed to Hequ Branch of Industrial and Commercial Bank of China Limited and the three auctions conducted by the Intermediate People's Court of Xinzhou City failed.

Income tax expense

The Group's income tax expense for the reporting period was RMB16.2 million, a decrease of RMB538.0 million, or 97.1%, from RMB554.2 million in 2013. The decrease was primarily attributable to a decrease in the profit before taxation by RMB2,234.0 million.

Net profit for the year

The Group's net profit for the reporting period was RMB97.1 million, a decrease by RMB1,696.0 million, or 94.6%, from RMB1,793.1 million in 2013.

Dividends

The board of directors (the "Board") of the Company recommended the payment of a final dividend of RMB0.01 per share for 2014, aggregating RMB46.1 million, and a special dividend of RMB0.11 per share, aggregating RMB507.1 million. The proposed final dividend for 2014 and proposed special dividend will be subject to the approval of the shareholders of the Company at the 2014 annual general meeting.

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of acquisitions, property, plant and equipment as well as prepaid lease payments amounted to RMB967.3 million. Capital expenditure primarily included: (1) an investment of RMB696.1 million for the Huahe 520,000 tonnes/year Urea Project; (2) investments in the upgrade of our production plants and purchase of equipment of RMB271.2 million.

Pledge of assets

During the reporting period, 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 and maximise 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 31 December 2014 (calculated as interest bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 15.3%, an increase by 15.1% compared with 0.2% as at 31 December 2013, which was primarily attributable to (1) an increase in bank borrowings of the projects of Heilongjiang Huahe Coal Chemical Limited by RMB1,920.0 million during the reporting period; (2) the balance of payable lease rent as at the end of 2014 of Hubei Dayukou Chemical Co., Ltd. of RMB566.0 million for its finance leasing business which commenced in 2014; and (3) an increase in current liability loans of China BlueChemical (Hong Kong) Limited by RMB139.3 million.

Cash and cash equivalents

As at the beginning of 2014, the Group's cash and cash equivalents were RMB2,934.0 million. In 2014, the net cash inflow from operating activities was RMB1,742.0 million, the net cash outflow from investing activities was RMB869.8 million, the net cash inflow from financing activities was RMB1,723.3 million, and the decrease caused by the exchange movement on cash was RMB3.6 million.

As at 31 December 2014, the Group's cash and cash equivalents were RMB5,525.9 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 31 December 2014, the Group had 6,973 employees. The aggregate of employees' wages and allowances for 2014 was approximately RMB581.3 million. The Group has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 10,011 training courses, with a total of 181,289 enrolments and 786,056 training hours according to its annual training plan.

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. The Group's purchases of equipment and raw materials were primarily denominated in Renminbi and secondarily in US dollar and, to a lesser extent, Euro. During the reporting period, the Renminbi to US dollar exchange rate ranged between 6.0406 and 6.2676, while RMB to Euro exchange rate ranged between 7.5293–8.6922. RMB to US dollar exchange fluctuation may affect import of our equipment and raw materials, export of our products as well as financing activities in US dollar, and RMB to Euro exchange fluctuation may affect import of our equipment and raw materials as well as financing activities in Euro.

As at 31 December 2014, the balance of finance lease of Hubei Dayukou Chemical Co., Ltd. under the Group was US$93.9 million, the balance of export bill financing of China BlueChemical (Hong Kong) Limited was US$22.5 million and the balance of import bill advance of China BlueChemical (Hong Kong) Limited was EUR0.22 million.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.0% during the reporting period, which did not have a significant effect on the Group's operating results for the year.

Liquidity risk

The Group monitors its risk exposure to a shortage of funds. The Group also considers the liquidity of both its financial investments and financial assets (for example, trade receivables and other financial assets) and projected cash flows from operating activities. The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of various funding options, including bank loans and bonds. Interest-bearing debts of the Group which were due within one year from 31 December 2014 were mainly the principal and interest of the finance lease of Hubei Dayukou Chemical Co., Ltd. totaling US$93.9 million, interest of the long-term borrowings of CNOOC Huahe Coal Limited which was payable within one year amounting to RMB122.6 million, and the principal and interest of current liability loans of China BlueChemical (Hong Kong) Limited totaling US$22.7 million and EUR0.22 million.

Post balance sheet events and contingent liabilities

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

Material litigation and arbitration

As at 31 December 2014, the Group had no material litigation or arbitration.

Major acquisition and disposition of the Company's subsidiaries and associates

During the reporting period, the Company completed the deregistration of Guilin Fudao Agriculture Means of Production Limited in October 2014.

4. Sector Outlook

In 2015, the PRC government abolished the gap between high- and low-season tariff rates for chemical fertilisers exports in an effort to mitigate the oversupply in the domestic chemical fertiliser industry as a result of which the domestic prices will be aligned with the international prices of chemical fertilisers. This will benefit the reform of market liberalisation of the chemical fertiliser industry in the nation.

As for the chemical industry, since the economic growth in the PRC will continue to slow down in 2015 and the oversupply will put constraint on the rebound of international energy prices, despite increased domestic demands for methanol due to economic growth in the PRC, there will be limited room for price increases of methanol.

5. **Our Key Tasks in 2015**

(1) To continue to strengthen our HSE and refined production managements and ensure safe and stable operation for all production plants; to monitor closely market trends of chemical fertiliser and chemical industries in the PRC and abroad in order to balance production against sales; to control costs and expenditure strictly and achieve annual goals for production and operation.

(2) To prepare fully for the trial production of the coal-based urea project in Heilongjiang Huahe, aiming at a success in the trial production at the end of March;

(3) To proceed with the implementation of upgrades of Fudao Phase I Urea Plant as scheduled, making sure that Fudao Phase I Urea Plant will be able to maintain stable production with the carbon dioxide-rich natural gas produced by Dongfang 1-1 gas field phase I adjusted project after the stable supply period of natural gas from Yacheng 13-1 gas field ends in 2016;

(4) To complete the preparation and review of the feasibility report of Xinhua coal mine which is supplementary to the coal-based urea project in Heilongjiang Huahe and start construction of the coal mine in the second half of the year;

(5) To research on the feasibility of producing chemical products with natural gas in Hainan to complement the development of gas fields in the waters of southern Hainan;

(6) To fine-tune our existing sales and trading management system and expand our fertiliser trading business;

(7) To strive to resolve the dispute with the joint venture partner of the Yangpoquan Coal; and

(8) To continue to look out for development opportunities in China and overseas that fit the Company's development strategy.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed, with the management, the accounting principles and standards adopted by the Group, and discussed the internal control and financial reporting matters. The annual results for the year ended 31 December 2014 have been audited by Deloitte Touche Tohmatsu Certified Public Accountants in accordance with Auditing Standard 700 (Engagement for the auditing of financial statements) issued by Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the financial report for the year ended 31 December 2014.

Compliance With Corporate Governance Code

During the reporting period, the Company had complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

The Board confirms that, having made specific enquiries with all directors and supervisors, during the reporting period ended 31 December 2014, all members of the Board and all supervisors have complied with the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Listing Rules.

Closure of the Register of Members in Respect of the Annual General Meeting

The register of members of the Company will be closed from 29 April 2015 to 28 May 2015 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for attendance at the annual general meeting (the "AGM"), all instruments of transfer, accompanied by the relevant H share certificates, must be lodged with the Hong Kong share registrar for H Shares, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 28 April 2015.

Proposed Final Dividend, Proposed Special Dividend and Closure of the Register of Members

The Board has recommended the payment of a final dividend of RMB0.01 (tax included) per share for the year ended 31 December 2014 and a special dividend of RMB0.11 (tax included) per share to shareholders of the Company whose names appear on the register of members of the Company on the proposed record date, 7 June 2015. The proposed final dividend for 2014 and the proposed special dividend will be subject to the approval of shareholders of the Company at the 2014 annual general meeting. For the holders of domestic shares, dividends will be paid in RMB. For the holders of H shares, dividends will be paid in Hong Kong dollars. The final and special dividends are expected to be paid to the shareholders of the Company on or around 30 June 2015.

The register of members of the Company will be closed from 3 June 2015 to 7 June 2015 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the proposed final and special dividends, all instruments of transfer, accompanied by the relevant H share certificates, must be lodged with the Hong Kong share registrar for H Shares, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 2 June 2015.

Withholding of Enterprise Income Tax and Individual Income Tax in respect of Dividend Payment

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and its Implementation Regulations, which became effective on 1 January 2008, the Company shall have the obligation to withhold enterprise income tax at the rate of 10% when distributing dividends to non-resident enterprises whose names appeared on the register of members of H Shares. Any H Shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, its nominees or agents, other organisation and bodies, shall be deemed to be shares held by non-resident enterprise shareholders, and accordingly, dividends payable to them shall be subject to withholding of enterprise income tax. As the Company is a foreign investment enterprise, the Company is not required to withhold non-resident individual income tax for nonresident individual holders of H Shares.

The Company shall not be responsible for any claims arising from the untimely or inaccurate determination of the capacity of the shareholders of the Company or any disputes in respect of the withholding mechanism.

Should there be any changes to the withholding for payment requirements applicable prior to the payment of the dividends, the Company shall make an announcement in a timely fashion on such changes.

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

During 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Disclosure on the Website of the Stock Exchange

This results announcement is published on the HKExnews website (http://www.hkexnews.hk) and on the Company's website (http://www.chinabluechem.com.cn/). The 2014 Annual Report will be available on the HKExnews and the Company's websites in due course.

By Order of the Board
China BlueChemical Ltd.*
Li Hui
Chairman

Hong Kong, the People's Republic of China, 26 March 2015

As at the date of this announcement, the executive Director is Mr. Wang Hui, the non-executive Directors are Mr. Li Hui, Mr. Zhou Dechun and Mr. Zhu Lei and the independent non-executive Directors are Mr. Gu Zongqin, Ms. Lee Kit Ying and Mr. Lee Kwan Hung.

* *For identification purpose only.*