Annual Report 2014

HKSE CODE：3983

中海石油化學股份有限公司
China BlueChemical Ltd.

COMPANY PROFILE

China BlueChemical Ltd. ("China BlueChem", stock code: 03983) is a large-scale and modernized enterprise engaging in the development, production and sales of mineral fertilisers and chemical products. Headquartered in Beijing, China BlueChem's production facilities are located in Hainan Province, the Inner Mongolia Autonomous Region, Hubei Province and Heilongjiang Province. Its total designed annual production capacity amounts to 2,360,000 tonnes of urea, 1,000,000 tonnes of phosphate and compound fertilisers, 1,600,000 tonnes of methanol and 60,000 tonnes of POM. On 29 September 2006, China BlueChem was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

China BlueChem is one of the largest listed companies in terms of production volume of fertilisers and methanol in China. As a subsidiary of China National Offshore Oil Corporation ("CNOOC"), the competitive advantages owned by China BlueChem laid a solid foundation for its robust development of mineral fertilisers and chemical businesses.

The production facilities in Hainan

The production facilities in Inner Mongolia

The production facilities in Hubei

The production facilities in Heilongjiang

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Financial Highlights

Selected consolidated income statement data

For the year ended 31 December, RMB'million

	2010	2011	2012 (Restated)	2013	**2014**
Revenue	6,867.3	9,756.3	10,739.2	10,723.6	**10,796.9**
Cost of sales	(4,678.5)	(6,488.7)	(7,432.9)	(7,500.3)	**(8,111.3)**
Gross profit	2,188.7	3,267.6	3,306.3	3,223.3	**2,685.6**
Other income and gains	67.3	127.9	120.6	156.3	**211.9**
Selling and distribution costs	(147.8)	(169.4)	(218.1)	(347.0)	**(425.0)**
Administrative expenses	(382.6)	(418.3)	(431.3)	(476.3)	**(518.4)**
Other expenses	(34.8)	(32.1)	(31.8)	(76.0)	**(110.2)**
Finance income	11.3	16.0	14.4	10.7	**8.3**
Finance costs	(11.9)	(18.0)	(13.5)	(2.6)	**(9.5)**
Exchange gains/(losses), net	(4.2)	2.3	(7.5)	(8.8)	**8.5**
Share of losses of joint ventures	-	-	0.1	(0.3)	**(0.6)**
Share of profits/(losses) of associates	(0.4)	0.1	0.1	(9.3)	**(477.0)**
Impairment of asset	-	-	(131.7)	(122.7)	**(1,260.4)**
Profit before tax	1,685.7	2,776.1	2,607.6	2,347.3	**113.2**
Income tax expense	(316.0)	(556.4)	(624.0)	(554.2)	**(16.2)**
Profit for the year	1,369.7	2,219.7	1,983.6	1,793.1	**97.1**
Profit for the year attributable to equity holders of the parent	1,175.3	1,985.8	1,810.5	1,647.1	**105.3**
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	0.25	0.43	0.39	0.36	**0.02**

Selected consolidated statement of financial position data

As at 31 December, RMB'million

	2010	2011 (Restated)	2012 (Restated)	2013	**2014**
Assets					
Non-current assets	10,650.8	11,780.6	12,427.3	13,448.8	**12,285.7**
Current assets	3,875.8	4,797.3	4,777.7	5,087.0	**7,653.6**
Total assets	14,526.7	16,577.9	17,205.0	18,535.8	**19,939.3**
Equity and liabilities					
Total equity	11,922.0	13,567.7	14,626.7	15,501.2	**14,749.3**
Non-current liabilities	580.1	680.0	273.5	368.0	**2,296.4**
Current liabilities	2,024.6	2,330.2	2,304.8	2,666.6	**2,893.6**
Total equity and liabilities	14,526.7	16,577.9	17,205.0	18,535.8	**19,939.3**

Operational Highlights

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

		For the year ended 31 December					
		Production volume (tonnes)			Utilisation rate (%)		
		2014	2013	Change %	2014	2013	Change
Chemical fertilisers							
Urea	Fudao Phase I	559,398	570,460	(1.9)	107.6	109.7	(2.1)
	Fudao Phase II	881,121	862,021	2.2	110.1	107.8	2.3
	CNOOC Tianye	531,931	590,111	(9.9)	102.3	113.5	(11.2)
	Group total	1,972,450	2,022,592	(2.5)	107.2	109.9	(2.7)
Phosphate fertilisers and compound fertilisers	DYK MAP	43,039	73,464	(41.4)	28.7	49.0	(20.3)
	DYK DAP Phase I (Note)	301,558	295,736	2.0	86.2	84.5	1.7
	DYK DAP Phase II	568,408	473,448	20.1	113.7	94.7	19.0
	Group total	913,005	842,648	8.3	91.3	84.3	7.0
Chemical products							
Methanol	Hainan Phase I	602,985	581,540	3.7	100.5	96.9	3.6
	Hainan Phase II	766,894	791,170	(3.1)	95.9	98.9	(3.0)
	CNOOC Tianye	180,281	200,340	(10.0)	90.1	100.2	(10.1)
	Group total	1,550,160	1,573,050	(1.5)	96.9	98.3	(1.4)
POM	CNOOC Tianye POM	29,581	16,002	84.9	49.3	26.7	22.6
	Group total	29,581	16,002	84.9	49.3	26.7	22.6

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 volume of the Group's various plants

Unit: tonne

		For the year ended 31 December 2014	For the year ended 31 December 2013	Change %
Chemical fertilisers				
Urea	Fudao Phase I	525,833	557,959	(5.8)
	Fudao Phase II	910,303	870,563	4.6
	CNOOC Tianye	519,435	604,661	(14.1)
	Group total	1,955,571	2,033,183	(3.8)
Phosphate fertilisers and compound fertilisers	DYK MAP	42,792	71,245	(39.9)
	DYK DAP Phase I	339,273	287,656	17.9
	DYK DAP Phase II	611,165	447,210	36.7
	Group total	993,230	806,111	23.2
Chemical products				
Methanol	Hainan Phase I	591,572	577,658	2.4
	Hainan Phase II	745,040	789,514	(5.6)
	CNOOC Tianye	136,018	181,719	(25.1)
	Group total	1,472,630	1,548,891	(4.9)
POM	CNOOC Tianye POM	29,470	16,844	75.0
	Group total	29,470	16,844	75.0

Chairman's Statement

Dear shareholders,

In 2014, your Company had overcome the severe adverse impacts caused by the depression of the fertiliser market and the plunge in energy prices and achieved sound profit from normal operations, which was well ahead of domestic peers. To reward our shareholders, the Board has proposed the payment of a final dividend for 2014 and a special dividend amounted to RMB 0.12 per share.

I am proud to report that your Company was awarded as "The Best Corporate Social Responsibility Listed Company" of "The Golden Bauhinia Award" in December 2014, representing the high recognition from the capital market.

Within this year, the Board continued to improve the corporate governance regime of the Company. In accordance with the "*Guidelines on Disclosure of Inside Information*" stipulated by the Securities and Futures Commission of Hong Kong, the Board formulated the "*Administrative Measures for Disclosure of Inside Information*" in order to ensure information disclosure compliance. To secure the continious business operations of the Company, the Independent Board Committee had carefully reviewed the continuing connected transactions agreements and their respective annual caps of the Company for the years from 2015 to 2017, which were finally approved by our independent shareholders. Furthermore, the Board convened a special meeting for the purposes of considering the business challenges of the Company and devising its future development.

Within this year, Mr. Yang Yexin resigned as executive Director, Chief Executive Officer and President of the Company, and Mr. Yang Shubo resigned as non-executive Director of the Company. On behalf of the Board, I sincerely appreciate their contributions to the Company during their terms of office and welcome Mr. Wang Hui and Mr. Zhou Dechun to the Board.

Looking to 2015, the stable increase of global grain demands will drive the demand for fertilisers. As the PRC government further loosened its fertiliser export restriction, oversupply in the domestic fertiliser market will be alleviated. Steady growth in China's economy and the development of alternative energies will increase the domestic market demands for methanol. Leveraging on our solid existing advantages, we will seize the strategic opportunities brought by the transformation and upgrading of China's economy and strive to create values for our shareholders.

Finally, on behalf of the Board, I would like to express heartfelt gratitude for your support and assistance to the Company and appreciate the relentless efforts made by the management and all our staff in 2014 for the operation and development of the Company.

Li Hui

Chairman

CEO's Report

Dear shareholders,

I was appointed as the chief executive officer and president of your Company in October 2014 with trust by you and the Board. I used to work as an executive vice president of the Company and I am greatly honoured and feel a great weight of responsibility on this new appointment. I will work closely and diligently with the management and dedicate myself to achieve steady operation and healthy development of the Company by implementing thoroughly the development strategies set by the Board.

Review of 2014

Oversupply in domestic fertiliser industry continued in 2014 and international commodity prices declined as a result of the plunging international oil prices in the second half of the year. Facing such severe market conditions, however, your Company achieved a revenue of RMB 10,797 million with its gross profit amounted to RMB 2,686 million, maintaining leading position in terms of profitability among our domestic peers through strengthening our HSE management and refined production management, making timely adjustments to our sales strategy and solidifying sales channels, and controlling cost and expense strictly. Mainly due to the impact of the one-off impairment losses of certain projects, the Company's net profit attributable to owners of the parent decreased to RMB105 million.

Within the year, the Company achieved safe and stable operation at all major production plants. Urea production volume was 1.97 million tonnes in 2014 with its utilization rate reaching 107%. Methanol production volume was 1.55 million tonnes with a utilization rate of 97%. Phosphate and compound fertilisers production volume was 913,000 tonnes, reaching a historical high. Moreover, DYK DAP Phase II facility achieved its best record of long-cycle operations since its commencement. With significant quality improvement from optimization of technologies and techniques, our DAP product was recognized as the best-in-class among domestic peers.

By leveraging our advantages of brand, geographical location and export logistics, coupled with favorable export tariff policies for fertilisers, the Company exported 863,000 tonnes of urea and 249,000 tonnes of DAP during the year and achieved higher profit. Our sales volume of compound fertiliser increased to 42,000 tonnes as our marketing efforts have begun to deliver results.

The coal-based urea project in Hegang City, Heilongjiang Province has commenced its trial production in early April 2015. Xinhua coal mine, which is ancillary to the coal-based urea project, has completed all governmental approval procedures and has obtained the mining right.

Within the year, the Company continued to optimise the intra-Group management system and carry out amendments and completeness to our authorisation manuals in order to further straightening out the management interface between the Group and its subsidiaries.

In 2014, we have implemented a number of measures in reducing energy consumption and pollutant emissions through energy-saving technology upgrades. As a result we achieved an annual energy saving of 21,300 tonnes standard coal equivalent. The Company attained the standard of emissions set by the PRC without incurring any incidents of contamination. As a result, the Company was re-awarded the title of "Leader and Benchmark Enterprise in Energy Efficiency" by China Petroleum and Chemical Industry Federation.

In December 2014, the Company was awarded as "The Best Corporate Social Responsibility Listed Company" of "The Golden Bauhinia Award", representing the high recognition from the capital market.

Outlook for 2015

Looking towards 2015, the oversupply of fertilisers in domestic market is expected to be eased by the steady growth of global demand and loosened export tariff policies in China. Meanwhile, the stable growth of China's economy and the development of alternative energies will increase the domestic market demand for methanol.

In 2015, we will continue to strengthen our HSE management and refined production managements in order to ensure the safe and stable operation at all production plants; to closely monitor market trends of fertiliser and chemical industries at home and abroad in order to achieve the balance between production and sale; to strictly control costs and expenditure and achieve our full-year profit target; to strive for commencing the construction of the Xinhua coal mines ancillary to the coal-based urea project in Heilongjiang in the second half of the year; to advance the implementation of upgrade of Fudao Phase I Urea Plant as scheduled, in order to guarantee the long-term stable production of Fudao Phase I Urea Plant; to conduct research on the production of high-value added chemical products with natural gas in Hainan; and to further fine-tune our existing sales and trading management system and expand the fertiliser trading business of the Company.

Toghether with the management and employees of the Company, I will endeavor to create sound values for our shareholders under the leadership of the Board, by further reinforcing our existing advantages, flexibly responding to market changes and actively seeking development opportunities.

Wang Hui

CEO & President

Management Discussion and Analysis

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.

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.

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 dollar 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 and 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 dollar 93.9 million, the balance of export bill financing of China BlueChemical (Hong Kong) Limited was US dollar 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 dollar 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 dollar 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 annual report, 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.

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.

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 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;

(3) 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;

(4) 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;

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

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

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

Quality, Health, Safety and Environmental Protection

In 2014, the Company accomplished its QHSE management objectives for 2014 and ensured strong alignment of shareholders' value, customers' interests, employees' health and social responsibility, as it further assessed weaknesses of our measures for safety and environmental protection with a special emphasis on the prevention of significant risks in a move to enhance QHSE management, in continued adherence to the safety management philosophy of "Safety First and Focus on Prevention".

Quality management

The Company ensures the attainment of its targets in quality assurance through the stringent and consistent implementation of the quality control management system. During the reporting period, the Company's urea products attained a superior quality rate of 99.73% with a 100% pass rate on net weight of single packet; methanol products attained a superior quality rate of 100% with a 99.6% of customer satisfaction rate; and DAP products attained a superior quality rate of 100%.

During the year, our urea under the brand name of "Fudao" was named as the "Top Brand Product in Hainan in 2014".

Health, safety and environmental protection (HSE) management

In 2014, the Company continued to improve its HSE system by optimising training regime on safety, revising and improving system and procedure for energy saving and emission reduction.

In 2014, the Company carried out vigorous investigation and rectification of hazards and assessment of significant danger sources with a special emphasis on the prevention of significant risks. In addition, the Company optimised its emergency management, enhanced its management of facility integrity. We continued to strengthen the training on safety and occupational skills for our staff members as well as safety management of our contractors, ensuring to accomplish its QHSE management objectives for the year. In 2014, the Company achieved energy conservation of standard coal of 21,300 tonnes. Pollution emission of the Company has met the national standards without any incidents of environmental pollution. During the year, the Company was named as the "Benchmark Enterprise of Leading Energy Efficiency " by China Petroleum and Chemical Industry Federation.

In 2014, the Company achieved excellent results in HSE management. No major incident of responsibility or occupational hazards occurred during the year. The OSHA index of recordable incident was 0.


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Human Resources

In adherence to our principle of being "people-oriented and employee-caring", pursuing a personnel policy that is scientific, reasonable and highly-efficient, optimising the structure of human resources, the Company is committed to providing a solid base and securing availability of high-calibre staff.

Remuneration and benefits

Taking into account the basis of market competition and internal fairness, the Company provides employees with a sophisticated and competitive remuneration and benefit regime. Staff remunerations are determined according to their positions, performances and capabilities.

In 2014, the Company further reformed its remunerations distribution to improve welfare protection of our employees, establishing a closer link between remunerations distribution and performance. During the year, the Company completed the remunerations optimisation for Basuo Port, constituting a uniform remunerations regime of the Group. The Company also established a comprehensive remunerations system applicable for all units to develop, operate and control.

Performance appraisal

The Company has established a scientific and reasonable performance appraisal scheme and an effective incentive and binding mechanism to assure mutual development for the Company and its employees in all aspects.

In 2014, the Company regulated the management of employees' performance, established a comprehensive performance assessment for all our employees and consistently improved assessment methods and techniques, so as to combine qualitative and quantitative methods in assessment.

Training management

In 2014, the Company enhanced the specialisation of training and refined management in training, strengthened key tasks of training, such as organization of training programmes, design of training courses, analysis of needs for training and formulation of training programmes. Training has been divided into several levels, namely beginner, middle and advanced, which have different training contents for enhancing specialization and ensuring training effectiveness.

In 2014, the Company held 10,011 training courses for a total of 181,289 participants, spanning over 786,056 hours in aggregate.



Corporate Governance Report

The Company continued to be committed to implementing corporate governance policy and practice with a high standard in 2014, striving incessantly for excellence in corporate governance with the goal of maintaining healthy and sustainable growth of the Company and creating greater values for the shareholders.

Since 2006, the Company has established a well-balanced and independently-operated modern corporate governance structure , comprising the general meetings, the board of directors (the "Board"), the supervisory committee of the Company (the "Supervisory Committee") and senior management of the Company in accordance with the laws and regulations, such as the Company Law of the People's Republic of China (the "Company Law"), rules and guidelines of domestic and overseas regulatory bodies, and the requirements of the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Appendix 14 thereto.

The Company was in compliance with the code provisions of Corporate Governance Code set out in Appendix 14 to the Listing Rules. During the reporting period, the Company continued to improve its corporate governance system, taking preventive measures against risk exposures in a proactive way. The General meetings, the Board meetings and the Supervisory Committee meetings were convened in accordance with the relevant rules and regulations. Corporate information was disclosed and communicated to the capital market in a timely and open manner to preserve the Company's image as fair and transparent. Our internal control and risk management systems underwent continual improvement. Connected transaction agreements for the years 2015-2017 and the annual caps for the transactions contemplated thereunder were proposed, announced and approved by independent shareholders of the Company in accordance with the Listing Rules to ensure smooth conducting of the Company's major business in the coming three years and protect the interest of minority. Directors and Supervisors were regularly provided with trainings and updates in relation to the operation of the Company and the capital market. External Directors' physical inspections were organized to help them make independent and valid judgments on the strategies, operation and compliance of the Company. In December 2014, the Company was awarded "Most Socially Responsible Listed Company" under the Golden Bauhina Awards by China Securities in recognition of its good corporate governance as viewed by the capital market.

Corporate governance of the Company during the reporting period is summarised as follows:

1 General meetings

Duties of general meetings

The general meeting, which is the organ of authority of the Company, shall exercise in accordance with the law the following authorities:

- to decide on operating strategies, investment plans, proposals for annual financial budgets and final accounts, and proposals for profit distribution and losses recovery of the Company;
- to elect and replace directors and supervisors who are not employee representative and to fix the remunerations of directors and supervisors;
- to consider and approve reports of the Directors and the Supervisory Committee, respectively;
- to pass resolutions on matters such as changes in registered capital, mergers, demergers, changes in corporate form, dissolution and liquidation of the Company;
- to pass resolutions on issue of bonds and other securities and listing of the Company;
- to pass resolutions on appointment, removal or non-reappointment of the accounting firm;
- to consider and approve major guarantees and acquisitions or disposals of major assets of the Company;
- to amend the articles of association of the Company (the "Articles");
- to consider and approve new motions proposed by shareholders, either individually or collectively, holding three percent or more of the shares carrying voting rights in the Company;
- to consider and approve share incentive schemes;
- to deal with matters authorised or delegated by the general meetings to the Board;
- other matters which are required by laws, administrative regulations and the Articles to be resolved by the general meetings.

Shareholders' rights

Pursuant to the provisions of the Articles, specific rights of the shareholders of the Company in the following three aspects are as follows:

Requisition of extraordinary general meeting

When shareholders, individually or collectively, holding ten per cent or more of the issued and outstanding shares carrying voting rights in the Company, request in writing to convene an extraordinary general meeting, the Board shall convene an extraordinary general meeting within 2 months and include the proposals put forward by the requisitioner(s) in the agenda of the meeting.

Procedures for putting forward proposals at general meetings

Where a general meeting is being convened by the Company, shareholders individually or collectively holding three percent or more of the shares carrying voting rights in the Company, shall be entitled to put forward and submit new proposals in writing ten days before the date of the general meeting to the convener of the general meeting, who shall issue a supplementary notice of the general meeting within two days after receipt of the same to all other shareholders and include the proposals that fall within the scope of duties of a general meeting in the meeting agenda and table them for consideration by the general meeting.

Proposals for a general meeting shall satisfy the following conditions: (1) the contents of the proposals shall not contravene the provisions of law and regulations and shall fall within the scope of business of the Company and the duties of a general meeting; (2) the proposal shall have clear topics for discussion and specific matters to be resolved upon; and (3) the proposals shall be submitted to or lodged with the Board in writing.

The said proposals and written requests from the aforesaid requisitioner(s) calling for the convening of an extraordinary general meeting may be lodged with the Board or the Company Secretary through personal delivery, mail or courier at the following address: Unit 1707, Kaikang CNOOC Mansion, No.15, Sanqu, Anzhenxili, Chaoyang District, Beijing.

Procedures for making enquiries to the Board and information available thereon

Shareholders of the Company shall receive a copy of the relevant materials stipulated in the Articles after payment of fees at cost in accordance with the provisions of the Articles, and may raise their concerns with or make enquiries about the aforesaid information to the Board via the email address, postal address and telephone numbers posted on the Company's website.

Information on general meetings

During the reporting period, one Annual General Meeting and one Extraordinary General Meeting of the Company were held, at which 15 resolutions in relation to the 2013 annual financial reports, the report of the Directors, the report of the Supervisory Committee, and the profit distribution proposal, the 2014 budget proposal, appointment of Directors and the continuing connected transactions agreements for the years 2015-2017 and the proposed annual caps for the transactions contemplated thereunder were considered and passed. All the Directors of the Company attended the Annual General Meeting and the Extraordinary General Meeting of the Company.

The procedures for the holding and the approval of resolutions of the above general meetings of the Company have complied with the relevant laws and regulations and the relevant provisions of the Articles and have thereby effectively safeguarded the interests of all shareholders.

2 Board of directors

The Board, which is the decision-making body within the Company's corporate governance structure, is accountable to the general meeting.

Duties of the Board

While it delegates authorities and responsibilities to the management for the purposes of managing day-to-day business operations of the Group, the Board is responsible for formulating business strategic plans, operating plans and investment proposals, establishing management objectives, reviewing the performance of the Company, evaluating the effectiveness of management strategies, formulating the Company's profit distribution and losses recovery proposals, appointing or removing senior management of the Company and fixing their remunerations, deciding on the establishment of the Company's internal management structure, formulating the Company's basic management regime, and exercising proprietary powers to, inter alia:

- Convene the general meetings, report to the general meetings and implement the resolutions of the general meetings;
- formulate the operating plans, investment proposals, proposals for annual financial budgets and final accounts, and proposals for profit distribution and losses recovery of the Company;
- formulate proposals for increase or reduction of the registered capital, issue of bonds and other securities and listing of the Company;
- formulate proposals for mergers, demergers, changes in corporate form and dissolution of the Company;
- decide on the establishment of the Company's internal management structure, appoint or remove the president of the Company, appoint or remove other senior management based on the nomination of the president and fix their remunerations;
- formulate proposals for amendments to the Articles and the basic management regime of the Company;
- propose to the general meetings for the appointment, re-appointment or dismissal of accounting firms providing auditing services to the Company;
- exercise other authorities stipulated in the Articles or conferred by general meetings.

Directors

The Board currently consists of seven Directors, including one executive Director, three non-executive Directors, and three independent non-executive Directors. No relationship (including financial, business, family or other significant or relevant relationship) exists among the members of the Board. The profiles of the Directors are set out on pages 31 to 32 of this annual report.

In addition to compliance with the provisions of the Company Law and the Listing Rules, the composition and structure of the Board has also established an efficient internal balancing mechanism, as well as catered to the needs of the Company's operation and development.

The incumbent members of the Board are set out as follows:

Board member	Position	Date of appointment
Li Hui	Chairman and non-executive Director	5 June 2012
Wang Hui	Executive Director	29 December 2014
Zhou Dechun	Non-executive Director	23 May 2014
Zhu Lei	Non-executive Director	5 June 2012
Gu Zongqin	Independent non-executive Director	5 June 2012
Lee Kit Ying	Independent non-executive Director	5 June 2012
Lee Kwan Hung	Independent non-executive Director	5 June 2012

Each Director appointed by the company has entered into a service contract with the Company for a term of three years or commencing on their respective date of appointment until new Directors are elected at the general meeting held by the Company in the year when the term of this session of the Board expires. If, however, new Directors are not elected promptly when term of office of the existing Directors expires, the existing Directors shall, in accordance with the provisions of the laws, regulations, and the Articles, discharge their duties as Directors prior to the election at the general meeting held by the Company in the year when their term of office expires. Directors can offer themselves for re-election upon the end of their terms of office.

The Board comprised three independent non-executive Directors, which represented over one-third of the total members of the Board. During the reporting period, all independent non-executive Directors of the Company have submitted to the Company their annual confirmation letters in respect of their independence. The Board has assessed the independence of each independent non-executive Director and, therefore, considers all independent non-executive Directors to be independent within the meaning of the Listing Rules. One of the independent non-executive Directors has the qualifications in full compliance with Rule 3.10 (2) of the Listing Rules, namely, having appropriate professional qualifications or appropriate accounting or relevant financial management expertise. The number of the independent non-executive Directors, their independence and qualifications were in full compliance with the provisions of the Listing Rules. The independent non-executive Directors owe a fiduciary duty to the Company and its shareholders, and in particular, are entrusted with the duty to safeguard the interests of minority shareholders. They perform a vital balancing function in the decision-making process of the Board and play a key role in corporate governance. During the reporting period, all the independent non-executive Directors expressed their views and advice on matters concerning the interests of shareholders and the Company at the Board meetings.

Information on Board meetings

During the reporting period, the Board held six physical meetings and four interim meetings by written resolutions, based on actual working practicality.

Details of attendance of Board members at the physical Board meetings for the year ended 31 December 2014 are as follows:

Board member	Number of meetings attended / held	Attendance rate (%)
Li Hui	6/6	100
Wang Hui	1/1 (Note 1)	100
Zhou Dechun	5/5 (Note 2)	100
Zhu Lei	6/6	100
Gu Zongqin	6/6	100
Lee Kit Ying	6/6	100
Lee Kwan Hung	6/6	100
Yang Shubo	2/2 (Note 3)	100
Yang Yexin	6/6 (Note 4)	100

Note 1: Mr. Wang Hui was appointed as an executive Director of the Company on 29 December 2014. During the period from 29 December 2014 to 31 December 2014, one Board meeting was held by the Company.

Note 2: Mr. Zhou Dechun was appointed as a non-executive Director of the Company on 23 May 2014. During the period from 23 May 2014 to 31 December 2014, five Board meetings were held by the Company.

Note 3: Mr. Yang Shubo resigned as a non-executive Director of the Company on 23 May 2014 due to other work commitments. During the period from 1 January 2014 to 23 May 2014 two Board meetings were held by the Company.

Note 4: Mr. Yang Yexin resigned as an executive Director of the Company on 29 December 2014 due to other work commitments. During the period from 1 January 2014 to 29 December 2014 six Board meetings were held by the Company.

These Board meetings were held and proposals were approved in compliance with the provisions of the relevant laws and regulations and the Articles. The Directors fulfilled their fiduciary duty in a practical manner and made decisions on matters important to the Company only after meticulous discussion. The Directors must declare their direct and indirect interests (if any) in relation to the issues to be discussed at Board meetings. The Directors having such interests must abstain from voting on such issues at such meeting and shall not vote on behalf of other Directors so as to protect the interest of all shareholders of the Company.

Training for directors

In accordance with Code Provision A.6.5 of the Corporate Governance Code, all Directors should take part in continuous professional development to develop and upgrade their knowledge and skills so as to ensure continued contributions to the Board in a comprehensively informed and relevant manner.

During the reporting period, all Directors participated in a number of training sessions held in various formats, including attending trainings organized by the Company and external institutes and reading relevant materials. Directors of the Company (including Li Hui, Yang Yexin, Zhou Dechun, Zhu Lei, Gu Zhongqin, Lee Kit Ying and Lee Kwan Hung) attended internal training organised by the Company on 23 May 2014 in relation to the disclosure of inside information and participated in the discussion of the inside information disclosure operation procedures of the Company. The Company also circulated by email to all Directors on 20 October 2014 eight sets of training materials including the amendments to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules, Guidance on Pricing Policies for Continuing Connected Transactions and their Disclosure, and Guidance on Opinion Letters Prepared by Independent Financial Advisers under the Listing Rules, and the Directors completed such training by reading through such materials. In addition, Mr. Zhou Dechun, Mr. Zhu Lei, being non-executive Directors, and Mr. Gu Zhongqin, Ms. Lee Kit Ying and Mr. Lee Kwan Hung, being independent non-executive Directors, made an field investigation to Hainan Production Base to further understand the business condition and future development planning of Hainan Production Base. Mr. Zhou Dechun, being a non-executive Director, and Mr. Wang Hui, being an executive Director, participated in our training for new Directors held in May and December 2014, respectively.

Corporate governance functions

The Board is responsible for carrying out the corporate governance functions and has fulfilled their duties and responsibilities, as set out in Code Provision D.3.1 of the Corporate Governance Code. During the reporting period, the Board reviewed the Administrative Measures for Disclosure of Inside Information formulated by the Company, reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and disclosures in the Corporate Governance Report, reviewed and monitored the training and continuous professional development of Directors and senior management, and further enhanced the Company's corporate governance policy and practices.

3 Committees of the Board

There are four subordinate committees under the Board, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Review Committee, the terms of reference of each of which have been defined in writing and approved by the Board covering its duties, powers and functions. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee have been defined by reference to terms recommended by the Corporate Governance Code and published on the websites of the Hong Kong Stock Exchange and the Company respectively. Each committee has adequate resources to perform its duties, and shall report and provide recommendations to the Board regularly to assist the Board in making decisions.

In addition, during the reporting period, the Independent Director Committee was established by the Board with respect to the continuing connected transactions to be approved by the independent Shareholders and advised and made recommendation to the independent shareholders of the Company on how to vote on the proposed resolutions relevant to continuing connected transactions at the Extraordinary General Meeting after reviewing the necessity of the continuing connected transactions for the forthcoming three years and the reasonableness and fairness of the prices and /or annual caps set for the continuing connected transactions.

Audit Committee

The Audit Committee currently consists of five members, including independent non-executive Directors Ms. Lee Kit Ying, Mr. Gu Zongqin and Mr. Lee Kwan Hung and non-executive Directors Mr. Zhou Dechun and Mr. Zhu Lei. Ms. Lee Kit Ying is the Chairman. The qualifications of the chairman of the Audit Committee are in compliance with the requirements under Rule 3.21 of the Listing Rules.

The primary duties of the Audit Committee are to review and supervise the integrity and preparation procedures of the financial statements of the Group and review the annual production operation and financial budget proposals. The Audit Committee is also responsible for the review of the independence and objectivity of the external auditors of the Company and the validity of audit procedures, the appointment, remuneration and terms of engagement of auditors and any issues in connection with the appointment and dismissal of auditors. In addition, the Audit Committee is also responsible for reviewing the effectiveness of the internal control procedures of the Company to ensure efficiency of business operation and achievement of the Company's corporate objectives and strategies. The Audit Committee also examines the annual internal audit work planning of the Company and submits relevant reports, deliberations and recommendations to the Board.

The Audit Committee held four meetings during the reporting period and the work it performed is summarised as follows:

- Reviewed the 2013 financial statements and the 2014 interim financial statements, in particular, focusing on their compliance with accounting standards, the Listing Rules and other regulations, and provided recommendations and advice to the Board;
- Heard reports on the 2015 operating and financial budgets of the Company;
- Reviewed the independence of the external auditor and provided recommendations to the Board on appointment of the external auditor, and approved the terms of engagement of the external auditor and the audit fees for 2014;
- Reviewed the statutory audit plan of the external auditor and the nature and scope of their audit prior to the commencement of the audit;
- Reviewed the internal audit findings and recommendations of the Company for 2014 and approved the internal audit plan of the Company for 2015;
- Reviewed the effectiveness of the internal control system of the Company.

Details of attendance of members of Audit Committee at committee meetings during the reporting period are set out as follows:

Audit Committee member	Number of meetings attended / held	Attendance rate (%)
Lee Kit Ying (Chairman)	4/4	100
Gu Zongqin	4/4	100
Lee Kwan Hung	4/4	100
Zhou Dechun	3/3 (Note 1)	100
Zhu Lei	4/4	100
Yang Shubo	1/1 (Note 2)	100

Note 1: Mr. Zhou Dechun was appointed as a member of the Audit Committee of the Company on 23 May 2014. During the period from 23 May 2014 to 31 December 2014 three meetings of Audit Committee were held by the Company.

Note 2: Mr. Yang Shubo resigned as a member of the Audit Committee of the Company on 23 May 2014 due to other work commitments. During the period from 1 January 2014 to 23 May 2014 one meeting of Audit Committee was held by the Company.

Remuneration Committee

The Remuneration Committee currently consists of three members, including independent non-executive Directors Mr. Lee Kwan Hung and Ms. Lee Kit Ying, and non-executive Director Mr. Li Hui. Mr. Lee Kwan Hung is the Chairman. The qualifications of the chairman of the Remuneration Committee are in compliance with the requirements under Rule 3.25 of the Listing Rules.

The Remuneration Committee is primarily responsible for studying, reviewing and formulating the remuneration policies and proposals, including the standards, procedures and major regimes of performance appraisal, and major proposals and system of rewards and penalties, for Directors, Supervisors and senior management of the Company, and making recommendations thereon to the Board. The Remuneration Committee shall, with delegated responsibility from the general meeting and the Board, fix the remuneration of the executive Director, Supervisors and senior management. It is also responsible for monitoring the implementation of the Company's remuneration system. In discharging its duties, the Remuneration Committee may consult the Chairman, the president and other executive Directors.

Remuneration policy

- The remuneration package policy for executive Director is designed to peg the executive Director's remuneration and his/her performance with the Company's corporate objectives and operating results, while taking into account market conditions, in order to provide performance incentives to and retain executive Director.
- The remuneration of non-executive Directors (including independent non-executive Directors), which is subject to approval by the Company's general meeting, is mainly fixed after taking into consideration the complexity of the matters to be handled by them and their responsibilities. Pursuant to the service contracts entered into between the Company and the non-executive Directors (including independent non-executive Directors), the out-of-pocket expenses incurred in the performance of their duties (including attending meetings of the Company) by non-executive Directors (including independent non-executive Directors) are reimbursable by the Company.

The Directors are not entitled to decide upon and approve their own remuneration. Details of the remuneration of each Director for the year ended 31 December 2014 are set out in Note 10 to the financial statements.

The Remuneration Committee held three meetings during the reporting period, at which the Remuneration Committee recommended the remuneration for Mr. Zhou Dechun, being a non-executive Director of the Company, reviewed the performance appraisal results of the grantees of the 2013 H-Share Appreciation Rights and the proposal for the fourth exercise of rights by the grantees, and determined the remuneration for Mr. Wang Hui, being an executive Director, Chief Executive Officer and President of the Company.

Details of attendance of members of the Remuneration Committee at committee meetings during the reporting period are set out as follows:

Remuneration Committee member	Number of meetings attended / held	Attendance rate (%)
Lee Kwan Hung (Chairman)	3/3	100
Lee Kit Ying	3/3	100
Li Hui	3/3	100

Nomination Committee

The Nomination Committee currently consists of three members, including independent non-executive Directors Mr. Gu Zongqin and Mr. Lee Kwan Hung and executive Director Mr. Wang Hui. Mr. Gu Zongqin is the Chairman. The qualifications of the chairman of the Nomination Committee are in compliance with the requirements under Code Provision A.5.1 of the Corporate Governance Code.

The Nomination Committee is primarily responsible for assessing and reviewing the structure, size and composition (including skills, knowledge and experience) of the Board; making recommendations to the Board in respect of appointments, re-appointments and succession of the Directors, senior management of the Company and relevant personnel appointed pursuant to the requirements of the Listing Rules based on the standards adopted by the Committee, which include the suitability of the candidates in terms of appropriate professional skills, knowledge and experience, personal integrity, honesty and skills. The Nomination Committee also assesses the independence of each independent non-executive Director.

The nomination procedure for a director candidate is available on the website of the Company, and the specific procedures are: shareholders will recommend candidates for directorship to the Company for consideration; the Nomination Committee will conduct examination of such candidates for directorship and then make recommendations to the Board; following consideration and approval of the Board, the Board will convene a general meeting to which the candidates for directorship will be submitted for consideration.

The Nomination Committee held three physical meetings and one interim meeting by written resolutions based on actual working practicality during the reporting period, at which candidates of Director were proposed, and the 2014 structure, size and composition of the Board and its subordinated committees were reviewed, including the skill, knowledge and experience of the members.

Details of attendance of members of the Nomination Committee at physical committee meetings during the reporting period are set out as follows:

NominationCommittee member	Number of meetings attended / held	Attendance rate (%)
Gu Zongqin (Chairman)	3/3	100
Lee Kwan Hung	3/3	100
Wang Hui	1/1 (Note 1)	100
Yang Yexin	2/2 (Note 2)	100

Note 1: Mr. Wang Hui was appointed as member of the Nomination Committee of the Company on 29 December 2014. During the period from 29 December 2014 to 31 December 2014 one meeting of Nomination Committee was held by the Company.

Note 2: Mr. Yang Yexin resigned as a member of the Nomination Committee of the Company on 29 December 2014 due to other work commitments. During the period from 1 January 2014 to 29 December 2014 two meetings of Nomination Committee were held by the Company.

Investment Review Committee

The current Investment Review Committee consists of six members, including independent non-executive Directors Mr. Gu Zongqin and Ms. Lee Kit Ying, non-executive Director Mr. Li Hui, Mr. Zhou Dechun and Mr. Zhu Lei, and executive Director Mr. Wang Hui. Mr. Gu Zongqin is the Chairman.

The Investment Review Committee is primarily responsible for reviewing investment projects beyond the decision-making authority delegated to the senior management by the Board and making recommendations to the Board.

The Investment Review Committee held two physical meetings and two interim meetings of the Investment Review Committee by written resolutions based on actual working practicality during the reporting period, at which the Investment Review Committee reviewed the major investment projects of the Company for the reporting period and reported its recommendations to the Board.

Details of attendance of members of the Investment Review Committee at physical committee meetings during the reporting period are set out as follows:

Investment Review Committee member	Number of meetings attended / held	Attendance rate (%)
Gu Zongqin (Chairman)	2/2	100
Lee Kit Ying	2/2	100
Li Hui	2/2	100
Zhou Dechun	2/2 (Note 1)	100
Wang Hui	1/1 (Note 2)	100
Zhu Lei	2/2	100
Yang Shubo	-/- (Note 3)	-
Yang Yexin	1/1 (Note 4)	100

Note 1: Mr. Zhou Dechun was appointed as a member of the Investment Review Committee of the Company on 23 May 2014. During the period from 23 May 2014 to 31 December 2014 two meetings of the Investment Review Committee were held by the Company.

Note 2: Mr. Wang Hui was appointed as a member of the Investment Review Committee of the Company on 29 December 2014. During the period from 29 December 2014 to 31 December 2014 one meeting of the Investment Review Committee was held by the Company.

Note 3: Mr. Yang Shubo resigned as a member of the Investment Review Committee of the Company on 23 May 2014 due to other work commitments. During the period from 1 January 2014 to 23 May 2014 one meeting of the Investment Review Committee was held by the Company, which was held after Mr. Yang Shubo had resigned as its member.

Note 4: Mr. Yang Yexin resigned as a member of the Investment Review Committee of the Company on 29 December 2014 due to other work commitments. During the period from 1 January 2014 to 29 December 2014 one meeting of the Investment Review Committee was held by the Company.

4 Supervisory Committee

The Supervisory Committee is accountable to the general meeting and exercises in accordance with the law the following authorities:

- To review the financial matters of the Company;
- To supervise the behaviours of Directors and senior management in discharging their duties and propose to remove those who have violated the laws, administrative regulations and the Articles;
- To demand a Directors, president and other senior management to rectify any improper behaviour that would be detrimental to the interests of the Company;
- To verify financial information, such as financial reports, business reports and profit distribution proposals to be submitted by the Board to the general meeting, and to appoint certified public accountants or auditors to re-examine the same in the name of the Company in case of doubt;
- To propose the convening of extraordinary general meetings, to convene and preside over general meetings when the Board fails to fulfil its duty under the Articles to do so;
- To put forward proposals to the general meeting;
- To initiate an action against Directors, president and other senior management of the Company in accordance with the Company Law; and
- To exercise other authorities stipulated in the Articles.

The Supervisory Committee currently consists of three members, two of whom are external supervisors (as shareholder's representative supervisor and independent supervisor, respectively) and one of whom is the supervisor representing employees of the Company.

For details of the work performed by the Supervisory Committee, please refer to the Report of the Supervisory Committee on page 47 of this annual report.

5 Senior management

The senior management consists of the Chief Executive Officer, President, Executive Vice President, Chief Financial Officer, Vice President and Board Secretary (Company Secretary). Together with other senior management, the Chief Executive Officer/President of the Company organises and carries out operational and managerial activities of the Company in accordance with the laws and regulations, and the Articles within the powers delegated by the Board, and exercise the following principal duties and powers:

- To oversee the production, operation and management of the Company and to organise the implementation of the resolutions of the Board;
- To organise and implement the annual operating plans and investment proposals of the Company;
- To draw up plans for the establishment of the Company's internal management structure;
- To draw up basic management regime and formulate basic rules and regulations of the Company;
- To propose the appointment or dismissal of the Executive Vice President, Chief Financial Officer or Vice President of the Company and to appoint or dismiss management staff other than those required to be appointed or dismissed by the Board;
- To sign certificates of securities issued by the Company; and
- To exercise other authorities conferred by the Articles and the Board.

The members of the senior management of the Company implement the development strategies and business management plans formulated by the Board. They have extensive expertise and management experience in the respective fields of which they are put in charge and delegated to and formed a management team which worked closely to ensure the efficient conducting of the day-to-day operation of the Company.

Moreover, the management furnishes the management accounts of the Company (including internal financial statements) to members of the Board every month and provides to members of the Board such background or explanatory information relating to matters to be discussed by the Board, so that the Directors may fully understand the progress of any material events and the latest business updates of the Company.

The Company has set up the Investment Review Committee, the Personnel Committee, the Budget Management Committee and the Science and Technology Committee. Each resolution of these specialised committees is passed by way of a poll, which fully guaranteed a scientific and meticulous decision-making process for the operations and investments of the Company.

The range of the remuneration of members of senior management for the year ended 31 December 2014 is set out in Note 11 to the financial statements.

6 Securities Transactions by Directors and Supervisors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the model code for securities transactions by its Directors and Supervisors. After making specific inquiries with the Directors and Supervisors, all Directors and Supervisors have confirmed that during the accounting period covered by this annual report, they have strictly complied with the requirements of the Model Code.

The Board will examine the corporate governance and operations of the Company from time to time so as to ensure compliance with the relevant provisions of the Listing Rules and to safeguard shareholders' interests.

7 Chairman and President

During the reporting period Mr. Li Hui acted as the Chairman of the Company, Mr. Yang Yexin acted as the Chief Executive Officer/President of the Company for the period between 1 January 2014 and 24 October 2014 and Mr. Wang Hui has served as the Chief Executive Officer/President of the Company since 24 October 2014, which is in accordance with A.2.1 of the Corporate Governance Code providing that the roles of Chairman and Chief Executive Officer should be separated and not be held by the same individual. The Chairman is responsible for providing leadership over the effective operation of the Board, while the Chief Executive Officer/President is responsible for the day-to-day business operation of the Group and reports to the Board on the overall operation of the Company.

8 Company Secretary

Our Company Secretary, Mr. Quan Changsheng ("Mr. Quan"), is also the Chief Financial Officer/Vice President of the Company who is familiar with the day-to-day affairs of the Company. All Directors of the Company are entitled to the advice and services of Mr. Quan to ensure their compliance with Board procedures and all applicable laws, rules and regulations.

Upon enquiry by the Board, Mr. Quan has confirmed his compliance with all requirements stipulated in the Listing Rules in relation to qualifications, experience and training.

9 Communications with investors

The Board recognises the importance of good and effective communication with shareholders as a whole. In addition to the publication of information, announcements and circulars, the Company has also created a section titled "Investors Relations" on its website www.chinabluechem.com.cn where shareholders may access relevant information.

Pursuant to the provisions and requirements of the regulatory authorities, the Company is proactive in maintaining a good relationship with investors and making proper information disclosure, as well as maintaining continuous communication with shareholders, which includes, specifically, annual results presentation roadshows, participation in investors' forum organized by investment banks, invitation of investors/analysts to visit our sites, as well as interviews or teleconferences with investors.

10 Internal control

Pursuant to the requirements of the Corporate Governance Code under the Listing Rules, the Board is responsible for ensuring that the Company's internal monitoring and control mechanism operates soundly, stably and effectively, so as to safeguard the investment benefits of shareholders and the assets of the Company. During the reporting period, the Company maintains a good internal control and risk management system which takes into account the practical circumstances of the Company and strictly complies with the relevant requirements of the Listing Rules and the Basic Internal Control Norms for Enterprises.

In 2014, the Company continued to optimise and improve its intra-Group internal control system by further straightening out the management interface and management authorisation between the headquarter of the Company and each of its subsidiaries and amended 136 management protocols of the Company.

The Company continuously improved the risk management information platform through which the Company and its subsidiaries pool in their information to form a risk control network for supervision and monitoring of key risk issues.

11 Auditors and fees

Pursuant to the relevant requirements of the "Circular on the Issues Relating to Accounting Firms Undertaking Audit of Final Financial Accounts of Central State-Owned Enterprises" issued by the Ministry of Finance and the State-Owned Assets Supervision and Administration Commission of the PRC in relation to the service term of auditors continuously rendering audit services to the same central state-owned enterprise, the service term of the then external auditors of the Company, Ernst & Young and Ernst & Young Hua Ming LLP, exceeded the prescribed time limit in 2013. In accordance with the recommendations of the Board and as considered and approved at the 2012 Annual General Meeting, Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP have been appointed as the overseas and domestic auditors of the Company respectively with effect from 31 May 2013 until the end of the upcoming annual general meeting. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the overseas and domestic auditors of the Company respectively.

Save for the above, there were no other changes of auditor of the Company in the past three years.

The audit fees for 2014 of the Company was RMB3.9 million, which has been approved by the Audit Committee.

During the reporting period, the auditors of the Company have rendered to the Company taxation consultation and training services. The service fee charged were RMB31,000.

The responsibility statement of the Company's external auditor on the consolidated financial statements is set out on page 49 of this annual report.

12 2014 annual review on non-competition agreement

On 7 September 2006, the Company and CNOOC entered into a non-competition agreement, pursuant to which CNOOC (a) agreed that it will not, and will procure its subsidiaries not to, directly or indirectly, engage in businesses that compete or are likely to compete with the Company's core businesses in China or abroad; and (b) granted the Company the first transaction right, first option and pre-emptive right to acquire any competing businesses.

On 25 March 2015, the Company and CNOOC held the 2014 annual review on non-competition.

At the meeting, there was a review of the investment opportunities obtained during the reporting period by CNOOC and its subsidiaries (excluding the Group) which compete or are likely to compete with the Group's core businesses.

CNOOC and its subsidiaries (excluding the Group) have made a declaration confirming that they have fully complied with such undertakings. The independent non-executive Directors have also reviewed whether CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings and they are satisfied that CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings.

13 Directors' responsibilities for the financial statements

The Directors acknowledge their responsibilities for the Group's financial statements, and that they should assess the Company's financial position, results, cash flow position and prospects for the period in a balanced, lucid and comprehensive manner based on the financial statements and the timely and appropriate data provided by the management. The Board undertakes that, save as disclosed in this annual report, there is no major event or condition of uncertainty which may significantly affect the Company's ability to continue as a going-concern.

Directors, Supervisors and Senior Management

Non-executive Directors

①Mr. **Li Hui**, born in 1963, graduated from the University of International Business and Economics with a bachelor's degree in 1987 and was later awarded the title of senior international business engineer. Mr. Li served successively in a number of positions in China National Metals & Minerals Import & Export Corporation from August 1987 to January 2000, including deputy general manager of its trade unit (五礦貿易有限公司) and president of its South American unit (南美五礦有限公司) ; deputy general manager of Beijing Economic-Technological Investment & Development Corporation from September 1998 to January 2000; assistant general manager and deputy director of the oil group of China National Chemicals Import & Export Corporation (renamed as Sinochem Group, hereinafter referred to as "Sinochem") from January 2000 to July 2001; vice president of Sinochem, director of its oil center and general manager of Sinochem International Oil Co., Ltd from July 2001 to August 2009; vice president of Sinochem and general manager of Sinochem Petroleum Exploration and Production Co., Ltd. from September 2009 to May 2010. Since May 2010, Mr. Li has been a vice president of China National Offshore Oil Corporation. Mr. Li was appointed as the chairman and a non-executive Director of the Company in July 2011. Mr.Li has wide-ranging experience in the international trade sector and profound understanding in the operation of the international trade and capital markets.

②Mr. **Zhou Dechun**, born in 1956, graduated from Shanghai Institute of Chemical Technology (now known as East China University of Science and Technology) with a bachelor's degree in 1978, majoring in chemical equipment and machinery at the Department of Chemical Machinery, and was later awarded the title of senior economist (professor grade). From August 1978 to July 1987, he had worked as officer at the General Department, Materials Department and Personnel Department and deputy head of the Metal Materials Department of the Supply and Sales Bureau of the Ministry of Chemical Industry. From July 1987 to September 1998, he had served as deputy director of Materials Division, deputy head of Personnel Department, head of Personnel Department and deputy general manager of China National Chemical Supply & Sales Corporation. Thereafter, he was the general manager of China National Chemical Supply & Sales (Group) Corporation from September 1998 to December 2009; general manager of China National Offshore Oil Corporation Marketing Branch Company from March 2008 to December 2013; general manager of CNOOC Chemical Import and Export Co., Ltd. from May 2008 to December 2009; deputy general manager of CNOOC Refinery & Petrochemicals and Sales Division from April 2009 to December 2011; and general manager of CNOOC Marketing Company from December 2009 to December 2013. He was appointed as chief economist of China National Offshore Oil Corporation in December 2013 and general manager of Refinery & Petrochemicals and Sales Department of China National Offshore Oil Corporation in February 2014. He was appointed as a non-executive Director of the Company in May 2014.

③Mr. **Zhu Lei**, born in 1969, graduated from the Department of Petroleum Construction Engineering of Southwest Petroleum University in 1991 with a bachelor's degree majoring in oil storage and transportation and was later awarded the title of senior engineer. He was a specialist in quality control at China Offshore Oil Platform Manufacturing Company (中海石油平台製造公司) from September 1991 to October 1995; equipment management personnel with the CNOOC Operations Department and Planning Department, respectively, from October 1995 to May 2003; head of the Planning and Statistics Office of the CNOOC Planning Department from May 2003 to January 2009; and deputy general manager of the CNOOC Planning Department from January 2009 to December 2011. Since January 2012 he has been deputy general manager of the Strategy and Planning Department of CNOOC and deputy general manager of the Strategy and Planning Department of CNOOC Limited. He was appointed as a non-executive Director of the Company in June 2012.

Executive Directors

④Mr. **Wang Hui**, born in 1964, graduated from Jilin University in 1987 with a bachelor's degree, majoring in International Law. Mr. Wang obtained a master degree of Business Administration from Tsinghua University in 2004 and was later awarded the title of senior economist. From August 1987 to June 1993, Mr. Wang served in the development division of China National Chemical Construction Corporation International Tendering Co., Ltd. (中國化工建設總公司國際招標公司). From June 1993 to October 1995, Mr. Wang served as business representative at the Germany representative office of China National Chemical Construction Corporation (中國化工建設總公司). From October 1995 to January 2000, Mr. Wang served successively as the senior project manager, deputy general manager and general manager in China National Chemical Construction Corporation International Tendering Co., Ltd.. From February 2000 to September 2009, he served successively as assistant to the general manager, deputy general manager, general manager and Secretary of Chinese Communist Party ("CCP") Committee in China National Chemical Construction Corporation. From March 2008 to September 2009, Mr. Wang served as the Secretary of CCP Committee of the Company. From August 2008 to September 2009, Mr. Wang served as the executive vice president of the Company. Mr. Wang served as the chairman of the board of directors of Shandong Haihua Group Co., Ltd. (山東海化集團有限公司) from October 2009 to September 2014. From June 2010 to December 2011, Mr. Wang served as the deputy general manager of CNOOC Refinery & Petrochemicals and Sales Division. From March 2010 to October 2014, Mr. Wang served as a director of Shandong Haihua Company Limited (山東海化股份有限公司). Mr. Wang was appointed as the Chief Executive Officer, president and secretary of CCP Committee of the Company in October 2014. He served as chairman of CBC (Canada) Holding Corp. (中海化學(加拿大)控股公司) and director of Western Potash Corp. (西部鉀肥公司)(a company listed on the Main Board of Toronto Stock Exchange, Canada) in November 2014. Mr. Wang was appointed as executive Director of the Company in December 2014 and as the chairman of CNOOC Kingboard Chemical Limited in January 2015.

Independent non-executive Directors

⑤Mr. **Gu Zongqin**, born in 1955, graduated from Nanjing Chemical Engineering Institute (now known as Nanjing University of Technology) in 1982 majoring in Inorganic Chemical Engineering with a bachelor's degree, and was later awarded the title of senior engineer (professor grade). He worked in the Chemical Fertilizer Division of the Planning Institute of the Ministry of Chemical Industry from February 1982 to June 1991 and served as deputy director of the Chemical Fertilizer Division between July 1991 and June 1993. From July 1993 to October 1994, Mr. Gu was assistant to the president of the Planning Institute of Ministry of Chemical Industry and from November 1994 to January 2000, he served as vice president of the Planning Institute of Ministry of Chemical Industry. He was appointed as president and CCP Committee secretary of the China National Petroleum and Chemical Planning Institute in February 2000; deputy president of China Petroleum and Chemical Industry Federation in April 2006. He was appointed as independent non-executive Director of the Company in June 2010. Mr. Gu served as an independent non-executive director of Shanxi Xinghua Chemical Co.,Ltd.(陝西興化化學股份有限公司)(a company listed on Shenzhen Stock Exchange) and Guizhou Chitianhua Co., Ltd.(貴州赤天化股份有限公司)(a company listed on Shanghai Stock Exchange) respectively in the past three years. Currently, Mr. Gu is an independent non-executive director of East China Engineering Science and Technology Co., Ltd. (东华工程科技股份有限公司)(a company listed on Shenzhen Stock Exchange) and Yangmei Chemical Co., Ltd. (阳煤化工股份有限公司)(a company listed on Shanghai Stock Exchange).

⑥Ms. **Lee Kit Ying**, born in 1948, obtained a bachelor's degree from City of London Polytechnic, U.K. (now known as London Metropolitan University) in 1979 majoring in accountancy and a master's degree from City University of Hong Kong in 1998 majoring in Financial Engineering. Ms. Lee is a senior fellow of the Institute of Chartered Accountants in England and Wales. She previously held a number of senior positions in Hong Kong Futures Exchange, the Stock Exchange and Hong Kong Exchanges and Clearing Limited. Ms. Lee has over 20 years' experience in derivative products and the operation, supervision and risk management of securities markets. Currently she is chairman of Virtus Foundation Limited. She was appointed as an independent executive Director of the Company in June 2012. Currently Ms. Lee is also an independent non-executive director of Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Main Board of the Stock Exchange and Shanghai Stock Exchange) and an independent non-executive director of Century Iron Mines Corporation (世紀鐵礦有限公司)(a company listed on Toronto Stock Exchange, Canada).

⑦Mr. **Lee Kwan Hung**, born in 1965, received his Law (LL.B (Honours)) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997 and is a practicing lawyer. Mr. Lee was a senior manager of the Listing Division of The Stock Exchange between December 1992 and March 1994; a partner of Philip KH



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Wong, Kennedy YH Wong Co. between April 1994 and March 2000; a partner and Beijing office chief representative in Woo Kwan Lee & Lo between April 2000 and February 2011; a counsel in Cheung & Choy solicitor & notaries from November 2011 to June 2014. Mr. Lee was appointed as an independent non-executive Director of the Company in June 2012; and was a counsel in Howse Williams Bowers from July 2014. Mr. Li served as an independent non-executive director of New Universe International Group Limited (a company listed on the growth enterprise market of the Stock Exchange), Yuexiu REIT Asset Management Limited and Far East Holdings International Limited (both are companies listed on the main board of the Stock Exchange) respectively in the past three years. Mr. Lee currently holds the position of independent non-executive director respectively at Embry Holdings Limited, NetDragon Websoft Inc., Asia Cassava Resources Holdings Limited, Futong Technology Development Holdings Limited, Walker Group Holdings Limited, Newton Resources Ltd., Tenfu (Cayman) Holdings Company Limited and Landsea Green Properties Co., Ltd., the shares of all of which are listed on the Stock Exchange.

Supervisors

⑧Mr. **Wang Mingyang**, born in 1956, graduated in 1978 from Shanghai Textile Institute of Science and Technology (now known as Donghua University) majoring in textile machinery, and was later awarded the title of senior engineer. He acted as a sales representative and division head of China National Technical Import & Export Corporation (中國技術進出口總公司) from August 1978 to February 1988. He served as a deputy representative of the British representative office of China National Technical Import & Export Corporation from March 1988 to June 1991; deputy director and director of Advertising, Exhibition and Promotion Department of China National Technical Import & Export Corporation from July 1991 to February 1993; general manager of CNTIC Investment Corporation (中國技術進出口總公司投資公司) from March 1993 to May 1994; general manager of Corporate Management Department of China National Technical Import & Export Corporation from June 1994 to August 1995; general manager of CNTIC Euro-Asia Import & Export Co., Ltd. (中技歐亞進出口有限公司) of China National Technical Import & Export Corporation from September 1995 to March 1997; and executive deputy general manager of CNTIC Trading Co., Ltd. (中技貿易股份有限公司) of China National Technical Import & Export Corporation from April 1997 to May 2000. He was an assistant to the president of China National Chemical Construction Corporation from June 2000 to August 2002; deputy general manager of China National Chemical Construction Corporation from September 2002 to March 2008, and vice president of Offshore Oil Engineering Co., Ltd. (海洋石油工程股份有限公司) from April 2008 to March 2013. He was appointed as a supervisor representing the Shareholders and chairman of the Supervisory Committee of the Company in May 2013. He is also chairman of supervisory committee of CNOOC New Energy Investment Co., Ltd., China United Coalbed Methane Corporation Limited and CNOOC Ningbo Daxie Petrochemical Ltd..

⑨Mr. **Huang Jinggui**, born in 1963, graduated from Wuhan University with a bachelor's degree in economics in 1986 and obtained a doctorate degree in world economics from the University of Moscow in 1994. He is a professor of Hainan University and a specialist entitled to the State Council's special allowance. Mr. Huang was a lecturer at Wuhan University from July 1988 to September 1989. He pursued a doctorate degree in economics at the University of Moscow from September 1989 to July 1994. He was the deputy dean of the School of Economics of Hainan University from July 1994 to September 1999. He was a senior visiting scholar at the Russian State University of Management from September 1999 to September 2000. He was the dean of the School of Economics and Management and head of the Master of Business Administration Education Centre of Hainan University from September 2000 to March 2008. He was appointed as an independent Supervisor of the Company in April 2006 and has been the dean of Hainan College of Economics and Business since April 2008.

⑩Ms. **Liu Lijie**, born in 1970, graduated from China Finance Institute (now known as School of Banking and Finance, University of International Business and Economics) in 1993 with a bachelor's degree majoring in International Finance, and was later awarded the title of senior accountant and she is a certified public accountant in China. Ms. Liu worked with the Finance Department of China National Chemical Construction Corporation ("CNCCC") from August 1993 to February 2003. She was head of the import and export accounting division of the Finance Department of CNCCC from March 2003 to June 2006; deputy manager of the Finance Department of CNCCC Fine Chemical

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Industry Co., Ltd. (中化建精細化工有限責任公司) from July 2006 to May 2007; assistant to the general manager of the Finance Department of CNCCC from June 2007 to June 2008; assistant to the general manager of the Financial Management Department of the Company from July 2008 to August 2009; and deputy general manager of the Treasury Management Department of the Company from September 2009 to August 2012; the general manager of the Audit and Supervising Department of the Company from September 2012. She was elected as the Supervisor Representing the Employees at the Employee Representative Meeting of the Company held in September 2012 and the chairman of the supervisor committee of CNOOC Tianye Chemical Limited in October 2014.

Senior management

⑪Mr. **Chen Kai**, born in 1957, graduated from the department of Philosophy of Sun Yatsen University in 1982 with a bachelor's degree majoring in Philosophy, and was later awarded the title of lecturer. From February 1982 to October 2001, he had served as deputy director of the Cultural Centre, head of the Publicity Division, Communist Youth League Committee secretary, head of General Office, and CCP Committee secretary of CNOOC Nanhai West Corporation (中國海洋石油南海西部公司) as well as CCP Committee secretary and secretary of the Disciplinary Committee of CNOOC Shipping Limited (中海石油船舶有限公司) from October 2001 to August 2002. He was a vice president of China Oilfield Services Limited from August 2002 to October 2005; and general manager of Inner Mongolia Tianye Chemicals Ltd. (now known as CNOOC Tianye Chemical Limited) from July 2004 to January 2009. Mr. Chen was a deputy general manager of CNOOC Chemical Limited (now known as the Company) from October 2005 to April 2006 and chairman of CNOOC Tianye Chemical Limited (now known as CNOOC Tianye Chemical Limited) from February 2006 to October 2014. He has been an executive vice president of the Company since April 2006. Mr. Chen was an executive Director of the Company from April 2006 to June 2012.

⑫Ms. **Zhou Fan**, born in 1962, graduated from Guangdong Ocean University with a bachelor's degree majoring in shipping power in 1983; and graduated from the China University of Petroleum (Beijing) majoring in management and engineering with a master degree in 2005, and was later awarded the title of senior political cadre. She worked at CNOOC Nanhai West Corporation from August 1983 to May 1989 and had served as officer at the Human Resources Department, deputy head of the Communist Youth League Committee Organization Department and deputy secretary and secretary of the Communist Youth League Committee of the Education Department. She served as deputy secretary and secretary of Communist Youth League Committee of CNOOC Nanhai West Corporation from May 1989 to May 1998; secretary and deputy general manager of CNOOC Nanhai West Corporation Property Company (中國海洋石油南海西部公司物業公司) from May 1998 to May 1999; deputy secretary of CCP Committee, secretary of the Disciplinary Committee and chairman of labour union of Zhanjiang Branch Company of CNOOC (中國海洋石油有限責任公司湛江分公司) from May 1999 to September 2002; deputy secretary and secretary of CCP Committee of CNOOC Nanhai West Corporation from September 2002 to November 2004; deputy general manager of CNOOC Base Group Ltd. (中海石油基地集團有限責任公司) and CCP Committee secretary and secretary of the Disciplinary Committee of CNOOC Nanhai West Corporation from November 2004 to August 2007. Ms. Zhou was appointed as an executive vice president of the Company in August 2007.

⑬Mr. **Quan Changsheng**, born in 1966, graduated from East China Petroleum Institute (now known as China University of Petroleum) in 1986 majoring in business management with a bachelor degree, and was later awarded the title of accountant. From July 1986 to June 1999, he served as an accountant, senior accountant, chief budgetary reporting supervisor and chief accountant at various divisions of CNOOC Nanhai East Corporation (中國海洋石油南海東部公司), manager of the Finance Department of the CNOOC QHD 32-6 Operating Branch Company (中國海油秦皇島32–6作業分公司) from June 1999 to September 2002; and manager of the Finance Department of the Tianjin Branch Company of CNOOC Limited (中國海洋石油有限公司天津分公司) from September 2002 to March 2006. Mr. Quan was chief financial officer of the Company in April 2006 and vice president of the Company in May 2006. In July 2007, he was appointed as Board secretary and Company Secretary. Mr. Quan was also a director of CNOOC Tianye Chemical Limited (now known as CNOOC Tianye Chemical Limited) from December 2007 to October 2014.

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He was appointed as chairman of Shanxi Hualu Coal Chemical Ltd. in August 2009. He was appointed as a director of CNOOC Huahe Coal Chemical Ltd. in October 2014; and a director of CNOOC Kingboard Chemical Limited in January 2015.

⑭Mr. **Wang Weimin**, born in 1965, graduated from the department of Chemical Engineering of Hebei Institute of Technology (now known as Hebei University of Technology) in 1989 majoring in Organic Chemistry with a bachelor's degree. He obtained an MBA degree from the School of Management of Tianjin University in March 2001, an EMBA degree from China Europe International Business School in July 2001, and was later awarded the title of senior engineer (professor grade). He was a technician at Qinhuangdao SinoArab Chemical Fertilizer Corp. (秦皇島中阿化肥配套總公司) from July 1989 to January 1990 and served successively as shift leader of process workshop, section leader of finished product workshop and head of finished product workshop of Sino-Arab Chemical Fertilizers Co. Ltd. (中國—阿拉伯化肥有限公司, hereinafter referred to as SACF) from January 1990 to June 1994; assistant to general manager of SAFC from June 1994 to December 1995; production plant manager of SAFC from December 1995 to June 1998; deputy general manager from June 1998 to August 2005; leader of the on-site initiation team of the mineral-fertiliser integration project at Dayukou, Hubei from November 2002 to August 2005; general manager of Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限責任公司) from August 2005 to July 2012; assistant to the president of the Company from July 2008 to July 2012. He was appointed as a vice president of the Company in August 2012. He has been served as the chairman of Hubei Dayukou Chemical Co., Ltd. since November 2012. He was appointed as an executive director of China BlueChemical (Hong Kong) Ltd. (中海化學(香港)有限公司) in October 2014; and a director of CNOOC Kingboard Chemical Limited in January 2015.

⑮Mr. **Zhou Renlin**, born in 1962, graduated from Nanjing Maritime School (now known as Jiangsu Maritime Institute) in 1983 majoring in Ship Navigation. He graduated from Jianghan Petroleum University (now known as Yangtze University) in June 2002 majoring in Business Administration with a bachelor's degree and obtained his qualification as a chief officer. He served successively as crewman, helmsman, captain and deputy manager of Business Department of China Offshore Oil Southern Shipping Company (中海石油南方船舶公司) from September 1983 to April 2000; manager of the Marine Technology Services Company of China Offshore Oil Southern Shipping Company (南方船舶海上技術服務公司) from April 2000 to November 2001; deputy manager of the Crew Services Company of CNOOC Shipping Company Limited (中海石油船舶有限公司船員服務公司) from November 2001 to October 2002; deputy general manager of Zhanjiang Branch Company of China Oilfield Services Limited from October 2002 to September 2004; general manager of the terminal project team of CNOOC Chemical Limited from September 2004 to May 2006; general manager of Hainan Basuo Port Limited (海南八所港務有限責任公司) from May 2006 to April 2010; assistant to president of the Company from March 2007 to July 2012; and executive deputy general manager of CNOOC Fudao Limited from April 2010 to July 2012; chairman of Hainan Basuo Port Limited since May 2010. He was appointed as a vice president of the Company in August 2012; a director and the chief executive officer of CBC (Canada) Holding Corp in May 2013. He was appointed as the chairman of CNOOC Tianye Chemical Limited in October 2014.

Report of Directors

The Directors of the Company are pleased to present the report of directors and the audited financial statements for the year ended 31 December 2014.

Principal activities

The Company and its subsidiaries (the "Group") and associates are principally engaged in the manufacture and sale of fertilizers (mainly urea, phosphate fertilisers and compound fertilisers) and chemical products (mainly methanol and POM).

Results

Profit of the Group for the year ended 31 December 2014 and the financial position of the Company and the Group as at that date are set out on pages 50 to 58 of the financial statements.

Dividends

The Board recommended the payment of a final dividend of RMB46.1 million for the year 2014, and a special dividend of RMB507.1 million, aggregating RMB 0.12 per share (tax inclusive). The proposed final dividend for 2014 and special dividend will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting (the "AGM").

Dividends to holders of domestic shares are payable in Renminbi whereas dividends to holders of H shares are payable in Hong Kong Dollars. The value of Hong Kong Dollar shall be calculated on the basis of the mid-price of the average official exchange rate of Renminbi and Hong Kong Dollar, as quoted on the website of the People's Bank of China (the "PBOC"), for the 7 business days before the date of declaration of the dividends.

Subsidiaries

Particulars of the major subsidiaries of the Company as at 31 December 2014 are set out in Note 20 to the financial statements.

Summary of financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 1 of this report. This summary does not form an integral part of the audited financial statements.

Property, plant and equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in Note 16 to the financial statements.

Share capital

As at 31 December 2014, the total share capital of the Company was RMB4,610,000,000 divided into 4,610,000,000 ordinary shares with a nominal value of RMB1 per share, of which 2,813,999,878 shares were domestic shares, 25,000,122 shares were unlisted foreign Shares, and the remaining 1,771,000,000 shares were H shares, accounting for approximately 61.04%, 0.54% and 38.42% respectively of the total issued share capital.

Details of the share capital structure of the Company as at 31 December 2014 are set out in Note 31 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Articles of the Company and the PRC laws.

Purchase, sale or redemption of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2014.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Distributable reserves

As at 31 December 2014, the reserves available for distribution of the Company was RMB6,112.3 million.

Charitable donations

During the year, the Group made charitable donations of RMB3.52 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's five largest customers accounted for 15% of the total sales for the year and sales to the largest customer included therein amounted to 4% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 45% of the total purchases for the year and purchases from the largest supplier accounted for 29% of the total purchases for the year.

The Group purchased raw materials from certain companies under the common control of the same ultimate holding company as the Company, details of which are set out in "Connected Transactions" below. Save as aforesaid, none of the Directors or any of their core associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's five largest customers and five largest suppliers.

Directors and supervisors

The Directors and Supervisors of the Company as at 31 December 2014 were:

Executive Director:	
Wang Hui	Appointed on 29 December 2014
Non-executive Directors:	
Li Hui	Re-appointed on 5 June 2012
Zhou Dechun	Appointed on 23 May 2014
Zhu Lei	Appointed on 5 June 2012
Independent Non-executive Directors:	
Gu Zongqin	Re-appointed on 5 June 2012
Lee Kit Ying	Appointed on 5 June 2012
Lee Kwan Hung	Appointed on 5 June 2012
Supervisors:	
Wang Mingyang	Appointed on 31 May 2013
Huang Jinggui	Re-appointed on 5 June 2012
Liu Lijie	Elected at a meeting of the employee representatives held on 29 September 2012

Mr. Zhou Dechun was appointed as a Non-executive Director of the Company at the annual general meeting convened on 23 May 2014, and Mr. Yang Shubo resigned as a Non-executive Director of the Company on the same day. Mr. Wang Hui was appointed as an Executive Director of the Company at the extraordinary general meeting held on 29 December 2014, and Mr. Yang Yexin resigned as an Executive Director of the Company on the same day.

Pursuant to the Articles of the Company, all Directors and Supervisors are elected for a term of three years and may serve consecutive terms upon re-election. However, if the Directors and Supervisors are not re-elected prior to the expiry of their term of office, the existing Directors and Supervisors shall discharge their duties and responsibilities until new Directors and Supervisors of the Company are elected at a general meeting of the Company to be held in the year in which the term of office expires in accordance with the provisions of laws, regulations and the Articles promptly, save that the Supervisor representing the Company's employees shall be elected by the Company's employee representatives.

The Company has received the annual confirmations of their independence from each Independent Non-executive Director as at the date of this annual report and considered them to be independent.

Biographies of directors, supervisors and senior management

Biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 31 to 35 of this annual report.

Service contracts of directors and supervisors

At the AGM of the Company held on 5 June 2012, a new session of Directors and Supervisors (save for the Supervisor representing the Company's employees) has been elected. Each of the Directors and Supervisors elected on 5 June 2012 has entered into a service contract with the Company for a term of office of three years from 5 June 2012 until new Directors and Supervisors (save for the Supervisor representing the Company's employees) are elected at a general meeting of the Company to be held in the year in which the term of office expires, and may serve consecutive terms upon re-election.

A meeting of the employee representatives was convened on 29 September 2012 by the Company in which Ms. Liu Lijie was elected as the Supervisor representing the Company's employees of the third session of the Supervisory Committee of the Company, who has entered into a service contract with the Company and shall hold office until a new Supervisor representing the employees is elected at the meeting of the employee representatives of the Company to be held in the year in which the term of office expires.

An annual general meeting was convened on 31 May 2013 by the Company in which Mr. Wang Mingyang was appointed as the shareholder's representative supervisor, who has entered into a service contract with the Company and shall hold office from the date on which his appointment was approved by the shareholders at the annual general meeting until the appointment of a new shareholder's representative supervisor is approved at the 2014 annual general meeting of the Company by the shareholders.

An annual general meeting was convened on 23 May 2014 by the Company in which Mr. Zhou Dechun was appointed as a Non-executive Director of the Company, who has entered into a service contract with the Company for a term of office from the date on which his appointment was approved by the shareholders at the annual general meeting until new Directors are approved by the shareholders at the 2014 annual general meeting of the Company, and may serve consecutive terms upon re-election. An extraordinary general meeting was convened on 29 December 2014 by the Company in which Mr. Wang Hui was appointed as an Executive Director of the Company, who has entered into a service contract with the Company for a term of office from the date on which his appointment was approved by the shareholders at the extraordinary general meeting until new Directors are approved by the shareholders at the 2014 annual general meeting of the Company, and may serve consecutive terms upon re-election.

No Director or Supervisor has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Remunerations of directors and supervisors

Details of the remunerations of current and past Directors and Supervisors are set out in Note 10 to the financial statements.

Remuneration policy

The remunerations of the Directors are reviewed from time to time by the Remuneration Committee with reference to their professional qualifications, responsibilities, experience, performance and the Group's operating results.

Interests of directors and supervisors in contracts

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any material contract in relation to the business of the Group to which the Company, its holding Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting at the end of 2014 or subsisted at any time during the year.

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

As at 31 December 2014, to the best knowledge of the Directors and chief executives of the Company, none of the Directors, Supervisors, chief executives and their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or the 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 to be entered into the register kept pursuant to Section 352 of the SFO, or 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.

Interests of substantial shareholders

As at 31 December 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 or their respective associates) 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	2,738,999,512 (L)	Domestic Shares	97.33(L)	59.41(L)
Commonwealth Bank of Australia	Interests in controlled corporation	194,858,000 (L) (Note 2)	H Shares	11.00(L)	4.23(L)
Mondrian Investment Partners Limited	Investment manager	89,810,000 (L)	H Shares	5.07(L)	1.95(L)
Hermes Investment Management Ltd	Investment manager	89,706,000 (L)	H Shares	5.07(L)	1.95(L)

Notes: The letter (L) denotes long position.

(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 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.

Save as disclosed above, to the best knowledge of any of the Directors and chief executives of the Company, as at 31 December 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.

Management contract

No contracts in respect of the management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

Connected transactions

Continuing connected transactions

Details of the continuing connected transactions of the Group which required reporting and annual review in 2014 were as follows:

Connected persons

During the reporting period, the Stock Exchange has amended the Listing Rules relating to connected transactions and the definition of connected person which has become effective on 1 July 2014. For the purpose of completeness, references to the relevant rules in the former Listing Rules in effect immediately before 1 July 2014 are also included in the section below.

1 CNOOC and its associates

CNOOC is the controlling shareholder of the Company and, therefore, CNOOC and its associates (other than the Group) are connected persons of the Company pursuant to Rule 14A.07 (former Rule 14A.11) of the Listing Rules.

China Oilfield Services Limited ("COSL") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 14A.13 (former Rule 19A.04) of the Listing Rules, and also a connected person of the Company pursuant to Rule 14A.07(4) (former Rule 14A.11(4)) of the Listing Rules.

CNOOC Limited is a subsidiary of CNOOC and CNOOC China Limited ("CNOOC China") is a wholly-owned subsidiary of CNOOC Limited. Both CNOOC Limited and CNOOC China are associates of CNOOC pursuant to Rule 14A.13 (former Rule 19A.04) of the Listing Rules and, therefore, connected persons of the Company pursuant to Rule 14A.07(4) (former Rule 14A.11(4)) of the Listing Rules.

CNOOC Finance is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 14A.13 (former Rule 19A.04) of the Listing Rules, and also a connected person of the Company pursuant to Rule 14A.07(4) (former Rule 14A.11(4)) of the Listing Rules.

CNOOC Gas & Power Group ("CNOOC Gas & Power") is a wholly-owned subsidiary of CNOOC and CNOOC Gas Pipelining Limited ("CNOOC Gas Pipeline") is a non-wholly-owned subsidiary of CNOOC Gas & Power. CNOOC Pipelining Fuel & Chemical (Hainan) Limited ("CNOOC Ranhua") is a wholly-owned subsidiary of CNOOC Gas Pipeline. CNOOC Gas & Power, CNOOC Gas Pipeline and CNOOC Ranhua are associates of CNOOC pursuant to Rule 14A.13 (former Rule 19A.04) of the Listing Rules, and therefore connected persons of the Company pursuant to Rule 14A.07(4) (former Rule 14A.11(4)) of the Listing Rules.

2 Kingboard Investment Limited ("Hong Kong Kingboard") and its associates

The Company holds 60% of the equity interests in CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") while Hong Kong Kingboard, a subsidiary of the Kingboard Chemical Group, holds the remaining 40% equity interests. CNOOC Jiantao was previously a jointly-controlled entity of the Company. From 29 April 2008, the Company gained control of CNOOC Jiantao, which became a subsidiary of the Company, with Hong Kong Kingboard as its substantial shareholder. Pursuant to Rule 14A.07 (former Rule 14A.11) of the Listing Rules, Hong Kong Kingboard and its associates (including the parent company of Hong Kong Kingboard, i.e., the Kingboard Chemical Group) are also connected persons of the Company.

3 Zhejiang AMP Incorporation ("Zhejiang AMP") and its associates

On 11 July 2010, CNOOC Fudao Limited ("CNOOC Fudao"), a wholly-owned subsidiary of the Company, entered into a purchase agreement with Zhejiang AMP, under which CNOOC Fudao agreed to purchase and Zhejiang AMP agreed to sell the 21% equity interests in Guangxi Fudao Agricultural Means of Production Limited ("Guangxi Fudao AMP"). Upon completion of the acquisition, the equity interests of Guangxi Fudao AMP are held as to 51% by CNOOC Fudao and as to 49% by Zhejiang AMP, as result of which Guangxi Fudao AMP became a non-wholly-owned subsidiary of the Company, while Zhejiang AMP became a substantial shareholder of Guangxi Fudao AMP. Accordingly, Zhejiang AMP was a connected person of the Company pursuant to the requirements of the Listing Rules effective before 1 July 2014. However, pursuant to the relevant rules in Chapter 14A of the Listing Rules currently in force effective from 1 July 2014, since Guangxi Fudao AMP is an "insignificant subsidiary" (i.e. the total assets, profits and revenue of Guangxi Fudao AMP accounted for less than 10 % under the percentage ratios of that of the Group for each year during 2011 to 2013) of the Company under Rule 14A.09 of the Listing Rules currently in force, Zhejiang AMP, the substantial shareholder of Guangxi Fudao AMP, has no longer been a connected person of the Company since 1 July 2014.

Continuing connected transactions

1 Properties Leasing Agreement

The Company leases certain properties from CNOOC in its ordinary and usual course of business. The Company entered into a properties leasing agreement on 1 September 2006 with CNOOC (as supplemented by a supplementary agreement dated 5 November 2008) and the agreement expired on 31 December 2011.

On 9 November 2011, the Company re-entered into a properties leasing framework agreement with CNOOC (the "Properties Leasing Agreement") on normal commercial terms, pursuant to which the Group may lease properties and land use rights from CNOOC and its associates ("CNOOC Group").

The term of the Properties Leasing Agreement will commence on 1 January 2012 and expire on 31 December 2014, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The rent and/or property management fee for each lease should be agreed by the relevant parties by entering into separate agreements, taking into account such factors as the location and the state of the properties, and shall not be higher than the market rent and property management fees of similar properties.

In the financial year 2014, the rents paid by the Group for these properties were RMB27,817,000.

2 COSL Transportation Agreement

The Company needs to utilize sea transportation services provided by COSL for its products in the ordinary and usual course of its business. The Company and COSL entered into a transportation services framework agreement on 1 September 2006 (as supplemented by a first supplemental agreement dated 5 November 2008) and the agreement expired on 31 December 2011.

The Company entered into a second supplemental agreement to the transportation services framework agreement on 9 November 2011 with COSL (together with transportation services framework agreement dated 1 September 2006, the "COSL Transportation Agreement").

Pursuant to this, (i) the terms of the transportation services framework agreement with COSL dated 1 September 2006 remain unchanged, and (ii) the term of the COSL Transportation Agreement has been extended to commence on 1 January 2012 and expire on 31 December 2014 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The actual aggregate expenses incurred by the Group in relation to the transactions under the COSL Transportation Agreement in the financial year 2014 amounted to RMB79,361,000.

3 Natural Gas Sale and Purchase Agreements

During the year, the Group continued to purchase natural gas pursuant to the three long-term agreements (collectively known as the "Natural Gas Sale and Purchase Agreements") entered into with CNOOC China, a wholly-owned subsidiary of CNOOC Limited:

(i) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between CNOOC China and the Company dated 28 July 2003, under which CNOOC China has committed to supply natural gas to the Company for Fudao Phase II Urea Plant at prices that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of this agreement commenced on 1 October 2003 and will expire on 30 September 2023.

(ii) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between CNOOC China and CNOOC Jiantao dated 10 March 2005, under which CNOOC China has committed to supply natural gas to CNOOC Jiantao for CNOOC Jiantao Methanol Plant (Hainan Phase I Methanol Plant) at prices that are subject to adjustments on a monthly basis by reference to the prices of four major types of crude oil in the international markets during the preceding month. The term of this agreement is of 20 years commencing on 15 October 2006 provided the earliest time CNOOC China may provide natural gas to CNOOC Jiantao Methanol Plant is 9 May 2006.

(iii) the Natural Gas Sale and Purchase Framework Agreement between CNOOC China and the Company dated 1 September 2006, under which CNOOC China has committed to supply natural gas for the Company's future plants. This agreement does not include the transactions conducted under the two preexisting agreements mentioned above. Under this framework agreement, CNOOC China will sell natural gas to the Company and/or the Company's subsidiaries at a price which is determined on a fair and reasonable basis (including by reference to the prices of four major types of crude oil in the international markets) and in accordance with normal commercial customs. The term of the agreement is of 20 years commencing on the date of the agreement. CNOOC China and the Company or the Company's relevant subsidiaries will enter into separate agreements which will set out the specific terms and conditions for natural gas sales and purchases according to the principles laid down by this framework agreement.

    On 26 March 2010, CNOOC China and the Company entered into the "Ledong Natural Gasfields Natural Gas Sale and Purchase Agreement" under the Natural Gas Sale and Purchase Framework Agreement dated 1 September 2006, pursuant to which CNOOC China has agreed to supply natural gas to the Company for Hainan Phase II Methanol Plant at benchmark prices of natural gas that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of the agreement commenced from 26 March 2010 and will expire on the closing date of the delivery period as agreed in the agreement. The target delivery period is 15 years commencing on 1 January 2011 and will expire on 31 December 2025, or the substitute period as determined in accordance with the terms of the agreement.

The four types of crude oil referred to in the Natural Gas Sale and Purchase Agreements are: West Texas Intermediate Crude Oil (西德薩斯中質原油), Tapis Crude Oil (塔皮斯原油), Brent Blend Crude Oil (混合布倫特原油) and Minas Crude Oil (米納斯原油), the reference prices of which are provided by Platts Crude Oil Marketwire.

In 2014, the aggregate expenses of the Group on purchases of natural gas from CNOOC China amounted to RMB2,060,005,000.

4 Comprehensive Services and Product Sales Agreement

The Company entered into a comprehensive services and product sales framework agreement with CNOOC on 1 September 2006 (as supplemented by a supplemental agreement dated 5 November 2008) and the agreement expired on 31 December 2011.

On 9 November 2011, the Company re-entered into a comprehensive services and product sales framework agreement with CNOOC (the "Comprehensive Services and Product Sales Agreement"), which was approved by the Shareholders at the extraordinary general meeting held on 30 December 2011, pursuant to which:

(a) CNOOC Group may provide services and supplies to the Group (such as telecommunication and network services, engineering services, construction services, agency services, equipment leasing and maintenance, project management services, labour services, materials/equipment procurement services, transportation services, technical training services, catering services, hospital and vehicle rental);

(b) the Group may provide services and supplies to CNOOC Group (such as provision of offices and facilities, vehicle rental, logistics management and services, accommodation/ conference services/business services/catering services and transportation); and

(c) the Group may sell products to CNOOC Group and CNOOC Group may sell products to the Group.

The term of the Comprehensive Services and Product Sales Agreement will commence on 1 January 2012 and expire on 31 December 2014, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Comprehensive Services and Product Sales Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties, and priced in accordance with the following pricing principles:

(i) where there is a government-prescribed price (including that prescribed by local governments) or a government guidance price, at the government-prescribed price or the government guidance price;

(ii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

(iii) where neither of the above (i) and (ii) is applicable, the price will be determined based on the cost plus a gross margin of up to 10% on cost (before tax).

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services and products, and the terms and conditions of providing such services and the sale and purchase of such products according to the principles laid down by the Comprehensive Services and Product Sales Agreement.

The annual costs of services, supplies and products obtained by the Group from CNOOC Group in 2014 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB156,594,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB227,072,000.

5 Financial Services Agreement

The Group utilizes from time to time financial services provided by CNOOC Finance and, therefore, entered into a financial services framework agreement with CNOOC Finance on 1 September 2006 (as supplemented by a first supplemental agreement dated 3 November 2008) and the agreement expired on 31 December 2011.

The Company entered into a second supplemental agreement to the financial services framework agreement dated 1 September 2006 with CNOOC Finance on 9 November 2011, (together with the financial services framework agreement dated 1 September 2006, the "Financial Services Agreement") which was approved by shareholders at the extraordinary general meeting held on 30 December 2011. Pursuant to this, (i) the terms of the financial service framework agreement dated 1 September 2006 remain unchanged,(ii) the term of the Financial Service Agreement has been extended to commence on 1 January 2012 and expire on 31 December 2014, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transaction are complied with.

Pursuant to this, CNOOC Finance will provide to the Group a range of financial services that the Group may require, including the following:

(a) provision of loans to the Group, which do not include entrustment loans referred to in Category (c2);

(b) deposit services;

(c1) bank notes discounting services;

(c2) arrangement of entrustment loans between the Company and its subsidiaries; and

(c3) settlement services which include settlement for transactions between the Company and its subsidiaries and for transactions between the Group and CNOOC Group.

The fees and charges payable by the Company to CNOOC Finance under the Financial Services Agreement are determined on the following basis:

(a) provision of loans to the Company: the interest rates for such loans are determined in accordance with the standard rates promulgated by the PBOC from time to time, and may be reduced where the relevant laws and regulations allow;

(b) deposit services: the interest rates for such deposits are determined in accordance with the standard rates promulgated by the PBOC from time to time;

(c1) bank notes discounting services: the interest rates for discounting services are determined in accordance with the standard rates promulgated by the PBOC from time to time less discounts set out in the specific agreements; and the interest for bank notes discounting is borne by the relevant parties presenting the notes;

(c2) arrangement of entrustment loans between our Company and our subsidiaries: the annual service fee payable by the Group is set at a rate, such that the aggregate amount of service fee and loan interest together will not exceed the interest for securing a loan of the same term directly from independent commercial banks; and

(c3) settlement services: no service fee is charged.

Under the Financial Services Agreement, the Company shall have a right of set off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Company, the Company will be able to offset the amount due to the Company from CNOOC Finance against the amounts outstanding from the Company to CNOOC Finance. CNOOC Finance shall not have any offset right. CNOOC Finance and the Company may, from time to time when the situation requires, enter into separate agreements which set out the specific scope of services, terms and conditions of providing such financial services according to the principles laid down by the financial services framework agreement dated 1 September 2006.

In 2014, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB589,292,000. Annual expenses of the Group on category (c1), (c2) and (c3) services provided by CNOOC Finance amounted to RMB3,266,000.

6 Natural Gas Sale and Purchase Agreement with CNOOC Ranhua

The Company has been informed by CNOOC Gas Pipelining on 22 March 2012 that pursuant to the reorganisation, Hainan Haikong Fuel & Chemical Co., Ltd. ("Hainan Haikong"), an independent third party, will be absorbed and merged into CNOOC Gas Pipelining and will be deregistered upon completion of the reorganisation. Under the reorganisation, the natural gas business of Hainan Haikong has been assumed by CNOOC Ranhua, a wholly-owned subsidiary of CNOOC Gas Pipelining. Prior to the reorganisation, the Group has been conducting the transactions contemplated under the Natural Gas Sale and Purchase Agreement with Hainan Haikong. In contemplation of the completion of the reorganisation, CNOOC Ranhua, CNOOC Gas Pipelining and Hainan Haikong have requested CNOOC Fudao, and CNOOC Fudao confirmed on 28 March 2012, that the obligations and duties of Hainan Haikong under the Natural Gas Sale and Purchase Agreement would be assumed by CNOOC Ranhua with effect from the same date (known as the "Natural Gas Sale and Purchase Agreement with CNOOC Ranhua" below).

Therefore, with effect from 28 March 2012, the transactions will continue to be conducted between CNOOC Fudao and CNOOC Ranhua on a regular and continuing basis, until the expiration of the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua in 2016. Pursuant to former Rule 14A.41 (current Rule 14A.60) of the Listing Rules, the continuing connected transactions under the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua between the Company and CNOOC Ranhua are subject to the applicable reporting, annual review and disclosure requirements of Chapter 14A of the Listing Rules.

Details of the transactions are set out in the announcement published on 28 March 2012 by the Company.

Pursuant to the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua, CNOOC Ranhua has committed to supply CNOOC Fudao with natural gas as feedstock required for part of the Company's production in Hainan on a take-or-pay basis. Under the take-or-pay arrangement in the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua, CNOOC Ranhua is obliged to supply and CNOOC Fudao is obliged to purchase a minimum quantity of natural gas each year. Under the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua, the prices at which natural gas is supplied to our production facilities in Hainan are determined by the following mechanism:

(a) the prices are subject to upward or downward adjustments on a quarterly basis; and

(b) the applicable quarterly price is determined by reference to the prevailing crude oil price quoted by Platts Crude Oil

Marketwire (the crude oil prices are the West Texas Intermediate crude oil price, Dubai crude oil price, Brent blend crude oil price and Minas crude oil price).

In 2014, the expenses incurred by the Group from purchases of natural gas from CNOOC Ranhua under Natural Gas Sale and Purchase Agreement with CNOOC Ranhua were RMB218,556,000.

7 Kingboard Product Sales and Services Agreement

The Company entered into a product sales and related services framework agreement with Hong Kong Kingboard on 22 August 2006 (as supplemented by a first supplemental agreement dated 5 November 2008) and the agreement expired on 31 December 2011.

The Company entered into a second supplemental agreement to the product sales and related services framework agreement with Hong Kong Kingboard on 9 November 2011 (together with the product sales and related services framework agreement dated 22 August 2006, the "Kingboard Product Sales and Services Agreement"), which was approved by the Shareholders at the extraordinary general meeting held on 30 December 2011, pursuant to which (i) the terms of the product sales and related services framework agreement dated 22 August 2006 remain unchanged, and (ii) the term of Kingboard Product Sales and Services Agreement has been extended to commence on 1 January 2012 and expire on 31 December 2014 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with. Hong Kong Kingboard (and/or its associates) and the Company may, from time to time when the situation requires, enter into separate agreements which set out the specific products and scope of services, terms and conditions of selling products or providing services according to the principles laid down by the product sales and related services framework agreement dated 22 August 2006.

Pursuant to the agreement, the Company agreed to sell products produced by the Group and to provide related services such as transportation services to Hong Kong Kingboard and its associates.

According to the Kingboard Product Sales and Services Agreement, the transactions would be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties and priced in accordance with the following pricing principles.

(i) price prescribed by the PRC government;

(ii) where there is no government-prescribed price but there is a government guidance price, at a price not higher than the guidance price set by the PRC government;

(iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

(iv) where none of the above is applicable, the price will be agreed between the relevant parties based on the cost plus a margin of up to 15% on cost.

The aggregate revenue of the Group in 2014 from the sales of products and provision of related services to Hong Kong Kingboard and its associates amounted to RMB425,689,000.

8 Connected transactions with Zhejiang AMP

During the year, the Group continued to enter into transactions in relation to mutual provision of products and services with Zhejiang AMP and its associates under the terms and conditions of the framework agreement with Zhejiang AMP in 2006, the term of which was from 22 August 2006 to 31 December 2008 and was subsequently extended to 31 December 2015 by the parties to the framework agreement. Such transactions were conducted on normal continuing basis in the ordinary and usual course of business of the Group.

For 2014, the total revenue for the provision of products and services to Zhejiang AMP and its associates by the Group amounted to RMB71,433,000; and the total expenses for the acquisition of products and services from Zhejiang AMP and its associates by the Group amounted to RMB5,741,000.

As aforementioned, since Guangxi Fudao AMP is an "insignificant subsidiary" of the Company under Rule 14A.09 of the Listing Rules, Zhejiang AMP, the substantial shareholder of Guangxi Fudao AMP, has no longer been a connected person of the Company since 1 July 2014. Thus, the transactions between the Group and Zhejiang AMP and its associates have no longer been connected transactions of the Company since 1 July 2014.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2014 are set out below:

	Annual cap amount for 2014 (RMB'000)	Actual transaction amounts for 2014 (RMB'000)
A. Continuing connected transactions with CNOOC and its associates		
(1) Leasing of properties and land use rights by the Group from CNOOC Group under the Properties Leasing Agreement	34,452	27,817
(2) Provision of transportation services by COSL to the Group under the COSL Transportation Agreement	205,800	79,361
(3) Purchases of natural gas by the Group from CNOOC China under the Natural Gas Sale and Purchase Agreements	2,880,494	2,060,005
(4) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by CNOOC Group to the Group	787,491	156,594
(b) Provision of services, supplies and sales of products by the Group to CNOOC Group	1,315,227	227,072
(5) Financial Services Agreement		
(b) Deposits placed in CNOOC Finance by the Group (Note 1)	600,000	589,292
(c) Category (c1), (c2) and (c3) services provided by CNOOC Finance to the Group	-	3,266
(6) Purchases of natural gas by CNOOC Fudao from CNOOC Ranhua under the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua	-	218,556
B. Continuing connected transaactions with Hong Kong Kingboard and its associates		
Sales of products and provision of services by the Group to Hong Kong Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	819,470	425,689
C. Continuing connected transactions with Zhejiang AMP and its associates		
(1) Sales of products and provision of services to Zhejiang AMP and its associates by the Group	302,436	71,433
(2) Purchase of products and acceptance of services from Zhejiang AMP and its associates by the Group	138,600	5,741

Note: (1) The actual and annual cap amounts refer to the Company's maximum daily balance during the year.

Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed as follows:

1. the transactions were conducted in the ordinary and usual course of business of the Group with connected persons or their respective associates (if applicable);

2. the transactions were conducted on normal commercial terms or terms which (if no comparable terms are available) were no less favourable than those offered to or by independent third parties; and

3. the transactions were conducted in accordance with the relevant agreements governing the transactions and all terms were fair and reasonable to the independent shareholders and in the interests of the shareholders of the Company as a whole.

The Company's auditors have reviewed the above connected transactions and confirmed to the Company in writing that:

1. the above transactions have been approved by the Board of the Company;

2. where the above transactions were related to products and services provided by the Company, they were conducted in accordance with the Company's pricing policy;

3. the above transactions were conducted in accordance with the terms of relevant agreements governing such transactions; and

4. the above transactions (if applicable) did not exceed the relevant annual caps as disclosed in previous announcements.

One-off connected transaction

On 22 September 2014, DYK Chemical entered into the Finance Lease Agreement with CNOOC International Financial Leasing Limited* (中海油國際融資租賃有限公司) ("CNOOC Leasing"), pursuant to which, DYK Chemical has agreed to sell the lease assets (consisting of three production facilities including the phosphoric acid, the sulfuric acid and the common utilities of its DAP Phase II plant) with a net book value of RMB630,474,096.54 to CNOOC Leasing at the transfer consideration which is in the US dollar amount of the net book value of the lease assets. Subsequently, the three production facilities mentioned above will be leased to DYK Chemical with a lease period of one year and eighty-eight days. Upon the expiry of the term of the Finance Lease Agreement, DYK Chemical is entitled to buy back the three production facilities mentioned above at a price of US dollar 1.00 in accordance with the Finance Lease Agreement.

As DYK Chemical is a subsidiary of the Company and CNOOC Leasing is a wholly owned subsidiary of CNOOC, the controlling shareholder of the Company, CNOOC Leasing is a connected person of the Company under Chapter 14A of the Listing Rules. The transaction contemplated under the Finance Lease Agreement constitutes a connected transaction of the Company. As the highest applicable percentage ratio applied in accordance with Rule 14.07 of the Listing Rules in respect of the transaction exceeds 1% but is less than 5%, the transaction is only subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Details of the connected transaction are set out in the announcement published by the Company on 22 September 2014.

Sufficiency of public float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, during the year ended 31 December 2014 and up to the date of this annual report, the Company has maintained a sufficient public float of more than 25% of the Company's total issued share capital as required under the Listing Rules.

Material litigation

As at 31 December 2014, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company so far as the Company is aware.

Audit Committee

The 2014 annual results of the Company have been reviewed by the Audit Committee of the Board. The Committee has reviewed the accounting principles and practices adopted by the Company, and also discussed the auditing, internal control and financial reporting matters, including the review of the 2014 audited annual results with the management. There is no disagreement between the Audit Committee and Deloitte Touche Tohmatsu Certified Public Accountants, the independent auditor, in relation to the accounting methods adopted in the preparation of the annual results during the reporting period.

Corporate Governance Code and Model Code for securities transactions

The Company is committed to high standards of corporate governance to enhance transparency and safeguard shareholders' interests as a whole. During the reporting period, the Company complied with all the code provisions in the Corporate Governance Code.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, as the ethical codes in respect of the securities transactions of the Directors and Supervisors. After making specific enquiries with all Directors and Supervisors, all Directors and Supervisors confirmed that they have strictly complied with the required standards as set out in the Model Code during the accounting period covered in this annual report.

Auditors

On 23 May 2014, Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the overseas and domestic auditors of the Company respectively on the 2013 annual general meeting of the Company.

The financial statements of the year have been audited by Deloitte Touche Tohmatsu Certified Public Accountants who will retire at the forthcoming AGM, at which a resolution will be proposed by the Company for the reappointment of Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the overseas and the domestic auditors of the Company.

For and on behalf of the Board
Li Hui
Chairman

Shenzhen, the PRC, 26 March 2015

Report of the Supervisory Committee

In 2014, all the members of the Supervisory Committee earnestly performed their supervisory functions in accordance with relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules. The Supervisory Committee inspected Company's operations on a regular basis to ensure compliance, supervised the performance of duties by the Directors and senior management of the Company by attending general meetings and Board meetings of the Company and visited the Company's major production bases on an as-needed basis to conduct investigations. During the year, the Supervisory Committee adequately performed its supervisory functions to safeguard the interests of the shareholders as a whole in an effective manner.

1 Meetings of the Supervisory Committee

In 2014, the Supervisory Committee of the Company convened two physical meetings. The convening of the aforesaid meetings was in compliance with provisions of relevant laws and regulations and the Articles, the details of which were as follows:

(1) The First Meeting of the Supervisory Committee in 2014 was held in Shenzhen, Guangdong Province on 25 March 2014, at which the 2013 Report of the Supervisory Committee of China BlueChemical Ltd. was considered and passed, the 2013 financial reports of the Company were reviewed, while the office director of the Supervisory Committee of the Company was appointed and the key tasks of the Supervisory Committee for 2014 were formulated.

(2) The Second Meeting of the Supervisory Committee in 2014 was held in Shenzhen, Guangdong on 26 August 2014, at which the 2014 interim financial report of the Company was reviewed.

2 Principal inspection and supervision work carried out by the Supervisory Committee in 2014

(1) Members of the Supervisory Committee carried out supervision and inspection in respect of the financial position of the Company and its internal control systems, such as the financial management system, including regular inspections of the financial reports and budgets of the Company and reviews of the Company's accounting books and vouchers, related contracts and other relevant information from time to time.

(2) Members of the Supervisory Committee attended one annual general meeting and one extraordinary general meeting. Mr. Wang Mingyang, Chairman of the Supervisory Committee of the Company and Mr. Huang Jinggui acted as scrutineer for the voting at the aforementioned two meetings, respectively.

(3) Members of the Supervisory Committee attended six Board meetings and exercised supervision over the legal and procedural compliance of Board proceedings and Board implementation of resolutions of general meetings.

(4) In 2014, members of the Supervisory Committee visited major production bases of the Company, including the bases in Hainan, Hubei, Inner Mongolia and Heilongjiang, to conduct investigations, making major efforts to inspect production and operations and project construction works at these bases with a special focus on the financial position of the Company and the effectiveness of its internal control.

3 Independent opinions issued by the Supervisory Committee on relevant matters

(1) Operation and management of the Company

During the reporting period, the Company delivered satisfactory results in production and operation, project construction, internal management and team building and completed the annual targets for production and operations. The Company has established a comprehensive regime for internal management and control. Information disclosure was timely, accurate and complete. The procedures for decision-making at the general meetings and Board meetings of the Company were legal and in compliance with relevant provisions. The Directors and senior management of the Company have diligently implemented resolutions passed by the general meeting and the Board in faithful performance of their duties as stipulated in the Articles, without compromising the Company's interests and acting in violation of laws and regulations.

(2) Financial position of the Company

Members of the Supervisory Committee have conducted supervision and inspection of the Company's financial management system and financial conditions and reviewed relevant financial information, such as the financial reports and profit distribution plans, proposed to be tabled at the general meeting by the Board. After due examination, the Supervisory Committee is of the view that: the Company has strictly complied with relevant laws and regulations governing financial and economic matters and financial regulations, the financial management system has been sound and effectively implemented, accounting treatments have been applied with consistency, and the Company's financial reports represent a fair and objective view of the financial position and operating results of the Company. The Supervisory Committee has reviewed the unqualified audit reports in respect of the financial position and operating results of the Company for 2014 issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu Certified Public Accountantsin accordance with domesticand international accounting standards, respectively, and does not dispute the report.

(3) Connected transactions

The Supervisory Committee has conducted random examination of the connected transactions with connected persons entered into by the Company and its subsidiaries from time to time during the reporting period, and is of the view that relevant provisions of the Listing Rules have been complied with, and that the prices of the connected transactions were reasonable, open and fair without any prejudice to the interests of the shareholders and the Company.

The Supervisory Committee also reviewed each of the proposed continued connection transaction agreements of the Company and the caps of transactions for 2015 to 2017, and concurred with the opinion letter from the independent financial adviser of the Company.

(4) Implementation of resolutions of the general meetings

The Supervisory Committee does not dispute the reports and motions tabled by the Board at the general meeting for consideration, and is of the view that the Board has diligently implemented resolutions approved at the general meeting.

In 2015, the Supervisory Committee will continue to closely monitor the Company's day-to-day operations and significant initiatives in business development and supervise the actions of the Directors and senior management in the performance of their duties, in diligent performance of their supervisory duties through the lawful and independent exercise of powers vested in them in accordance with relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules, with the aim of facilitating standardized operations at and health development for the Company and faithfully protecting the interests of all shareholders and the Company.

By Order of the Supervisory Committee

Wang Mingyang

Chairman of the Supervisory Committee

Shenzhen, the PRC, 24 March 2015

Independent Auditors' Report

Deloitte.
德勤

To the shareholders of China BlueChemical Ltd.

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

We have audited the consolidated financial statements of China BlueChemical Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 139, which comprise the consolidated and the Company statements of financial position as at 31 December 2014, the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
26 March 2015

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	5	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	5	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	6	8,305	10,669
Finance costs	7	(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	8	(1,260,395)	(122,711)
Profit before tax	9	113,210	2,347,258
Income tax	12	(16,157)	(554,162)
Profit for the year		97,053	1,793,096
Profit for the year attributable to:			
Owners of the parent	13	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)	15	0.02	0.36

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	2014 RMB'000	2013 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

Details of the dividends payable and proposed for the year are disclosed in note 14 to the financial statements.

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	9,908,502	10,810,741
Prepayments for property, plant and equipment		65,192	160,770
Mining and exploration rights	17	474,410	476,353
Prepaid lease payments	18	569,533	623,119
Intangible assets	19	16,236	125,078
Investments in joint ventures	21	213,058	213,635
Investments in associates	22	337,798	828,092
Available-for-sale investment	23	600	600
Deferred tax assets	24	688,418	198,413
Other long-term prepayment		12,000	12,000
		12,285,747	13,448,801
Current assets			
Inventories	25	1,227,525	1,365,805
Trade receivables	26	141,493	111,589
Bills receivable	27	66,271	54,400
Prepayments, deposits and other receivables	28	686,635	572,626
Pledged bank deposits	30	5,709	5,665
Time deposits with original maturity Over three months	30	-	42,944
Cash and cash equivalents	30	5,525,928	2,933,970
		7,653,561	5,086,999
Total assets		19,939,308	18,535,800
Equity and liabilities			
Capital and reserves			
Issued capital	31	4,610,000	4,610,000
Reserves	32	8,436,351	8,900,603
Proposed dividends	32	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

Consolidated Statement of Financial Position - continued

At 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Benefits liability	33	25,898	23,964
Interest-bearing bank borrowings	34	1,951,000	31,000
Deferred tax liabilities	24	58,866	62,175
Deferred revenue	35	144,077	135,677
Other long-term liabilities		116,559	115,152
		2,296,400	367,968
Current liabilities			
Interest-bearing bank borrowings	34	139,256	-
Trade payables	36	430,170	418,048
Bills payable	36	27,833	120,416
Other payables and accruals	37	1,569,405	1,798,602
Obligations under finance lease	38	565,992	-
Obligation arising from a put option to a non-controlling shareholder	43	87,398	92,794
Derivative financial instruments	43	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

Wang Hui
Director

Lee Kit Ying
Director

Consolidated Statement of Changes in Equity

At 31 December 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 2013	4,610,000	1,009,215	752,357	3,345
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Acquisition of non-controlling interests	-	(1,978)	-	-
Liquidation of a subsidiary	-	-	-	-
Contribution from a non-controlling shareholder	-	-	-	-
Obligation arising from a put option to a non-controlling shareholder	-	-	-	-
Transfer from retained profits	-	-	126,449	-
Appropriation and utilisation of safety fund, net	-	-	-	27,487
Proposed 2013 final dividend	-	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-
Final 2012 dividend declared	-	-	-	-
Balance at 31 December 2013	4,610,000	1,007,237*	878,806*	30,832*
Balance at 1 January 2014	**4,610,000**	**1,007,237***	**878,806***	**30,832***
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from retained profits	-	-	**61,481**	-
Appropriation and utilisation of safety fund, net	-	-	-	**(1,448)**
Proposed 2014 final dividend	-	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-
Final 2013 dividend declared	-	-	-	-
Balance at 31 December 2014	**4,610,000**	**1,007,237***	**940,287***	**29,384***

* These reserve accounts comprise the consolidated reserves of approximately RMB8,436,351,000 (2013: RMB8,900,603,000) in the consolidated statement of financial position.

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 rules and regulations in the People's Republic of China (the "PRC"), the Company and its PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund annually 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 and its subsidiaries and approval by the respective boards of directors.

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
6,142,951	691,500	-	13,209,368	1,417,305	14,626,673
1,647,081	-	-	1,647,081	146,015	1,793,096
-	-	(6,968)	(6,968)	(4,643)	(11,611)
1,647,081	-	(6,968)	1,640,113	141,372	1,781,485
-	-	-	(1,978)	(1,128)	(3,106)
-	-	-	-	(42,104)	(42,104)
-	-	-	-	94,242	94,242
-	-	-	-	(85,362)	(85,362)
(126,449)	-	-	-	-	-
(27,487)	-	-	-	(3,056)	(3,056)
(645,400)	645,400	-	-	-	-
-	-	-	-	(176,041)	(176,041)
-	(691,500)	-	(691,500)	-	(691,500)
6,990,696*	645,400	(6,968)*	14,156,003	1,345,228	15,501,231
6,990,696*	**645,400**	**(6,968) ***	**14,156,003**	**1,345,228**	**15,501,231**
105,293			**105,293**	**(8,240)**	**97,053**
-	**-**	**(16,345)**	**(16,345)**	**-**	**(16,345)**
105,293	**-**	**(16,345)**	**88,948**	**(8,240)**	**80,708**
(61,481)	**-**	**-**	**-**	**-**	**-**
1,448	**-**	**-**	**-**	**-**	**-**
(553,200)	**553,200**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(187,253)**	**(187,253)**
-	**(645,400)**	**-**	**(645,400)**	**-**	**(645,400)**
6,482,756*	**553,200**	**(23,313) ***	**13,599,551**	**1,149,735**	**14,749,286**

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Profit before tax		113,210	2,347,258
Adjustments for:			
Finance costs	7	9,456	2,571
Share of losses of associates		477,000	9,350
Share of losses of joint ventures		577	263
Finance income		(8,305)	(10,669)
Gain on maturity of unlisted investments	5	(163,226)	(73,546)
Losses/(Gains) on disposal of property, plant and equipment and prepaid lease payment	5, 9	83,430	(6,771)
Depreciation of property, plant and equipment	9	827,567	797,051
Amortisation of mining rights	9	2,387	2,046
Amortisation of prepaid lease payments	9	15,854	15,637
Amortisation of intangible assets	9	10,008	10,755
Release of government grants		(1,386)	(1,176)
Reversal of allowance on doubtful receivables	9	(8)	(273)
Impairment of assets	8	1,260,395	122,711
Write-down of inventories to net realisable value	9	7,220	30,419
Change in fair value of obligation arising from a put option to a non-controlling shareholder	9	(5,396)	5,416
(Gains)/Loss on fair value changes of derivative financial instruments	9	2,587	47,485
		2,631,370	3,298,527
Decrease in inventories		131,060	236,970
Net increase in trade receivables and bills receivable, prepayments, deposits and other receivables		(168,281)	(145,460)
Net (decrease) / increase in trade payables, bills payable, other payables and accruals, and other long-term liabilities		(172,335)	314,357
Defined benefits liability paid		(4,621)	(26,519)
Cash generated from operations		2,417,193	3,677,875
Income tax paid		(675,231)	(581,090)
Net cash flows from operating activities		1,741,962	3,096,785

Consolidated Statement of Cash Flows - continued

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Cash flows from investing activities			
Interest received		8,305	10,669
Purchases of property, plant and equipment		(1,058,712)	(1,645,470)
Proceeds from disposal of property, plant and equipment		80	1,059
Proceeds of disposal of prepaid lease payment		13,031	62,884
Tax paid on disposal of land use right		(42,597)	-
Additions to prepaid lease payments	18	-	(148,885)
Additions of intangible assets	19	(5,395)	(10,961)
Additions of mining right		(444)	-
Addition to investment in an associate		-	(192,389)
Addition to investment in a joint venture		-	(92,747)
Purchase of available-for-sale investment		(12,461,930)	(7,467,180)
Disposal of available-for-sale investment		12,625,156	7,540,726
Government grants received		9,786	60,000
Increase in pledged bank deposits		(44)	(1,670)
Decrease/(Increase) in time deposits with original maturity over three months		42,944	(42,944)
Net cash flows used in investing activities		(869,820)	(1,926,908)
Cash flows from financing activities			
Bank borrowings raised		2,723,636	31,000
Borrowing raised from sales and leaseback		630,474	-
Repayment of obligations under finance lease		(63,038)	-
Repayment of bank borrowings		(664,380)	-
Interest paid		(57,363)	(300)
Dividends paid		(645,400)	(691,500)
Dividends paid to non-controlling shareholders		(187,935)	(175,278)
Purchase of non-controlling interests		-	(13,107)
Contribution from non-controlling shareholders		-	94,242
Distribution to a non-controlling shareholder upon liquidation of a subsidiary		-	(42,104)
Transaction charge paid for finanical lease		(12,615)	-
Net cash flows used in financing activities		1,723,379	(797,047)
Net increase in bank balances and cash		2,595,521	372,830
Cash and cash equivalents at 1 January		2,933,970	2,563,666
Effect of foreign exchange rate changes		(3,563)	(2,526)
Cash and cash equivalents at 31 December	30	5,525,928	2,933,970

Statement of Financial Position

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	1,819,690	2,063,666
Investment properties		12,633	13,499
Prepaid lease payments	18	56,001	57,724
Intangible assets	19	3,898	3,441
Investments in subsidiaries	20	5,825,318	5,865,910
Investments in joint ventures		213,058	213,635
Investment in an associate		166,859	637,000
Deferred tax assets	24	174,075	33,760
		8,271,532	8,888,635
Current assets			
Inventories	25	291,515	200,122
Trade receivables	26	80,878	179,516
Bills receivable	27	10,288	52,500
Prepayments, deposits and other receivables	28	105,260	100,307
Loans receivable	29	632,600	1,083,150
Cash and cash equivalents	30	2,362,155	1,390,851
		3,482,696	3,006,446
Total assets		11,754,228	11,895,081
Equity and liabilities			
Equity			
Paid-up capital	31	4,610,000	4,610,000
Reserves	32	6,112,319	6,030,685
Proposed dividends	32	553,200	645,400
Total equity		11,275,519	11,286,085
Non-current liabilities			
Deferred revenue	35	14,456	9,900
Other long-term liabilities		16,200	17,437
		30,656	27,337
Current liabilities			
Trade payables	36	108,259	134,139
Other payables and accruals	37	280,309	275,377
Derivative financial instruments	43	50,072	47,485
Income tax payable		9,413	124,658
		448,053	581,659
Total liabilities		478,709	608,996
Total equity and liabilities		11,754,228	11,895,081

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"), 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

2. Adoption of new accounting policies - continued

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 amotised 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

2. Adoption of new accounting policies - continued

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

- 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 a 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the International Accounting Standards Board, International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Companies Ordinance which for the current year, continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 of the Ordinance. They are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

These financial statements have been prepared under the historical cost convention, except for a derivative financial instrument and an obligation arising from a put option to a non-controlling shareholder, which have been measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 and value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, using consistent accounting policies. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins from the date the Company obtains control over the subsidiary and ceases on the date the Company loses control of the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Basis of consolidation - continued

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries but no adjustments are made to goodwill and no gain or loss is recognised. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influences. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, from the date on which the investee becomes an associate or a joint venture. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Investments in associates and joint ventures - continued

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Investment in subsidiaries

Investments in subsidiaries included in the Company's statement of financial position are stated at cost less any identified impairment loss.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the year in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	1.80% to 6.79%
Plant and machinery	5.00% to 19.00%
Motor vehicles	6.00% to 19.00%
Computer and electronic equipment	18.00% to 19.40%
Office and other equipment	5.28% to 20.00%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Property, plant and equipment and depreciation - continued

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the year of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on the units of production method utilising only proved and probable mineral reserve in the depletion base.

Exploration and evaluation assets

Exploration and evaluation assets comprises costs which are directly attributable to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource, including, but not limited to, the following:

- acquisition of rights to explore
- topographical, geological, geochemical and geophysical studies
- exploratory drilling, trenching and sampling
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resources

Other than licence cost, expenditure during the initial exploration stage of a project is charged to profit or loss as incurred before the establishment of commercial reserves. Further exploration and evaluation costs are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. They are subsequently measured at cost less accumulated impairment.

Once development of commercial reserves is sanctioned, exploration and evaluation assets are tested for impairment and transferred to mining rights.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Intangible assets with finite lives are subsequently amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation year and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of ten years.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the year in which it arises.

An assessment is made at the end of each reporting year as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the year in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Land using rights under operating leases are presented as prepaid lease payments in the consolidated and the Company's statements of financial position and are initially stated at cost and subsequently charged to the profit or loss on the straight-line basis over the lease terms.

A sale and leaseback is a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the seller-lessees, or it may be an operating lease. If the transaction gives rise to a finance lease, any excess of the sales proceeds over the carrying amount is deferred and amortised over the lease term.

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Financial instruments

Financial assets

Recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition based on their nature and purpose. All regular way purchases and sales of financial assets are recognised on the trade date and derecognised on a settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. The Group's financial assets include cash and cash equivalents, pledged bank deposits, time deposits with original maturity over three months, bills receivable, trade and other receivables, and available-for-sale financial assets.

During the reporting years, the Group held only loans and receivables and an available-for-sale financial asset, which were initially measured at fair value plus transaction costs. The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivatives with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as other categories of financial assets. The Group designated its investment in an unlisted equity investment as available-for-sale, as detailed in note 23. As the unlisted equity investment does not have quoted market price and its fair value cannot be reliably measured, it is measured at cost less any identified impairment losses at end of each reporting period. Dividends on the unlisted equity investment are recognised in profit or loss in accordance with the policies set out for "revenue recognition" below.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Financial assets are assessed for impairment indicators at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Evidence of impairment for the Group's loans and receivable (mainly trade and other receivables) may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The trade and other receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The amount of the impairment loss recognised for receivables, if any, is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the trade and other receivables is reduced through the use of an allowance account. Change in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

For the unquoted equity investment stated at cost, the amount of the impairment is measured as the difference the carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent period.

Financial liabilities and equity instrument

Recognition and measurement

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and, financial liabilities at amortised cost. The Group determines the classification of its financial liabilities at initial recognition. The Group's financial liabilities include trade and bill payables, other payables, interest-bearing bank borrowings, derivative financial instruments and an obligation arising from a put option to a non-controlling shareholder.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

Derivative financial instruments, which are initially recognised at fair value at the date when the derivative contracts are entered into, are remeasured at fair value at the end of the reporting period, with any gains or losses recognised in profit or loss and presented in the other gains or other expenses line item.

After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised. The effective interest rate amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Financial instruments - continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interests income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

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

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

Dividends paid to the other shareholders are recognised as an expense of the Group, unless they represent a repayment of the liability (e.g. where the exercise price is adjusted by the dividends paid). The profits or loss (and changes in equity) with respect to the subsidiary are allocated to the Company and not to the non-controlling interest (classified as a financial liability).

If the put option is exercised, the carrying amount of the gross financial liability at that date is extinguished by the payment of the exercise price. If the put option expires unexercised, the liability is derecognised with the non-controlling interest being reinstated. Any difference between the liability and non-controlling interest is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting year of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities, based on tax rates that have been enacted or subsequently enacted by the end of the reporting year, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting year and are recognised to the extent that it has became probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expense for losses already incurred for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, reduced for estimated customer returns and is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Group, and the costs incurred in respect of the transaction can be measured reliably ;

(b) from the rendering of services, on the percentage of completion basis:

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered. Provision is made for foreseeable losses as soon as they are anticipated by management.

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the Group's right to receive payment has been established.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Benefits liability

The Group participates and makes contributions into the government-regulated defined contribution pension scheme, medical benefit plan and housing fund at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the profit or loss as incurred.

CNOOC Tianye Chemical Limited ("CNOOC Tianye"), the Group's 92.27%-owned subsidiary also pays early retirement benefits to qualifying early retirees in accordance with an internal retirement plan and post-employment allowances to retired employees in accordance with the local labour regulations (collectively "benefit liability"), as detailed in note 33. The cost of providing the benefit liability is assessed using the projected unit credit method, with actuarial valuation method being carried out at the end of each reporting period. The Group's benefit liability costs include service cost, net interest expense and remeasurement. Remeasurement, including actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognised in the period in which they occur in other comprehensive income that will not be reclassified to profit or loss and reflected immediately in retained earnings. Net interest is calculated by applying the discount rate at the beginning of the period to the net benefit liability. The service cost and net interest are included in cost of sales and administrative expenses.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the year in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

Foreign currency transactions are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve, attributed to non-controlling interests as appropriate.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting year that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

a. Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, as detailed in note 24. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the year in which such estimate has been changed. The amount of deferred tax assets are disclosed in note 24.

b. Write-down of inventories to net realisable value

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the inventories and the write-down charge/write-back in the year in which these estimates have been changed. The amount of write-down of inventories are disclosed in note 9.

c. Allowance for doubtful receivables

Allowance for doubtful receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of doubtful receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the receivables and doubtful debt expenses/reversal in the year in which these estimates have been changed. The amount of allowance for doubtful receivables are disclosed in note 26.

d. Impairment of non-financial assets (other than goodwill)

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment which include construction in progress, mining and exploration rights, intangible assets and prepaid lease payments, investments in joint ventures and associates, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of its fair value less costs of disposal and value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets used in ways specific to the Group's operation may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated. The carrying amounts of the property, plant and equipment which include construction in progress, mining and exploration rights, prepaid lease payments and intangible assets, investments in joint ventures and associates, are disclosed in note 16, 17, 18, 19, 21 and 22 respectively.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

3. Significant accounting policies - continued

Critical accounting judgements and key sources of estimation uncertainty - continued

e. Depreciation of property, plant and equipment

The cost of items of property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of plant and machinery to be 5 to 18 years, and other assets ranging from 5 to 50 years.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, and therefore depreciation charges might be revised in future.

The amount of depreciation of property, plant and equipment for the year ended 31 December 2014 is disclosed in note 16.

f. Fair value of derivatives and obligation arising from a put option to a non-controlling shareholder

In estimating the fair value of derivatives and obligation arising from a put option to a non-controlling shareholder, considerable judgment is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts with the difference charge to profit or loss. The amount of fair value of derivatives financial instrument and obligation arising from a put option to a non-controlling shareholder are disclosed in note 43.

4. 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 describe in note 3. 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

4. Operating segment information - continued

Operating segments

	Urea	Phosphorus and compound fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

4. Operating segment information - continued

Operating segments - continued

	Urea RMB'000	Phosphorus and compound fertiliser RMB'000 (Restated)	Methanol RMB'000	Others RMB'000 (Restated)	Elimination RMB'000	Total RMB'000
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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

4. Operating segment information - continued

Operating segments - continued

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 RMB'000	2013 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

5. 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 RMB'000	2013 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

6. Finance income

Finance income represents interest income on bank and financial institution deposits for the years ended 31 December 2014 and 2013.

7. Finance costs

	2014 RMB'000	2013 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	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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

8. Impairment of assets

	2014 RMB'000	2013 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 RMB 38,653,000 and RMB 61,151,000, 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 RMB 1,056,362,000 (2013: RMB122,711,000) and RMB 104,229,000 (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%).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

9. Profit before tax

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

	Notes	2014 RMB'000	2013 RMB'000
Cost of inventories sold		**7,805,792**	7,029,829
Cost of services provided		**298,264**	339,198
Depreciation	16	**827,567**	797,051
Amortisation of mining rights	17	**2,387**	2,046
Amortisation of prepaid lease payments	18	**15,854**	15,637
Amortisation of intangible assets included in administrative expense	19	**10,008**	10,755
Auditors' remuneration		**3,900**	3,900
Employee benefit expense (including directors' and supervisors' remuneration explained in note 10):			
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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

10. Key management personnel remuneration

(i) Directors' and supervisors' remuneration

Details of the directors' and supervisors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Fees	**-**	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**1,254**	1,262
Discretionary bonuses	**457**	420
Pension scheme contributions	**27**	30
	1,738	1,712

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2014 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Directors				
Non-executive directors				
Li Hui	**51**	**-**	**-**	**51**
Yang Shubo (note 3)	**15**	**-**	**-**	**15**
Zhu Lei	**54**	**-**	**-**	**54**
Zhou Dechun (note 4)	**45**	**-**	**-**	**45**
	165	**-**	**-**	**165**
Executive directors				
Yang Yexin (Chief Executive) (note 5)	**225**	**137**	**23**	**385**
Wang Hui (Chief Executive) (note 6)	**57**	**320**	**4**	**381**
	282	**457**	**27**	**766**
Independent non-executive directors				
Gu Zongqin	**188**	**-**	**-**	**188**
Lee Kit Ying	**308**	**-**	**-**	**308**
Lee Kwan Hung	**311**	**-**	**-**	**311**
	807	**-**	**-**	**807**
	1,254	**457**	**27**	**1,738**
Supervisors				
Wang Mingyang	**24**	**-**	**-**	**24**
Huang Jinggui	**89**	**-**	**-**	**89**
Liu Lijie	**137**	**118**	**11**	**266**
	250	**118**	**11**	**379**

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

10. Key management personnel remuneration - continued

(i) Directors' and supervisors' remuneration - continued

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2013 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Directors				
Non-executive directors				
Li Hui	35	-	-	35
Yang Shubo	54	-	-	54
Zhu Lei	54	-	-	54
	143	-	-	143
Executive directors				
Yang Yexin (Chief Executive)	352	420	30	802
	352	420	30	802
Independent non-executive directors				
Gu Zongqin	177	-	-	177
Lee Kit Ying	300	-	-	300
Lee Kwan Hung	290	-	-	290
	767	-	-	767
	1,262	420	30	1,712
Supervisors				
Qiu Kewen (note 1)	10	-	-	10
Wang Mingyang (note 2)	14	-	-	14
Huang Jinggui	84	-	-	84
Liu Lijie	146	110	11	267
	254	110	11	375

Note:

1 Qiu Kewen resigned as supervisor on 31 May 2013.

2 Wang Mingyang was appointed as supervisor on 31 May 2013.

3 Yang Shubo resigned as Non-executive directors on 23 May 2014.

4 Zhou Dechun was appointed as Non-executive directors on 23 May 2014.

5 Yang Yexin resigned as Chief Executives on 24 October 2014.

6 Wang Hui was appointed as Chief Executives on 24 October 2014.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

10. Key management personnel remuneration - continued

(ii) Other key management personnel's (excluding directors and supervisors) remuneration

Details of the other key management personnel's (excluding directors and supervisors) remuneration for the year disclosed pursuant to Listing Rules and the Hong Kong Companies Ordinance are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Fees	**-**	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**1,305**	1,427
Discretionary bonuses	**1,953**	2,358
Pension scheme contributions	**133**	141
	3,391	3,926

11. Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2014 and 2013 are analysed as follows:

	2014	2013
	RMB'000	RMB'000
Directors and supervisors	**-**	1
Non-director and non-supervisor employees	**5**	4
	5	5

Details of the remuneration of non-director and non-supervisor highest paid employees during the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
	RMB'000	RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**1,023**	981
Discretionary bonuses	**1,771**	1,403
Pension scheme contributions	**105**	96
	2,899	2,480

The remuneration of each of the non-director and non-supervisor highest paid employees fell within the band from nil to HKD1,000,000 for the years ended 31 December 2014 and 2013.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

12. Income tax

	2014 RMB'000	2013 RMB'000
Current tax		
PRC Enterprise Income Tax	492,597	615,905
Deferred tax (note 24)	(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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

12. Income tax - continued

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

	2014 RMB'000	2013 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%

13. Profit for the year attributable to owners of the parent

The consolidated profit for the year attributable to owners of the parent for the year ended 31 December 2014 includes a profit of RMB 634,834,000 (2013: RMB1,276,811,000) dealt with in the financial statements of the Company (note 32).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

14. Dividends

	2014 RMB'000	2013 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 23 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%.

15. Earnings per share attributable to owners of the parent

	2014 RMB'000	2013 RMB'000
For the purposes of basic earnings per share:		
Earnings		
Profit for the year attributable to owners of the parent	105,293	1,647,081

	Number of shares '000	'000
Shares		
Number of shares in issue during the year	4,610,000	4,610,000

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

16. Property, plant and equipment

Group

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in process RMB'000	Total RMB'000
As at 1 January 2014:							
Cost	4,645,595	11,101,173	189,841	1,090,044	276,166	2,577,514	19,880,333
Accumulated depreciation and impairment	(1,851,638)	(6,366,489)	(119,121)	(630,043)	(102,301)	-	(9,069,592)
Net carrying amount	2,793,957	4,734,684	70,720	460,001	173,865	2,577,514	10,810,741
Cost as at 1 January 2014, net of accumulated depreciation and impairment	2,793,957	4,734,684	70,720	460,001	173,865	2,577,514	10,810,741
Additions	3,823	26,284	4,703	8,672	77,097	1,007,219	1,127,798
Disposals	(813)	(1,735)	(604)	(142)	(13)	(81,650)	(84,957)
Transfer	19,567	19,165	855	14,723	318	(54,628)	-
Impairment	(268,751)	(628,711)	(99)	(154,308)	(807)	(64,837)	(1,117,513)
Reclassification	99,113	(64,564)	1,170	(34,677)	(1,042)	-	-
Depreciation for the year	(203,617)	(495,884)	(8,510)	(72,374)	(47,182)	-	(827,567)
Cost as at 31 December 2014, net of accumulated depreciation and impairment	2,443,279	3,589,239	68,235	221,895	202,236	3,383,618	9,908,502
As at 31 December 2014:							
Cost	4,763,905	11,073,906	186,771	1,076,684	352,411	3,448,455	20,902,132
Accumulated depreciation and impairment	(2,320,626)	(7,484,667)	(118,536)	(854,789)	(150,175)	(64,837)	(10,993,630)
Net carrying amount	2,443,279	3,589,239	68,235	221,895	202,236	3,383,618	9,908,502

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

16. Property, plant and equipment - continued

Group - continued

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in process RMB'000	Total RMB'000
As at 1 January 2013:							
Cost	4,384,188	10,969,701	183,788	1,061,176	217,590	1,350,102	18,166,545
Accumulated depreciation and impairment	(1,654,493)	(5,784,071)	(112,424)	(546,569)	(71,573)	-	(8,169,130)
Net carrying amount	2,729,695	5,185,630	71,364	514,607	146,017	1,350,102	9,997,415
Cost as at 1 January 2013, net of accumulated depreciation and impairment	2,729,695	5,185,630	71,364	514,607	146,017	1,350,102	9,997,415
Additions	5,674	9,763	5,389	9,110	54,785	1,681,018	1,765,739
Disposals	(316)	(4,209)	(118)	(466)	(32)	(27,510)	(32,651)
Transfer	256,216	136,598	2,150	26,899	4,233	(426,096)	-
Impairment	(951)	(115,505)	-	(6,255)	-	-	(122,711)
Depreciation for the year	(196,361)	(477,593)	(8,065)	(83,894)	(31,138)	-	(797,051)
Cost as at 31 December 2013, net of accumulated depreciation and impairment	2,793,957	4,734,684	70,720	460,001	173,865	2,577,514	10,810,741
As at 31 December 2013:							
Cost	4,645,595	11,101,173	189,841	1,090,044	276,166	2,577,514	19,880,333
Accumulated depreciation and impairment	(1,851,638)	(6,366,489)	(119,121)	(630,043)	(102,301)	-	(9,069,592)
Net carrying amount	2,793,957	4,734,684	70,720	460,001	173,865	2,577,514	10,810,741

During the year, the Group has capitalised borrowing costs amounting to RMB55,494,000 (2013: RMB410,000) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 6.50 % (2013: 6.50 %).

As at 31 December 2014, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB239,067,000(2013: RMB586,612,000).

The carrying amount of equipment, which are held under finance lease arrangements, is approximately RMB 624,469,000 as at 31 December 2014 (31 December 2013: Nil).The details of the arrangement and the amount of obligation under finance lease are disclosed in note 38.

Details of the impairment loss on property, plant and equipment are disclosed in note 8.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

16. Property, plant and equipment - continued

Company

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in process RMB'000	Total RMB'000
As at 1 January 2014:							
Cost	729,107	3,021,063	23,020	107,796	4,359	15,336	3,900,681
Accumulated depreciation and impairment	(350,970)	(1,418,412)	(17,449)	(47,922)	(2,262)	-	(1,837,015)
Net carrying amount	378,137	1,602,651	5,571	59,874	2,097	15,336	2,063,666
Cost as at 1 January 2014, net of accumulated depreciation and impairment	378,137	1,602,651	5,571	59,874	2,097	15,336	2,063,666
Additions	8	2,772	77	2,544	587	17,100	23,088
Disposals	-	(1,168)	(134)	(39)	-	-	(1,341)
Transfer	8,410	2,965	-	-	-	(11,375)	-
Depreciation for the year	(39,636)	(213,810)	(660)	(11,089)	(528)	-	(265,723)
Cost as at 31 December 2014, net of accumulated depreciation and impairment	346,919	1,393,410	4,854	51,290	2,156	21,061	1,819,690
As at 31 December 2014:							
Cost	737,525	3,022,117	21,750	109,568	4,947	21,061	3,916,968
Accumulated depreciation and impairment	(390,606)	(1,628,707)	(16,896)	(58,278)	(2,791)	-	(2,097,278)
Net carrying amount	346,919	1,393,410	4,854	51,290	2,156	21,061	1,819,690

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

16. Property, plant and equipment - continued

Company - continued

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in process RMB'000	Total RMB'000
As at 1 January 2013:							
Cost	729,166	3,004,947	19,512	101,667	4,470	35,221	3,894,983
Accumulated depreciation and impairment	(311,326)	(1,209,249)	(17,012)	(39,413)	(1,940)	-	(1,578,940)
Net carrying amount	417,840	1,795,698	2,500	62,254	2,530	35,221	2,316,043
Cost as at 1 January 2013, net of accumulated depreciation and impairment	417,840	1,795,698	2,500	62,254	2,530	35,221	2,316,043
Additions	487	1,130	3,557	2,297	103	7,069	14,643
Disposals	(546)	(4,396)	(5)	(233)	(19)	(28)	(5,227)
Transfer	-	20,430	-	6,496	-	(26,926)	-
Depreciation for the year	(39,644)	(210,211)	(481)	(10,940)	(517)	-	(261,793)
Cost as at 31 December 2013, net of accumulated depreciation and impairment	378,137	1,602,651	5,571	59,874	2,097	15,336	2,063,666
As at 31 December 2013:							
Cost	729,107	3,021,063	23,020	107,796	4,359	15,336	3,900,681
Accumulated depreciation and impairment	(350,970)	(1,418,412)	(17,449)	(47,922)	(2,262)	-	(1,837,015)
Net carrying amount	378,137	1,602,651	5,571	59,874	2,097	15,336	2,063,666

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

17. Mining and exploration rights

Group

	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Cost as at 1 January 2014, net of accumulated amortisation	**95,733**	**380,620**	**476,353**
Addition	**-**	**444**	**444**
Amortisation for the year	**(2,387)**	**-**	**(2,387)**
Cost as at 31 December 2014, net of accumulated amortisation	**93,346**	**381,064**	**474,410**
As at 31 December 2014:			
Cost	**106,721**	**381,064**	**487,785**
Accumulated amortisation	**(13,375)**		**(13,375)**
Net carrying amount	**93,346**	**381,064**	**474,410**
Cost as at 1 January 2013, net of accumulated amortisation	97,779	380,620	478,399
Amortisation for the year	(2,046)	-	(2,046)
Cost as at 31 December 2013, net of accumulated amortisation	95,733	380,620	476,353
As at 31 December 2013:			
Cost	106,721	380,620	487,341
Accumulated amortisation	(10,988)	-	(10,988)
Net carrying amount	95,733	380,620	476,353

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

18. Prepaid lease payments

Group

	2014 RMB'000	2013 RMB'000
Carrying amount as at 1 January	638,603	527,223
Additions	-	148,885
Disposal	-	(21,868)
Impairment	(38,653)	-
Amortisation for the year	(15,854)	(15,637)
Carrying amount as at 31 December	584,096	638,603
Current portion included in prepayments, deposits and other receivables	(14,563)	(15,484)
Non-current portion	569,533	623,119

The Group's leasehold land is situated in Mainland China and is held under the following lease terms:

	2014 RMB'000	2013 RMB'000
Long-term leases	63,505	70,657
Medium-term leases	520,591	567,946
	584,096	638,603

Details of the impairment loss on prepaid lease payments are disclosed in note 8.

Company

	2014 RMB'000	2013 RMB'000
Carrying amount as at 1 January	59,441	76,312
Disposal	-	(15,016)
Amortisation for the year	(1,723)	(1,855)
Carrying amount as at 31 December	57,718	59,441
Current portion included in prepayments, deposits and other receivables	(1,717)	(1,717)
Non-current portion	56,001	57,724

The Company's leasehold land is situated in Mainland China and is held under the following lease terms:

	2014 RMB'000	2013 RMB'000
Long-term leases	19,362	20,882
Medium-term leases	38,356	38,559
	57,718	59,441

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

19. Intangible assets

Group

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2014, net of accumulated amortisation	**9,750**	**115,328**	**125,078**
Additions	**5,395**	**-**	**5,395**
Impairment	**(290)**	**(103,939)**	**(104,229)**
Amortisation for the year	**(3,749)**	**(6,259)**	**(10,008)**
Cost as at 31 December 2014, net of accumulated amortisation	**11,106**	**5,130**	**16,236**
As at 31 December 2014:			
Cost	**48,769**	**133,061**	**181,830**
Accumulated amortisation	**(37,663)**	**(127,931)**	**(165,594)**
Net carrying amount	**11,106**	**5,130**	**16,236**

Details of the impairment loss on intangible assets are disclosed in note 8.

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2013, net of accumulated amortisation	8,819	116,053	124,872
Additions	4,934	6,027	10,961
Amortisation for the year	(4,003)	(6,752)	(10,755)
Cost as at 31 December 2013, net of accumulated amortisation	9,750	115,328	125,078
As at 31 December 2013:			
Cost	43,374	133,061	176,435
Accumulated amortisation	(33,624)	(17,733)	(51,357)
Net carrying amount	9,750	115,328	125,078

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

19. Intangible assets - continued

Company

	Computer software RMB'000
Cost as at 1 January 2014, net of accumulated amortisation	**3,441**
Additions	**3,896**
Amortisation for the year	**(3,439)**
Cost as at 31 December 2014, net of accumulated amortisation	**3,898**
As at 31 December 2014:	
Cost	**32,010**
Accumulated amortisation	**(28,112)**
Net carrying amount	**3,898**

	Computer software RMB'000
Cost as at 1 January 2013, net of accumulated amortisation	1,602
Additions	4,266
Amortisation for the year	(2,427)
Cost as at 31 December 2013, net of accumulated amortisation	3,441
As at 31 December 2013:	
Cost	28,114
Accumulated amortisation	(24,673)
Net carrying amount	3,441

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries

	2014 RMB'000	2013 RMB'000
Unlisted investments, at cost	5,865,910	5,865,910
Impairment	(40,592)	-
	5,825,318	5,865,910

The Company's trade receivables, bill receivables, other receivables, loans receivable, trade payables and bills payable and other payable balances with its subsidiaries are disclosed in notes 26, 27, 28, 29, 36 and 37, respectively.

20.1 General information of subsidiaries

Particulars of the principal subsidiaries of the Company are set out as follows:

Name of entity	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company	Principal activities
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	RMB470,500	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan CNOOC Plastic Co., Ltd. (海南中海石油塑編有限公司)	PRC 28 April 2002	RMB12,716	Direct Indirect	100.00 -	Manufacture and sale of woven plastic bags
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	RMB6,250	Direct Indirect	- 73.11	Provision of transportation services
CNOOC (Hainan) E&P Gas Limited (中海石油(海南)環保氣體有限公司)	PRC 8 November 2004	RMB6,900	Direct Indirect	100.00 -	Manufacture and sale of liquidised carbon dioxide
Hainan Basuo Port Limited (海南八所港務有限責任公司)	PRC 25 April 2005	RMB514,034	Direct Indirect	73.11 -	Port operation
CNOOC Tianye (中海石油天野化工有限責任公司)	PRC 18 December 2000	RMB2,272,856	Direct Indirect	92.27 -	Manufacture and sale of fertilisers methanol and POM
Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	RMB3,297	Direct Indirect	- 65.14	Manufacture and sale of woven plastic bags
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	RMB500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
China BlueChemical Yichang Mining Ltd. (中海油化學宜昌礦業有限公司)	PRC 7 August 2008	RMB150,000	Direct Indirect	51.00 -	Phosphate mining and processing sale of phosphate ore
Shanghai Qionghua Trading Co., Ltd. (上海瓊化經貿有限公司)	PRC 7 January 2002	RMB27,000	Direct Indirect	- 100.00	Trading of fertilisers
China BlueChemical Baotou Coal Chemical Industry Co., Ltd. (中海油化學包頭煤化工有限公司)	PRC 11 September 2008	RMB100,000	Direct Indirect	100.00 -	Manufacture and sales of fertilisers and chemical products

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries - continued

20.1 General information of subsidiaries - continued

Name of entity	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company	Principal activities
China Basuo Ocean Shipping Tally Co., Ltd. (八所中理外輪理貨有限公司)	PRC 9 May 2008	RMB300	Direct Indirect	- 61.41	Provision of overseas shipping services
CNOOC Hualu (中海油華鹿山西煤炭化工有限公司)	PRC 29 November 2005	RMB61,224	Direct Indirect	51.00 -	Preparatory work for a methanol and dimethyl ether project
Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限責任公司)	PRC 12 August 2005	RMB1,050,624	Direct Indirect	83.97 -	Phosphate mining and processing, manufacture and sales of MAP and DAP fertilisers
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	RMB20,000	Direct Indirect	- 51.00	Trading of fertilisers and chemicals
Guangxi Fudao Chemical Limited (廣西富島化工有限公司)	PRC 8 February 2006	RMB3,000	Direct Indirect	- 51.00	Trading of fertilisers and chemicals
Guilin Fudao Agriculture Means of Production Limited* (桂林富島農業生產資料有限公司)	PRC 10 March 2004	RMB1,000	Direct Indirect	- -	Trading of fertilisers and chemicals
CNOOC Guangxi Fertilizer and Technology Limited (廣西中海肥業科技有限公司)	PRC 25 December 2009	RMB2,000	Direct Indirect	- 51.00	Manufacture and sale of fertilisers
CNOOC Huahe Coal Chemical Ltd. (中海石油華鶴煤化有限公司)	PRC 26 May 2006	RMB1,035,600	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan Basuo Port Labor Service Limited (海南八所港務有限責任公司勞動服務公司)	PRC 14 March 2007	RMB600	Direct Indirect	- 73.11	Provision of overseas shipping services
China BlueChemical (HongKong) Limited 中海化學(香港)有限公司	Hong Kong 14 November 2013	HKD100	Direct Indirect	100.00 -	Trading of fertilisers
CBC (Canada) Holding Corp.	Canada 27 March 2013	CA$40,000	Direct Indirect	60.00 -	Investment Holding

The subsidiaries of the Company listed in the above table are all limited liability companies which, in the opinion of management, affected the results for the year or formed a substantial portion of the net assets of the Group.

* On September 30, 2014, Guilin Fudao Agriculture Means of Production Limited had been liquidated.

The English names of certain companies above represent the best efforts by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries - continued

20.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2014/12/31	2013/12/31	**2014/12/31**	2013/12/31	**2014/12/31**	2013/12/31
				RMB'000	RMB'000	**RMB'000**	RMB'000
CNOOC Kingboard Chemical Limited	Hainan	**40.00%**	40.00%	**133,828**	180,827	**467,525**	520,869
Hainan Basuo Port Limited	Hainan	**26.89%**	26.89%	**7,956**	9,778	**192,037**	184,080
CNOOC Tianye	Inner Mongolia	**7.73%**	7.73%	**(91,352)**	(5,798)	**90,913**	182,265
Hubei Dayukou Chemical Co., Ltd.	Hubei	**16.03%**	16.03%	**3,957**	(19,707)	**204,848**	200,891
China BlueChemical Yichang Mining Ltd	Hubei	**49.00%**	49.00%	**(200)**	(35)	**201,927**	202,127

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries - continued

20.2 Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

CNOOC Kingboard Chemical Limited	2014 RMB'000	2013 RMB'000
Current assets	726,050	858,077
Non-current assets	593,547	674,830
Current liabilities	(131,465)	(209,104)
Non-current liabilities	(19,319)	(21,630)
Equity attributable to owners of the Company	701,288	781,304
Non-controlling interests	467,525	520,869

	2014 RMB'000	2013 RMB'000
Revenue	1,339,910	1,398,548
Expenses	(1,005,339)	(946,481)
Profit for the year	334,571	452,067
Profit attributable to owners of the Company	200,743	271,240
Profit attributable to the non-controlling interests	133,828	180,827
Profit for the year	334,571	452,067
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive income attributable to owners of the Company	200,743	271,240
Total comprehensive income attributable to the non-controlling interests	133,828	180,827
Total comprehensive income for the year	334,571	452,067
Dividends paid to non-controlling interests	187,172	175,278
Net cash inflow from operating activities	305,131	589,296
Net cash inflow from investing activities	20,670	3,755
Net cash used in financing activities	(467,931)	(429,403)
Net cash (outflow) inflow	(142,130)	163,648

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries - continued

20.2 Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

Hainan Basuo Port Limited	2014 RMB'000	2013 RMB'000
Current assets	118,581	93,275
Non-current assets	1,084,240	1,113,029
Current liabilities	(385,270)	(419,142)
Non-current liabilities	(103,395)	(102,596)
Equity attributable to owners of the Company	522,119	500,486
Non-controlling interests	192,037	184,080

	2014 RMB'000	2013 RMB'000
Revenue	273,822	239,839
Expenses	(244,233)	(203,476)
Profit for the year	29,589	36,363
Profit attributable to owners of the Company	21,633	26,585
Profit attributable to the non-controlling interests	7,956	9,778
Profit for the year	29,589	36,363
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive income attributable to owners of the Company	21,633	26,585
Total comprehensive income attributable to the non-controlling interests	7,956	9,778
Total comprehensive income for the year	29,589	36,363
Dividends paid to non-controlling interests	-	-
Net cash inflow from operating activities	76,761	40,607
Net cash used in investing activities	(3,552)	(65,368)
Net cash (used in) inflow from financing activities	(74,384)	19,729
Net cash outflow	(1,175)	(5,032)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries - continued

20.2 Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

CNOOC Tianye	2014 RMB'000	2013 RMB'000
Current assets	250,207	290,624
Non-current assets	1,605,844	2,687,491
Current liabilities	(654,042)	(596,258)
Non-current liabilities	(25,898)	(23,964)
Equity attributable to owners of the Company	1,085,198	2,175,628
Non-controlling interests	90,913	182,265

	2014 RMB'000	2013 RMB'000
Revenue	1,317,558	1,553,371
Expenses	(2,499,341)	(1,591,570)
Loss for the year	(1,181,783)	(38,199)
Loss attributable to owners of the Company	(1,090,431)	(32,401)
Loss attributable to the non-controlling interests	(91,352)	(5,798)
Loss for the year	(1,181,783)	(38,199)
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive expenses attributable to owners of the Company	(1,090,431)	(32,401)
Total comprehensive expenses attributable to the non-controlling interests	(91,352)	(5,798)
Total comprehensive expenses for the year	(1,181,783)	(38,199)
Dividends paid to non-controlling interests	-	-
Net cash inflow from operating activities	59,143	56,395
Net cash (used in) inflow from investing activities	(57,251)	14,161
Net cash used in financing activities	(4,613)	(77,013)
Net cash outflow	(2,721)	(6,457)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries - continued

20.2 Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

Hubei Dayukou Chemical Co., Ltd.	2014 RMB'000	2013 RMB'000
Current assets	768,734	765,714
Non-current assets	2,318,803	2,517,945
Current liabilities	(1,782,041)	(2,005,649)
Non-current liabilities	(27,593)	(24,793)
Equity attributable to owners of the Company	1,073,055	1,052,326
Non-controlling interests	204,848	200,891

	2014 RMB'000	2013 RMB'000
Revenue	2,647,903	2,171,628
Expenses	(2,623,217)	(2,294,567)
Profit (loss) for the year	24,686	(122,939)
Profit (loss) attributable to owners of the Company	20,729	(103,232)
Profit (loss) attributable to the non-controlling interests	3,957	(19,707)
Profit (loss) for the year	24,686	(122,939)
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive income (expenses) attributable to owners of the Company	20,729	(103,232)
Total comprehensive income (expenses) attributable to the non-controlling interests	3,957	(19,707)
Total comprehensive income (expenses) for the year	24,686	(122,939)
Dividends paid to non-controlling interests	-	-
Net cash inflow (outflow) from operating activities	260,933	624,653
Net cash used in investing activities	(126,719)	(270,352)
Net cash (used in) inflow from financing activities	(135,720)	(349,823)
Net cash (outflow) inflow	(1,506)	4,478

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

20. Investments in subsidiaries - continued

20.2 Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

China BlueChemical Yichang Mining Ltd.	2014 RMB'000	2013 RMB'000
Current assets	32,326	38,240
Non-current assets	381,907	377,716
Current liabilities	(2,137)	(3,451)
Non-current liabilities	-	-
Equity attributable to owners of the Company	210,169	210,378
Non-controlling interests	201,927	202,127

	2014 RMB'000	2013 RMB'000
Revenue	-	-
Expenses	(408)	(72)
Loss for the year	(408)	(72)
Loss attributable to owners of the Company	(208)	(37)
Loss attributable to the non-controlling interests	(200)	(35)
Loss profit for the year	(408)	(72)
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive expenses attributable to owners of the Company	(208)	(37)
Total comprehensive expenses attributable to the non-controlling interests	(200)	(35)
Total comprehensive expenses for the year	(408)	(72)
Dividends paid to non-controlling interests	-	-
Net cash outflow from operating activities	(2,408)	(1,478)
Net cash used in investing activities	(18,550)	(25,049)
Net cash inflow from financing activities	-	-
Net cash outflow	(20,958)	(26,527)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

21. Investment in joint ventures

Group	2014 RMB'000	2013 RMB'000
Unlisted investments	213,058	213,635

The joint ventures are accounted for using the equity method in these consolidated financial statement.

Particulars of the joint ventures of the Group are set out as follows:

Name of the entity	Place and date of incorporation and operation	Registered capital RMB'000		Percentage of equity interest attributable to the Company	Principal activities
Guizhou Jinlin Chemical Co., Ltd. (貴州錦麟化工有限責任公司)	PRC 12 April 2007	481,398	Direct Indirect	41.26 -	Phosphate mining and processing manufacture and sales of phosphate ore and chemical products
Yantai Port Fertilizer Logistics Co., Ltd. (煙台港化肥物流有限公司)	PRC 20 July 2011	122,500	Direct Indirect	27.00 -	Cargo handling, warehousing, packaging and domestic freight forwarding

The aggregate financial information in respect of the Group's joint ventures is set out below since no single joint venture is individually material:

	2014 RMB'000	2013 RMB'000
The Group's share of loss	(577)	(263)
The Group's share of total comprehensive expenses	(577)	(263)
Aggregate carrying amount of the Group's investment in the joint ventures	213,058	213,635

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

22. Investment in associates

Group	2014 RMB'000	2013 RMB'000
Cost of investment in associates	807,715	821,009
Share of post-acquisition profits and other comprehensive income, net of dividends received	(469,917)	7,083
	337,798	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 28.

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)	PRC 3 August 2001	RMB52,000	Direct Indirect	49.00 -	Mining and sale of coal
China Basuo Overseas Shipping Agency Co., Ltd. (中國八所外輪代理有限公司)	PRC 24 May 2000	RMB1,800	Direct Indirect	- 36.56	Provision of overseas shipping services
Western Potash Corporation (西鉀公司)	Canada 5 April 2007	CA$140,944	Direct Indirect	- 19.90	Acquisition, evaluation, and exploration of mineral properties containing potash

The aggregate financial information in respect of the Group's associates is set out below since no single associate is individually material:

	2014 RMB'000	2013 RMB'000
The Group's share of loss	(477,000)	(9,350)
The Group's share of total comprehensive expenses	(477,000)	(9,350)
Dividends received from the associate during the year	-	100
Aggregate carrying amount of the Group's investment in the associates	337,798	828,092

During the current year, 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, the management took consideration the carrying amount of investment in Yangpoquan Coal, together with the relevant taxes and other costs to be incurred and the carrying amounts of liabilities of Yangpoquan Coal, the fair value less cost of disposal of Yangpoquan Coal is estimated to be RMB373,652,000 and the Group's share amounted to RMB183,090,000. Accordingly, an impairment of RMB 470,140,000 is recognized and presented as "share of losses of associates".

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

23. Available-for-sale investment

Group

	2014 RMB'000	2013 RMB'000
Non-current		
Unlisted equity investment, at cost	600	600

24. Deferred taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

Group

	2014 RMB'000	2013 RMB'000
Deferred tax assets	688,418	198,413
Deferred tax liabilities	(58,866)	(62,175)
	629,552	136,238

Company

	2014 RMB'000	2013 RMB'000
Deferred tax assets	174,075	33,760

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

24. Deferred taxation - continued

Group

	Accelerated tax depreciation	Impairment losses	Wages and salaries	Financial instruments fair value changes	Fair value adjustment on acquisition of subsidiairies	Unused tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2013	15,185	61,930	12,958	-	(66,726)	27,443	15,754	66,544
(Charge) credit to profit or loss	(1,494)	27,974	(5,156)	11,871	4,551	36,983	(5,035)	69,694
As at 31 December 2013 and 1 January 2014	13,691	89,904	7,802	11,871	(62,175)	64,426	10,719	136,238
(Charge) credit to profit or loss	15,814	427,559	2,225	647	3,309	50,913	(7,153)	493,314
As at 31 December 2014	29,505	517,463	10,027	12,518	(58,866)	115,339	3,566	629,552

As at 31 December 2014, the Group has unused tax losses of RMB588,576,000 (31 December 2013: RMB313,467,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB461,356,000 (31 December 2013: RMB257,706,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB127,220,000 (31 December 2013: RMB55,761,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB127,220,000 (31 December 2013: RMB55,761,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB 63,024,000 (31 December 2013: RMB31,308,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Company

	Accelerated tax depreciation	Impairment losses	Wages and salaries	Financial instruments fair value changes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2013	18,258	734	1,810	-	20,802
Credited to profit or loss	1,087	-	-	11,871	12,958
As at 31 December 2013 and 1 January 2014	19,345	734	1,810	11,871	33,760
Credited to profit or loss	1,537	138,131	-	647	140,315
As at 31 December 2014	20,882	138,865	1,810	12,518	174,075

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

25. Inventories

Group

	2014 RMB'000	2013 RMB'000
Raw materials and spare parts	464,701	498,352
Work in progress	280,778	282,754
Finished goods	482,046	584,699
	1,227,525	1,365,805

Company

	2014 RMB'000	2013 RMB'000
Raw materials and spare parts	201,423	163,580
Work in progress	8,028	19,822
Finished goods	82,064	16,720
	291,515	200,122

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

26. 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 RMB'000	2013 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 RMB'000	2013 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

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

	2014 RMB'000	2013 RMB'000
At 1 January	7	83
Write-off	-	(76)
At 31 December	7	7

Included in the above allowance for doubtful debts is an allowance made for individually impaired trade receivables with an aggregate carrying amount of RMB7,000 (2013:RMB7,000), which were in financial difficulties and none of the receivables is expected to be recovered.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

26. Trade receivables - continued

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Group	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	135,980	82,966
Less than one month past due	3,727	27,966
One to three months past due	1,786	657
	141,493	111,589

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the management is of the opinion that no allowance for doubtful debts is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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.

Company	2014 RMB'000	2013 RMB'000
Trade receivables	80,885	179,523
Less: allowance for doubtful debts	(7)	(7)
	80,878	179,516

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

	2014 RMB'000	2013 RMB'000
Within six months	59,665	71,315
Over six months but within one year	21,156	108,201
Over one year	57	-
	80,878	179,516

As at 31 December 2014, the amounts due from subsidiaries of the Company and from CNOOC group companies included in the above trade receivable balances were RMB21,874,000 (2013: RMB122,490,000) and RMB2,862,000 (2013: RMB3,986,000), respectively. The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

Included in the above allowance for doubtful debts is an allowance made for individually impaired trade receivables with an aggregate carrying amount of RMB7,000 (2013:RMB7,000).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

26. Trade receivables - continued

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Company	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	80,771	178,696
Less than one month past due	107	820
	80,878	179,516

27. Bills receivable

The bills receivable of the Group and the Company as at 31 December 2014 and 2013 are all mature within six months.

As at 31 December 2014, the amounts due from subsidiaries of the Company included in the above bills receivable balances were Nil (2013: RMB52,500,000).

At 31 December 2014, the Group has transferred bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers amounted to RMB108,613,000. The Group has derecognised these bills receivables and the payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group 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.

As at 31 December 2014, the Group's maximum exposure to loss, which is same as the amount payable by the Group to banks or the suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB108,613,000.

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 Consolidated Financial Statements - continued

For the year ended 31 December 2014

28. Prepayments, deposits and other receivables

Group	2014 RMB'000	2013 RMB'000
Prepayments	**216,921**	179,658
Prepaid lease payments	**14,563**	15,484
Deposits and other receivables	**141,089**	126,611
Value Added Tax ("VAT") recoverable	**314,062**	250,873
	686,635	572,626

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

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

	2014 RMB'000	2013 RMB'000
Ultimate holding company	**2,598**	1,355
CNOOC group companies	**30,021**	26,066
Associates	**8,155**	8,155
Joint ventures	**643**	807
	41,417	36,383

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

Company	2014 RMB'000	2013 RMB'000
Prepayments	**46,714**	28,627
Prepaid lease payments	**1,717**	1,717
Deposits and other receivables	**51,577**	69,963
Value Added Tax ("VAT") recoverable	**5,252**	-
	105,260	100,307

The amounts due from the ultimate holding company, CNOOC group companies, joint ventures and subsidiaries of the Company included in the above can be analysed as follows:

	2014 RMB'000	2013 RMB'000
Ultimate holding company	**-**	1,355
CNOOC group companies	**15,761**	24,596
Joint ventures	**643**	807
Subsidiaries	**34,289**	27,336
	50,693	54,094

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

29. Loans receivables

Company

	2014 RMB'000	2013 RMB'000
Loans receivables	681,600	1,083,150
Less: Impairment	(49,000)	-
	632,600	1,083,150

As at 31 December 2014, loans receivable of the Company represented the following:

- Entrusted loan with an amount of RMB223,800,000 which was provided to CNOOC Huahe Coal Chemical Ltd. ("CNOOC Huahe") during the year and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 22 May 2015;
- Entrusted loan with an amount of RMB5,000,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 25 July 2015;
- Entrusted loan with an amount of RMB82,000,000 which was provided to Guangxi Fudao Agricultural Means of Production Limited ("Guangxi Fudao") during the year and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 9 March 2015;
- Entrusted loan with an amount of RMB123,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 31 July 2015;
- Entrusted loan with an amount of RMB80,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 21 August 2015;
- Entrusted loan with an amount of RMB110,800,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 24 April 2015;
- Entrusted loan with an amount of RMB8,000,000 which was provided to Hubei Dayukou Chemical Co., Ltd. during the year and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 10 April 2015;
- Entrusted loan with an amount of RMB49,000,000 which was provided to CNOOC Hualu in March 2014 and is unsecured, bears interest at a rate of 5.500% per annum and is repayable on 13 March 2015. Full impairment was recognised subsequently as a result of incident as detailed in note 8.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

29. Loans receivables - continued

Company - continued

As at 31 December 2013, loans receivable of the Company represented the following:

- Entrusted loan with an amount of RMB50,000,000 which was provided to Hubei Dayukou Chemical Co., Ltd. during the year and is unsecured, bears interest at a rate of 4.500% per annum and is repayable on 12 April 2014;
- Entrusted loan with an amount of RMB83,000,000 which was provided to Guangxi Fudao during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 9 June 2014;
- Entrusted loan with an amount of RMB5,000,000 which was provided to Guangxi Fudao Chemical Limited ("Fudao Chemical") during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 27 March 2014;
- Entrusted loan with an amount of RMB200,000,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 4.500% per annum and is repayable on 18 September 2014;
- Entrusted loan with an amount of RMB305,000,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 4.500% per annum and is repayable on 25 July 2014;
- Entrusted loan with an amount of RMB98,000,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 4.500% per annum and is repayable on 27 December 2014;
- Entrusted loan with an amount of RMB35,150,000 which was provided to CNOOC Hualu during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 20 April 2014;
- Entrusted loan with an amount of RMB4,000,000 which was provided to CNOOC (Hainan) E&P Gas Limited ("CNOOC E&P") during the year and is unsecured, bears interest at a rate of 2.700% per annum and is repayable on 16 April 2014;
- Entrusted loan with an amount of RMB85,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 4.200% per annum and is repayable on 26 April 2014;
- Entrusted loan with an amount of RMB15,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 4.200% per annum and is repayable on 25 June 2014;
- Entrusted loan with an amount of RMB123,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 4.200% per annum and is repayable on 2 August 2014;
- Entrusted loan with an amount of RMB80,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 4.200% per annum and is repayable on 26 August 2014;

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

30. Cash and cash equivalents and pledged bank deposits

Group	2014 RMB'000	2013 RMB'000
Cash and bank and financial institution balances	**5,531,637**	2,982,579
Less: Pledged bank deposits	**(5,709)**	(5,665)
Time deposits with original maturity over three months	**-**	(42,944)
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	**5,525,928**	2,933,970

As at 31 December 2014, the Group's pledged bank deposits of RMB5,709,000 (2013:RMB5,665,000) was deposited with banks mainly for issuing bill receivables and are therefore classified as pledged bank deposits.

The Group's cash and bank balances were denominated in RMB as at 31 December 2014 and 2013, except for amounts of RMB62,758,000 (2013: RMB22,801,000) which was translated from USD10,232,000 (2013: USD3,740,000); and RMB636,000 (2013: RMB3,082,000) which was translated from HKD806,000 (2013: HKD3,921,000) and RMB40,317,000 (2013:RMB44,362,000) which was translated from CAD7,642,000 (2013: CAD7,748,000).

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 31 December 2014, included in the Group's cash and cash equivalents were RMB589,292,000 (2013: RMB572,920,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"), a subsidiary of the ultimate holding company and a licensed financial institution.

Company	2014 RMB'000	2013 RMB'000
Cash and bank balances	**2,185,614**	1,166,644
Financial institutions depoesits	**176,541**	224,207
Total	**2,362,155**	1,390,851

The Company's cash and bank balances were denominated in RMB as at 31 December 2014 and 2013, except for amounts RMB58,938,000 (2013: RMB607,000) which was translated from USD9,608,000 (2013: USD100,000); and RMB634,000 (2013: RMB3,004,000) which was translated from HKD804,000 (2013: HKD3,821,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2014, included in the Company's cash and cash equivalents were RMB176,541,000 (2013: RMB224,207,000) deposited in CNOOC Finance.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short-term time deposit rates.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

31. 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 31 December 2013 and 2012	**4,610,000**	**4,610,000**

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

32. Reserves and proposed dividends

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 7 to 8 of the consolidated financial statements.

The Company's movement in reserves and proposed dividends for the years ended 31 December 2014 and 2013 are as follows:

Company

	Note	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
As at 1 January 2014		1,366,392*	878,806*	609*	3,784,878*	645,400	6,676,085
Profit for the year		-	-	-	634,834	-	634,834
Total comprehensive income for the year		1,366,392	878,806	609	4,419,712	645,400	7,310,919
Appropriation and utilisation of safety fund, net		-	-	(609)	609	-	-
Transfer from retained profits		-	61,480	-	(61,480)	-	-
Proposed 2013 final dividend	14	-	-	-	(553,200)	553,200	-
Final 2012 dividend declared		-	-	-	-	(645,400)	(645,400)
As at 31 December 2014		1,366,392*	940,286 *	-	3,805,641*	553,200	6,665,519

	Note	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
As at 1 January 2013		1,366,392	752,357	3,345	3,277,180	691,500	6,090,774
Profit for the year		-	-	-	1,276,811	-	1,276,811
Total comprehensive income for the year		-	-	-	1,276,811	-	1,276,811
Appropriation and utilisation of safety fund, net		-	-	(2,736)	2,736	-	-
Transfer from retained profits		-	126,449	-	(126,449)	-	-
Proposed 2013 final dividend	14	-	-	-	(645,400)	645,400	-
Final 2012 dividend declared		-	-	-	-	(691,500)	(691,500)
As at 31 December 2013		1,366,392*	878,806*	609*	3,784,878*	645,400	6,676,085

* These reserve accounts comprise the Company's reserves of RMB6,112,319,000 (2013: RMB6,030,685,000) in the Company's statement of financial position.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

33. Benefit liability

CNOOC Tianye, the Company's 92.27%-owned subsidiary, provides post-employment allowances covering substantially all of its employees, and also early retirement benefits to qualifying retirees.

Group

	2014 RMB'000	2013 RMB'000
Post-employment allowances	**14,793**	13,844
Early retirement benefits	**11,105**	10,120
Total benefit liability	**25,898**	23,964

Movement of post-employment allowances are as follows:

Group

	Post-employment allowances RMB'000
As at 1 January 2013	15,061
Current service cost	90
Net interest cost	333
Benefits paid	(1,640)
As at 31 December 2013 and 1 January 2014	**13,844**
Current service cost	**43**
Net interest cost	**2,257**
Benefits paid	**(1,351)**
As at 31 December 2014	**14,793**

The principal assumptions used in determining post-employment allowances of the Group as at 31 December 2014 are shown below:

	2014
Discount rate	**3.75%**
Annual Growth rate of retirement benefits for retirees	**0.00%**

The directors of the Company have reviewed the actuarial valuation as at 31 December 2014 which was performed by Towers Watson Consultant (Shanghai) Ltd., an independent actuary service provider, using the valuation method detailed under the heading "Employee benefits" in note 3, and considered that the Group's current provision for the net benefit expenses was adequate as at 31 December 2014. The directors of the Company do not expect significant changes in principal assumptions.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

34. Interest-bearing bank borrowings

Group

	2014 RMB'000	2013 RMB'000
Unsecured bank loans repayable:		
Within one year	139,256	-
More than one year, but not more than five years	277,000	20,000
More than five years	1,674,000	11,000
	2,090,256	31,000

The unsecured bank loans have effective interest rates of 1.85%-6.55%, payable within 2015 and 2021.The amounts due are based on the scheduled repayment dates set out in the loan agreements.

35. Deferred revenue

Deferred revenue represents government grants. The deferred revenue generated from government grants is recognised in the consolidated statement of profit or loss according to the depreciation periods of the related assets and the periods in which the related costs incurred.

Group	2014 RMB'000	2013 RMB'000
Balance at beginning of the year	135,677	37,900
Additions	9,786	98,953
Credited to the consolidated statement of profit or loss during the year	(1,386)	(1,176)
Balance at end of the year	144,077	135,677

Company	2014 RMB'000	2013 RMB'000
Balance at beginning of the year	9,900	-
Additions	4,556	9,900
Balance at end of the year	14,456	9,900

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

36. 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 RMB'000	2013 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).

Company	2014 RMB'000	2013 RMB'000
Within six months	**23,383**	121,623
Over six months but within one year	**72,161**	11,126
Over one year but within two years	**11,486**	1,390
Over two years	**1,229**	-
	108,259	134,139

As at 31 December 2014, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances amounted to RMB71,612,000 (2013: RMB106,208,000). The amounts due to subsidiaries of the Company included in the above trade payable and bills payable balances amounted to RMB382,000 (2013: RMB226,000).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

37. Other payables and accruals

Group

	2014 RMB'000	2013 RMB'000
Advances from customers	**363,857**	475,273
Accruals	**11,314**	5,163
Accrued payroll	**306,214**	247,593
Other payables	**223,257**	312,303
Long-term liabilities due within one year	**1,798**	1,798
Interest payable	**3,285**	109
Payable to government	**100,848**	84,883
Other tax payables	**30,156**	98,188
Port construction fee payable	**164,656**	164,656
Payables in relation to the construction and purchase of property, plant and equipment	**364,020**	408,636
	1,569,405	1,798,602

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

	2014 RMB'000	2013 RMB'000
Due to the ultimate holding company	**532**	-
Due to CNOOC group companies	**46,403**	79,497
	46,935	79,497

Company

	2014 RMB'000	2013 RMB'000
Advances from customers	**74,466**	71,776
Accrued payroll	**75,594**	56,954
Other tax payables	**11,577**	25,435
Other payables	**110,199**	110,893
Payables in relation to the construction and purchase of property, plant and equipment	**8,473**	10,319
	280,309	275,377

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

37. Other payables and accruals - continued

Company - continued

The amounts due to CNOOC group companies and subsidiaries of the Company included in the above can be analysed as follows:

	2014 RMB'000	2013 RMB'000
Due to CNOOC group companies	8,652	5,101
Due to subsidiaries	75,182	80,613
	83,834	85,714

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

38. Obligations under finance leases

The Group entered into sale and leaseback arrangements with CNOOC International Financial Leasing Limited ("CNOOC Leasing") for certain of its manufacturing equipment which results in obligations under finance leases. The lease term is 1.25 years. Interest rates are floating around 2% per annum based on the three month USD London Interbank Offer Rate ("LIBOR"). The Group has option to purchase the equipment for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum	
	31/12/2014 RMB'000	31/12/2013 RMB'000	31/12/2014 RMB'000	31/12/2013 RMB'000
Amounts payable under finance leases:				
Within one year	574,552	-	565,992	-
Less: future finance charges	8,560	-	-	-
Present value of lease obligations	565,992	-	565,992	-
Amounts due for settlement within 12 months	565,992	-	565,992	-

Financial lease obligations are denominated in USD, currency other than the functional currency of the relevant group entity.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

39. Operating lease arrangements

(i) As lessor

Group

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

As at 31 December 2014 and 2013, the Group had total future minimum lease receivables from third-party companies and CNOOC New Energy (Hainan) Bio-energy & Chemical Co., Ltd. and CNOOC Green Materials Ltd., both of which are subsidiaries of CNOOC, under non-cancellable operating leases falling due as follows:

	2014 RMB'000	2013 RMB'000
Within one year	1,973	453
In the second to fifth years, inclusive	6,712	1,511
After five years	5,469	3,387
	14,154	5,351

Company

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

As at 31 December 2014 and 2013, the Company had total future minimum lease receivables from its subsidiaries, CNOOC New Energy (Hainan) Bio-energy & Chemical Co., Ltd. and CNOOC Green Materials Ltd. under non-cancellable operating leases falling due as follows:

	2014 RMB'000	2013 RMB'000
Within one year	1,548	1,748
In the second to fifth years, inclusive	2,613	3,508
After five years	12,463	4,943
	16,624	10,199

(ii) As lessee

Group

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 thirty years, and those for vehicles are for terms ranging from one month to four years.

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

	2014 RMB'000	2013 RMB'000
Within one year	14,923	12,748
In the second to fifth years, inclusive	6,865	4,789
After five years	3,079	1,169
	24,867	18,706

As at 31 December 2014 and 2013, the Company had no significant future minimum lease payments under noncancellable operating leases.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

40. Commitments and contingent liabilities

Capital commitments

In addition to the operating lease commitments detailed in note 39(ii) above, the Group and the Company had the following capital commitments at the end of the reporting year:

Group

	2014 RMB'000	2013 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	307,306	462,721
Authorised, but not contracted for:		
- Acquisition of plant and machinery	735,751	978,050
	1,043,057	1,440,771

Company

	2014 RMB'000	2013 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	70,804	7,522
	70,804	7,522

Contingent Liabilities

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. The second hearing was held on 30 December 2014, now pending for arbitration awards. 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 consolidated financial statements.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

41. Related party transactions

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

(1) Recurring

	Note	2014 RMB'000	2013 RMB'000
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	**167,725**	172,892
Provision of transportation services	(ii)	**836**	696
Provision of packaging and assembling services	(ii)	**35,630**	23,119
Provision of logistics services	(ii)	**1,746**	5,572
Provision of labor services	(ii)	**61**	-
Provision of utilities	(i)	**21,074**	19,160
(B) Included in cost of sales and other expenses			
(a) CNOOC group companies			
Purchase of raw materials	(i)	**2,360,343**	2,346,633
Transportation services	(ii)	**79,361**	136,804
Lease of offices	(iii)	**27,817**	28,157
Construction and installation services	(iv)	**5,684**	10,379
Labor services	(v)	**35,032**	31,335
Insurance services	(v)	**20,335**	20,444
Network services	(v)	**6,175**	5,179
Logistics services	(v)	**2,217**	11,534
Purchase of property, plant and equipment	(i)	**3,308**	-
(b) The ultimate holding company			
Labor services	(v)	**-**	43
Network services	(v)	**2,061**	774
(C) Included in finance income/costs			
Finance income from CNOOC Finance	(vi)	**3,881**	4,276
Fees and charges paid to CNOOC Finance	(vi)	**3,266**	4,954

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

41. Related party transactions - continued

(1) Recurring - continued

Notes:

(i) These transactions were conducted in accordance with terms agreed among the Group, its associates and CNOOC group companies.

(ii) These services provided were based on mutually agreed terms.

(iii) The rentals were based on mutually agreed terms.

(iv) The construction and installation fees were determined by mutually agreed terms.

(v) These services were charged based on mutually agreed terms.

(vi) Finance income/fees and charges/cost were based on mutually agreed terms.

(2) Non-recurring

	Note	2014 RMB'000	2013 RMB'000
(a) CNOOC Leasing			
Finance lease charges	(i)	12,614	-
Interest on finance lease	(i)	3,202	-
Finance lease	(i)	645,247	-

Notes:

(i) Finance lease charges/ Interest on finance lease/ Finance lease were based on mutually agreed terms.

Except for Finance income from CNOOC Finance, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

41. Related party transactions - continued

(3) Balances with related parties

Details for following balances are mainly set out in notes 26, 27, 28, 29, 36, 37 and 38. The balance with CNOOC Finance resulted from interest and loans. Others were mainly formed through routine trading transactions, reception of construction services, and other miscellaneous transactions with related parties.

Group	Due from related parties		Due to related parties	
	31/12/2014	31/12/2013	**31/12/2014**	31/12/2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
The ultimate holding company	**2,598**	1,355	**532**	-
CNOOC group companies (excluding CNOOC Finance)	**63,847**	60,390	**755,813**	288,811
Associates	**8,155**	8,155	**-**	-
Jointly-controlled entities	**643**	807	**-**	-
CNOOC Finance	**-**	-	**27**	111

Company	Due from related parties		Due to related parties	
	31/12/2014	31/12/2013	**31/12/2014**	31/12/2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
The ultimate holding company	**-**	1,355	**532**	-
CNOOC group companies (excluding CNOOC Finance)	**18,623**	28,582	**83,098**	111,309
Jointly-controlled entities	**643**	807	**-**	-
Subsidiaries	**737,763**	1,285,476	**87,982**	94,260

As at 31 December 2014 and 2013, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	2014	2013
	RMB'000	RMB'000
Deposits placed by the Group with CNOOC Finance	**589,292**	572,920

Company

	2014	2013
	RMB'000	RMB'000
Deposits placed by the Company with CNOOC Finance	**176,541**	224,207

Further details of the deposits placed with CNOOC Finance are set out in note 30.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

41. Related party transactions - continued

(4) Compensation of key management personnel of the Group

	2014 RMB'000	2013 RMB'000
Short-term employee benefits	5,337	5,831
Post-employment benefits	171	182
Total compensation paid to key management personnel	5,508	6,013

Further details of directors' and supervisors' emoluments are set out in note 10.

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. Certain specific and major raw materials provided by SOE suppliers are from Western Natural Gas (the "WNG") and WNG mainly supplied natural gas to CNOOC Tianye. As of 31 December 2014, the Group made a total procurement of RMB531,283,000 from WNG (2013:RMB667,120,000). Methanol sold by the Company and CNOOC Kingboard Chemical Limited to the Southern branch of Sinopec Chemical Commercial Holding Company Limited constituted most of the sales to SOEs. As of 31 December 2014, the sales amount reached RMB418,871,000 (2013:RMB358,048,000). Except for the above two SOEs, sales and procurements to other SOEs are considered as specific but not significant transactions.

In addition, the Group has certain of its cash, pledged bank deposits and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2014, as summarised below:

Group

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents	5,530,270	2,933,970
Pledged bank deposits	5,709	5,665
Time deposits	-	42,944
	5,535,979	2,982,579
Long-term bank loans (note 34)	1,951,000	31,000

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

42. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting year are as follows:

Group

	2014		
	Loans and receivables RMB'000	Available-for sale financial asset RMB'000	Total RMB'000
Financial assets			
Available-for-sale investment	-	600	600
Trade receivables	141,493	-	141,493
Bills receivable	66,271	-	66,271
Financial assets included in deposits and other receivables	141,089	-	141,089
Pledged bank deposits	5,709	-	5,709
Time deposits	-	-	-
Cash and cash equivalents	5,525,928	-	5,525,928
	5,880,490	600	5,881,090

	2014		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities			
Trade and bills payables	-	458,003	458,003
Financial liabilities included in other payables and accruals	-	856,066	856,066
Obligations under finance lease	-	565,992	565,992
Interest-bearing bank borrowings	-	2,090,256	2,090,256
Obligation arising from a put option to a non-controlling shareholder	87,398	-	87,398
Derivative financial instruments	50,072	-	50,072
Other long-term liabilities	-	28,531	28,531
	137,470	3,998,848	4,136,318

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

42. Financial instruments by catrfory - continued

Group - continued

	2013		
	Loans and receivables	Available-for sale financial asset	Total
	RMB'000	RMB'000	RMB'000
Financial assets			
Available-for-sale investment	-	600	600
Trade receivables	111,589	-	111,589
Bills receivable	54,400	-	54,400
Financial assets included in deposits and other receivables	126,611	-	126,611
Pledged bank deposits	5,665	-	5,665
Time deposits	42,944	-	42,944
Cash and cash equivalents	2,933,970	-	2,933,970
	3,275,179	600	3,275,779

	2013		
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Financial liabilities			
Trade and bills payables	-	538,464	538,464
Financial liabilities included in other payables and accruals	-	970,587	970,587
Interest-bearing bank borrowings	-	31,000	31,000
Obligation arising from a put option to a non-controlling shareholder	92,794	-	92,794
Derivative financial instruments	47,485	-	47,485
Other long-term liabilities	-	26,879	26,879
	140,279	1,566,930	1,707,209

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

42. Financial instruments by catrfory - continued

Company

	2014		
	Loans and receivables	Available-for sale financial asset	Total
	RMB'000	RMB'000	RMB'000
Financial assets			
Trade receivables	**80,878**	-	**80,878**
Bills receivable	**10,288**	-	**10,288**
Loans receivable	**632,600**	-	**632,000**
Financial assets included in deposits and other receivables	**51,577**	-	**51,577**
Cash and cash equivalents	**2,362,155**	-	**2,362,155**
	3,137,498	-	**3,137,498**

	2014		
	Financial liabilities at fairvalue through profit or loss	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Financial liabilities			
Trade and bills payables	-	**108,259**	**108,259**
Financial liabilities included in other payables and accruals	-	**118,672**	**118,672**
Derivative financial instruments	**50,072**	-	**50,072**
	50,072	**226,931**	**277,003**

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

42. Financial instruments by catrfory - continued

Company - continued

	2013		
	Loans and receivables	Available-for sale financial asset	Total
	RMB'000	RMB'000	RMB'000
Financial assets			
Trade receivables	179,516	-	179,516
Bills receivable	52,500	-	52,500
Financial assets included in deposits and other receivables	69,963	-	69,963
Cash and cash equivalents	1,390,851	-	1,390,851
	1,692,830	-	1,692,830

	2013		
	Financial liabilities at fairvalue through profit or loss	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Financial liabilities			
Trade and bills payables	-	134,139	134,139
Financial liabilities included in other payables and accruals	-	121,212	121,212
Derivative financial instruments	47,485	-	47,485
	47,485	255,351	302,836

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

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

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

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

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

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

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

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 Year at a cash consideration. The consideration will consist of the initial investment made by Benewood at an amount of CA$16,000,000 plus a yield at London InterBank Offered Rate ("LIBOR") for U.S. dollar plus 3.5%.

At initial recognition, the obligation arising from the Put Option to the Benewood represents the present value of the obligation to deliver the share redemption amount at discount rate of 3.91%, based on the interest yield curve of LIBOR, amounting to approximately CA$16,000,000 (equivalent to RMB94,242,000). This amount has been recognised as a liability in the consolidated statement of financial position with a corresponding debit to the non-controlling interests. The fair value of the liability as at 31 December 2014 approximated CA$16,567,000(equivalent to RMB87,398,000) (31 December 2013:CA$16,206,000 (equivalent to RMB 92,794,000)) was determined based on discounted cash flow method.

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

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

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

Notwithstanding the abovementioned (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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

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

The Put Option which will be settled other than by exchange of fixed amount of cash for a fixed number of shares of a subsidiary and Call Option are accounted for as derivative financial instruments and are recognised at fair value in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the Put Option and Call Option is nil upon initial recognition and approximates to RMB50,072,000 as at 31 December 2014 (31 December 2013: RMB47,485,000) .

The fair values of the Put Option and Call Option as at 31 December 2014 have been determined by using a Black-Scholes option pricing model with the following assumptions:

	CA$'000
Exercise price	16,960
Share price	7,360
Time to maturity	0.41 year
Risk free rate	0.94%
Volatility	39%
Dividend yield	0%
Probability of Conditional Events occur	100%

(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 the listed shares of WPC

44. Fair value and fair value hierarchy

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the 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 deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, bills payable, financial liabilities included in other payables and accruals, and an amount due to the ultimate holding company to their carrying amounts largely due to the short term maturities of these instruments.

The carrying amounts of the non-current portion of interest-bearing bank borrowings approximate their fair values as the interest rates will adjust periodically based on People's Bank of China's benchmark rates and is close to market interest rate.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

44. Fair value and fair value hierarchy - continued

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:

Group and Company

Financial liabilities	Fair value as at 31 Dec 2014 RMB'000	Fair value as at 31 Dec 2013 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	**50,072**	47,485	Level 3	Black-Scholes option pricing model. key inputs include expected life of the option	Expected life of the option	The longer life, the higher the fair value (i)
Obligation arising from a put option to a non-controlling shareholder	**87,398**	92,794	Level 2	Discounted cash flow. Key input includes discount rate of interest yield curve of LIBOR	N/A	N/A

Note i: If the expected life to the valuation model were 1 month shorter while all the other variables were held constant, the carrying amount of the derivative financial instruments would decrease by approximate RMB103,000.

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	31 December 2014 RMB'000
Upon issuance of Put Option and Call Option	47,485
Fair value loss recognised in profit or loss	2,587
At 31 December 2014	50,072

The fair value loss for the year in the profit or loss related to derivative financial instruments held at the end of the reporting year, and is presented as "other expenses" in consolidated statement of profit or loss.

The management has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine, subject to the directors' approval, 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's valuation team performs the valuation or engages third party qualified valuers to perform the valuation considering 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. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

45. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term and long-term borrowings and obligations under finance lease with floating interest rates.

As at 31 December 2014, the Group's interest-bearing bank borrowings and obligations under finance lease bear variable interest rates amounted to RMB2,656,248,000 (2013: RMB31,000,000).

The interest rates and the terms of repayment of the Group's bank borrowings and obligations under finance lease are disclosed in notes 34 and 38.

If interest rate had been 50 basis points higher/lower based on and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2014 would be decreased/increased by approximately RMB10,808,000 (2013: decreased/increased by RMB154,000).

(ii) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31/12/2014	31/12/2013	**31/12/2014**	31/12/2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**703,604**	20,121	**63,121**	22,801
HKD	**-**	-	**636**	3,082
CAD	**205**	-	**40,330**	44,362
EUR	**1,647**	-	**-**	-

The Group has transactional currency exposures, which arise from sales or purchases in currencies other than the functional currency of the entities comprising the Group. Approximately 18% (2013: 6%) of the Group's sales were denominated in currencies other than functional currency of the entities comprising the Group.

The Group's monetary assets, loans and transactions are principally denominated in RMB, USD, HKD, EUR and CAD. The Group was exposed to foreign currency risk arising from the changes in the exchange rates of HKD, USD, EUR and CAD against RMB.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

45. Financial risk management objectives and policies - continued

(ii) Foreign currency risk - continued

Foreign Currency sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in USD, HKD, EUR and CAD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, HKD, EUR and CAD respectively. 5% (2013:5%) are the sensitivity rates used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as hedging instruments in cash flow hedges. A negative number below indicates an increase in profit or equity where the RMB strengthen against USD, HKD, EUR and CAD. For a 5% (2013:5%) weakening of the RMB against USD, HKD, EUR and CAD, there would be an equal and opposite impact on the profit or equity, and the balances below would be positive.

	Impact of USD		Impact of HKD		Impact of EUR		Impact of CAD	
	31/12/2014	31/12/2013	**31/12/2014**	31/12/2013	**31/12/2014**	31/12/2013	**31/12/2014**	31/12/2013
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Sensitivity rate	**5%**	5%	**5%**	5%	**5%**	5%	**5%**	5%
Profit or loss	**(24,345)**	134	**24**	154	**(62)**	-	**1,505**	2,218
Equity	**(24,345)**	134	**24**	154	**(62)**	-	**1,505**	2,218

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of reporting period does not reflect the exposure during the year. USD denominated sales are seasonal with lower sales volumes in the last quarter of the financial year.

(iii) Credit risk

The carrying amounts of the Group's cash and cash equivalents, available-for-sale investment, trade receivables, other receivables and other current assets except for prepayments and tax recoverables, represent the Group's maximum exposure to credit risk in relation to its financial assets.

The majority of the Group's trade receivables are related to the sale of fertilisers and methanol. The sale of fertilisers is normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and only long-standing customers are granted with credit terms. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. As at 31 December 2014 and 2013, there were no material trade receivables due from the Group's largest customer and the five largest customers. Deposits in financial institutions are not exposed to credit risk as these financial institutions are with high credit rating. No other financial assets carry a significant exposure to credit risk.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

45. Financial risk management objectives and policies - continued

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 31 December 2014, the balance of the Group's interest-bearing bank borrowings is RMB2,090,256,000.

The maturity profile of the Group's financial liabilities as at the end of the reporting year, based on the contractual undiscounted payments, is as follows:

	2014					
Group	On demand	Less than 3 month	3 months to 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	3,687	8,017	251,330	716,802	1,835,390	2,815,226
Trade payables	-	430,170	-	-	-	430,170
Bills payable	-	27,833	-	-	-	27,833
Financial liabilities included in other payables and accruals	113,800	213,590	528,676	-	-	856,066
Obligations under finance leases		65,670	508,883	-	-	574,553
Obligation arising from a put option to a non-controlling shareholder	-	-	87,398	-	-	87,398
Other long-term liabilities	-	-	-	7,192	70,500	77,692
	117,487	745,280	1,376,287	723,994	1,905,890	4,868,938

	2013					
Group	On demand	Less than 3 month	3 months to 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	-	-	2,001	28,943	13,462	44,406
Trade payables	127,532	195,242	95,274	-	-	418,048
Bills payable	-	92,092	28,324	-	-	120,416
Financial liabilities included in other payables and accruals	315,681	326,873	328,033	-	-	970,587
Obligation arising from a put option to a non-controlling shareholder	-	-	92,794	-	-	92,794
Other long-term liabilities	-	-	1,798	7,192	70,533	79,523
	443,213	614,207	548,224	36,135	83,995	1,725,774

In addition to the amounts shown in the above table as at 31 December 2014, the Group may also be required to settle the maximum exposure to loss arising from endorsed bills arrangements with full recourse as detailed in note 27 in the next 6 months, amounting to RMB45,050,000 in aggregate.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2014

45. Financial risk management objectives and policies - continued

(v) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2014 and 2013.

The Group monitors capital using a gearing ratio, which is calculated as interest-bearing debts divided by net asset plus interest-bearing debts. The gearing ratios as at the end of the reporting years were as follows:

	2014 RMB'000	2013 RMB'000
Interest-bearing debts (Note)	2,656,248	31,000
Net assets	14,749,286	15,501,231
Net assets and interest-bearing debt	17,405,534	15,532,231
Gearing ratio	15.26%	0.20%

Note: Interest-bearing debt comprises interest-bearing bank borrowings and obligations under finance leases as detailed in notes 34 and 38 respectively.

46. Events after the reporting year

There is no material event after the reporting year.

47. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2015.

Glossary

Ammonia	NH_3, a colorless, combustible alkaline gas. Ammonia is a compound of nitrogen and hydrogen, it is used extensively for the manufacture of fertilisers and a wide variety of nitrogen-containing organic and inorganic chemicals;
BB fertilisers	Bulk blended fertilisers, according to the PRC national standard being a chemical compound containing at least two primary plant nutrients among N, P and K;
Compound fertilisers	Chemically obtained fertiliser, composed of at least two primary plant nutrients, also contained secondary nutrients.
DAP	di-ammonium phosphate, $(NH_4)_2HPO_4$, a type of phosphate fertiliser;
Formaldehyde	CH_2O, a colorless, poisonous gas, made by the oxidation of methanol;
MAP	mono-ammonium phosphate, $NH_4H_2PO_4$, a type of phosphate fertiliser;
Methanol	CH_3OH, or methyl alcohol, or wood alcohol, a colorless, flammable liquid, produced synthetically by the direct combination of hydrogen and carbon monoxide gases, heated under pressure in the presence of a catalyst;
Natural gas	Colorless, highly flammable gaseous hydrocarbon consisting primarily of methane and ethane. It is a type of petroleum that commonly occurs in association with crude oil. Natural gas is often found dissolved in oil at the high pressures existing in a reservoir, and it also can be present as a gas cap above the oil;
P fertiliser or phosphate fertiliser	a fertiliser containing phosphorus (P) as the main nutrient, common examples include MAP and DAP;
Polyoxymethylene (POM)	$-(-O-CH_2-)n-$, also known as acetal resin, an engineering plastic used to make gears, bushings and other mechanical parts. It is a thermoplastic with good physical and processing properties;
Urea	$H_2N-CO-NH_2$, nitrogen fertiliser formed by reacting ammonia with carbon dioxide at high pressure (containing 46% nitrogen);
Utilisation rate	A percentage calculated by dividing the actual annual production volume by the designed annual production volume.

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	Wang Hui Quan Changsheng
Alternate to authorized representatives	Yu Jianwei
Principal banker	Bank of China, Hainan Branch
Auditor	Deloitte Touche Tohmatsu 35/F One Pacific Place, 88 Queensway, Hong Kong
Hong Kong law legal adviser	Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square, Central, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
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Webiste	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983