

2018 / 中期報告 Interim Report

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中海石油化学股份有限公司
China BlueChemical Ltd.

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Financial Highlights

Selected data of condensed consolidated statement of profit or loss

For the six months ended 30 June 2018
(All amounts expressed in thousands of Renminbi, except for per share data)

Selected data	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Revenue	5,498,224	5,137,095
Cost of sales	(4,162,234)	(4,293,363)
Gross profit	1,335,990	843,732
Other income, other gains and losses	265,692	133,898
Selling and distribution costs	(205,643)	(176,621)
Administrative expenses	(190,647)	(208,379)
Other expenses	(16,072)	(5,065)
Finance income	5,962	4,257
Finance costs	(49,994)	(61,099)
Net exchange losses	(1,151)	(15,041)
Share of losses of joint ventures	(35)	(33,471)
Share of profits/(losses) of associates	433	(763)
Profit before income tax	1,144,535	481,448
Income tax expenses	(293,734)	(153,545)
Profit for the period	850,801	327,903
Profit for the period attributable to:		
Owners of the Company	752,353	290,159
Non-controlling interests	98,448	37,744
	850,801	327,903
Earnings per share attributable to ordinary owners of the Company		
- Basic for the period (RMB)	0.16	0.06

Selected data of condensed consolidated statement of financial position

As at 30 June 2018
(All amounts expressed in thousands of Renminbi)

Selected data	30 June 2018	31 December 2017
	(Unaudited)	(Audited)
Assets		
Non-current assets	9,512,798	9,835,955
Current assets	10,232,183	9,413,037
Total assets	19,744,981	19,248,992
Equity and liabilities		
Total equity	14,462,156	14,247,929
Non-current liabilities	1,177,765	2,523,316
Current liabilities	4,105,060	2,477,747
Total equity and liabilities	19,744,981	19,248,992

Operational Highlights

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

		For the six months ended 30 June					
		Production volume (tonnes)			Utilisation rate (%)		
		2018	2017	Change %	2018	2017	Change
Chemical Fertilisers							
Urea	Fudao Phase I	194,654	295,680	(34.2)	74.9	113.7	(38.8)
	Fudao Phase II	421,979	421,436	0.1	105.5	105.4	0.1
	CNOOC Tianye	210,122	152,378	37.9	80.8	58.6	22.2
	CNOOC Huahe	321,205	308,635	4.1	123.5	118.7	4.8
	Group total	1,147,960	1,178,129	(2.6)	97.3	99.8	(2.5)
Phosphate Fertilisers and Compound Fertilisers	DYK MAP	25,147	15,022	67.4	33.5	20.0	13.5
	DYK DAP Phase I (Note 1)	167,341	147,944	13.1	95.6	84.5	11.1
	DYK DAP Phase II	259,608	298,580	(13.1)	103.8	119.4	(15.6)
	Group total	452,096	461,546	(2.0)	90.4	92.3	(1.9)
Chemical Products							
Methanol	Hainan Phase I	289,959	260,709	11.2	96.7	86.9	9.8
	Hainan Phase II	347,725	384,637	(9.6)	86.9	96.2	(9.3)
	CNOOC Tianye	80,662	119,136	(32.3)	80.7	119.1	(38.4)
	Group total	718,346	764,482	(6.0)	89.8	95.6	(5.8)

Sales volume of the Group's various plants (Unit: tonne)

		For the six months ended 30 June		
		2018	2017	Change %
Chemical Fertilisers				
Urea	Fudao Phase I	180,506	266,648	(32.3)
	Fudao Phase II	412,973	379,982	8.7
	CNOOC Tianye	238,915	145,413	64.3
	CNOOC Huahe	342,071	439,066	(22.1)
	Group total	1,174,465	1,231,109	(4.6)
Phosphate Fertilisers and Compound Fertilisers	DYK MAP	14,838	27,225	(45.5)
	DYK DAP Phase I (Note 1)	140,476	157,840	(11.0)
	DYK DAP Phase II	267,408	341,972	(21.8)
	Group total	422,722	527,037	(19.8)
Chemical Products				
Methanol	Hainan Phase I	292,031	261,950	11.5
	Hainan Phase II	337,826	367,354	(8.0)
	CNOOC Tianye	73,683	122,823	(40.0)
	Group total	703,540	752,127	(6.5)

Note 1: In the first half of 2018, the DYK DAP Phase I Plant produced 50,578 tonnes of DAP and 116,763 tonnes of compound fertilisers, totaling at 167,341 tonnes, and sold 42,487 tonnes of DAP and 97,989 tonnes of compound fertilisers, totaling at 140,476 tonnes. The DYK DAP Phase I Plant produced 97,581 tonnes of DAP and 50,363 tonnes of compound fertilisers, totaling at 147,944 tonnes, and sold 120,650 tonnes of DAP and 37,190 tonnes of compound fertilisers, totaling at 157,840 tonnes, in the first half of 2017.

CEO's Report

Dear shareholders,

In the first half of 2018, the Company proactively strengthened its production and operation management. A number of our plants realised long-time operation and CNOOC Huahe set a new record in half-yearly urea output. We also made efforts to optimise our product structure and enhance our marketing capacity, therefore sending both production and sales of compound fertilisers to historical highs for the same period. The Company realised revenue of RMB5,498.2 million, representing an increase of 7% compared to the same period last year, and recorded a profit attributable to owners of the parent of RMB752.4 million.

The Company has been consistently upholding the green and sustainable development philosophy over the years. For the seventh year in a row, the Company was awarded the “Benchmark Enterprise of Leading Energy Efficiency” of the ammonia and methanol industry by China Petroleum and Chemical Industry Federation. We were also awarded “Advanced Energy-Saving Enterprise in Methanol Industry for 2017” from China Nitrogen Fertilizer Industry Association.

Review on the First Half of the Year

During the reporting period, persistent efforts were made to optimise production and operation of plants through refined management of the production process. Both Hainan Phase I Methanol Plant and Hainan Phase II Methanol Plant broke their respective record by realising long-time operation that lasted over 290 days. The Company recorded a urea production volume of 1.148 million tonnes for the first half of the year. Output of methanol amounted to 718,000 tonnes while the amount of compound fertilisers hit a new historical high of 117,000 tonnes.

With respect to the sales, the Company remained steadfast in implementing the reform of its marketing system. Our marketing company commenced physical operation and we fully grasped market trends to adjust pricing strategies in a timely manner. In the first half of the year, the Company sold 1.174 million tonnes of urea, 704,000 tonnes of methanol, and 423,000 tonnes of phosphate fertilisers and compound fertilisers, leading to the remarkable results of our product restructuring. The sales volume of compound fertilisers amounted to 98,000 tonnes, exceeding the yearly amount of 2017.

With our intensified efforts on cost reduction, quality improvement and efficiency enhancement, CNOOC Huahe facilitated energy conservation and consumption reduction in its plants and proactively expanded its raw coal supply channels; DYK Chemical optimised operation of its plants and kept a tight rein on materials consumption through refined production management; Hainan Phase I Methanol Plant changed adsorbents to lower production cost; and CNOOC Tianye resumed the operation of its polyformaldehyde plant.

Besides, the Company continued to promote product innovation and successfully developed two new products in the first half of the year, namely fertilizer for side deep fertilisation in paddy field and special fertilizer for potato.

Outlook for the Second Half of 2018

Looking ahead to the second half of the year, domestic demand for chemical fertilisers will enter into the off-season. The fully-marketised operational environment and the upgrade of environmental protection standards will facilitate further the consolidation of the chemical fertiliser industry in the PRC. Development in methanol-to-olefin in China will remain the major driving force of the demands for methanol.

In the second half of the year, we will continue our efforts in coordinating the stable supply of natural gas, with emphasis laid on materialising the put-into-use of the natural gas from Dongfang 13-2 Gasfield as planned. Persistent efforts will be made to strengthen and enhance HSE and refined production management in an effort to achieve safe and stable operation of each production unit. We will also bolster our operating capacity and put heightened emphasis on autumn sales as well as winter storage and sales of chemical fertilisers. To further optimise our product structure, we will increase the production and sales proportions of compound fertilisers and new fertilisers. Besides, we will continue to step up efforts on cost reduction, quality improvement and efficiency enhancement, in a bid to lower raw material procurement costs and strictly manage costs and expenses. We will also continue the feasibility studies of producing high-end chemical products using natural gas in Hainan, and pay close attention to domestic and overseas development opportunities which are in line with the Company's strategies.

Wang Weimin
CEO & President



Management Discussion and Analysis

Sector Review

Chemical fertiliser industry

In 2018, the PRC government initiated to improve the quality of agricultural development and continuously highlighted the importance of ensuring food safety in China. Constant efforts were made to implement the policy of minimum purchase price for grain rice and wheat and to stabilise the planted areas of grain crops such as grain rice and wheat. The government also proactively developed high quality rice as well as strong-gluten and weak-gluten wheat, and promoted the development of potato as a staple.

China's export tariff on NPK compound fertiliser has been revised from 20% on an ad valorem basis to a weight-based levy of RMB100 per tonne since 1 January 2018. The PRC government has lowered the value-added tax rate for, among others, chemical fertilisers from 11% to 10% since 1 May 2018.

(I) Urea

In the first half of 2018, affected by the limits on natural gas supply and the rising environmental protection standards, some urea enterprises reduced urea production significantly. For the six months ended 30 June 2018, domestic production volume of urea totalled approximately 24.78 million tonnes, representing a decrease of approximately 3 million tonnes from around 27.78 million tonnes during the same period of 2017. In the first half of 2018, urea prices remained robust in China but the prices in global markets hovered at a relatively low level. As a result, the export volume of urea from China totalled around 720,000 tonnes, representing a significant decrease of approximately 74% compared to the export volume of around 2.75 million tonnes in the first half of 2017.

During the first half of 2018, the average ex-factory price of urea in China stood at RMB1,948 per tonne, representing an increase of 21% compared to the same period of 2017. In January, the market sustained the momentum shown at the end of 2017 and lingered at a relatively high level, but retreated slightly in February due to the effect of Spring Festival. In March and April, the market was weak and fell down until hitting the bottom at the end of April, and then kept gaining strength in May and June due to support from the domestic industrial and agricultural demand, and lost some steam at the end of June.

(II) Phosphate fertilisers

According to the statistics of National Bureau of Statistics of China, in the first half of 2018, domestic production volume of ammonium phosphate was approximately 16.49 million tonnes (in kind), representing a decrease of 22% compared to the first half of 2017. Due to the robust demand in the South Asian market coupled with the continued implementation of the zero-tariff policy on phosphate fertiliser export in the PRC, the export volume of domestic DAP in the first half of the year increased by 2% to 1.55 million tonnes compared to the same period last year.

In the first quarter of the year, driven by domestic market demand in spring and underpinned by the high raw material prices, DAP prices maintained the uptrend and witnessed a domestic price hike from RMB2,400 per tonne to RMB2,700 per tonne. The uptrend lasted till the end of March when the domestic market headed into the off-season for fertilisers resulting in a gentle decline in prices of ammonium phosphate. Since the beginning of the second quarter, major importing countries such as India commenced centralised procurement. The rising prices of phosphoric acid in India and the low inventory level in China led to strong procurement demand. This buttressed the export prices of ammonium phosphate and in turn led to steady and slight price recovering. The prices of DAP currently stand at around RMB2,600 per tonne.

Methanol

In the first half of 2018, domestic production volume of methanol was approximately 23.16 million tonnes, representing an increase of approximately 2.6% compared to the same period last year. Imports volume decreased by 4.79% compared to the same period last year to approximately 3.7091 million tonnes.

In the first quarter of 2018, domestic methanol prices retreated from high levels. Prices in the Southern China market fell from RMB3,860 per tonne at the beginning of the year to RMB2,750 per tonne in early March. Subsequently as the supply fell short of expectations, market prices steadily picked up. In the second quarter, domestic prices rose first and dropped again. Prices in the Southern China market hit a high of RMB3,620 per tonne in mid-May and subsequently trembled down due to the overhaul of some olefin plants and the expectation of increasing domestic and import supply. At the end of June, market prices of methanol in Southern China were approximated RMB3,020 per tonne.

Business Review

During the reporting period, the Company achieved safe and stable operation of production plants through refined management of the production process. Both Hainan Phase I Methanol Plant and Hainan Phase II Methanol Plant broke their respective records by realising long-cycle operation that lasted over 290 days. The Company recorded a urea production volume of approximately 1.148 million tonnes for the first half of the year, among which CNOOC Huahe setting a new record in half-yearly urea output. Output of phosphate and compound fertilisers totalled approximately 452,000 tonnes, among which the output of compound fertilisers hit a new historical high of approximately 117,000 tonnes, while the output of methanol amounted to approximately 718,000 tonnes.

Facing competition in the market, the Company remained steadfast in the reform of its marketing system. Leveraging its branding and geographical advantages, the Company endeavoured to expand its presence in the compound fertiliser market and fully grasped market trends to perform accurate pricing in tandem with the latest market changes. In the first half of the year, the Company sold approximately 1.174 million tonnes of urea, approximately 704,000 tonnes of methanol, and approximately 423,000 tonnes of phosphate fertilisers and compound fertilisers, among which the sales volume of compound fertilisers stood at approximately 98,000 tonnes, exceeding the yearly sales volume of 2017 and hitting a new historical high for the same period. The export volume of urea and DAP were approximately 18,000 tonnes and 66,000 tonnes, respectively.

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

	For the six months ended 30 June					
	2018			2017		
	Production volume (tonnes)	Sales volume (tonnes)	Utilisation rate (%)	Production volume (tonnes)	Sales volume (tonnes)	Utilisation rate (%)
Chemical fertilisers						
Urea						
Fudao Phase I	194,654	180,506	74.9	295,680	266,648	113.7
Fudao Phase II	421,979	412,973	105.5	421,436	379,982	105.4
CNOOC Tianye	210,122	238,915	80.8	152,378	145,413	58.6
CNOOC Huahe	321,205	342,071	123.5	308,635	439,066	118.7
Group total	1,147,960	1,174,465	97.3	1,178,129	1,231,109	99.8
Phosphate fertilisers and Compound fertilisers						
DYK MAP	25,147	14,838	33.5	15,022	27,225	20.0
DYK DAP Phase I (Note 1)	167,341	140,476	95.6	147,944	157,840	84.5
DYK DAP Phase II	259,608	267,408	103.8	298,580	341,972	119.4
Group total	452,096	422,722	90.4	461,546	527,037	92.3
Chemical products						
Methanol						
Hainan Phase I	289,959	292,031	96.7	260,709	261,950	86.9
Hainan Phase II	347,725	337,826	86.9	384,637	367,354	96.2
CNOOC Tianye	80,662	73,683	80.7	119,136	122,823	119.1
Group total	718,346	703,540	89.8	764,482	752,127	95.6

Note 1: In the first half of 2018, the DYK DAP Phase I Plant produced 50,578 tonnes of DAP and 116,763 tonnes of compound fertilisers, totaling at 167,341 tonnes, and sold 42,487 tonnes of DAP and 97,989 tonnes of compound fertilisers, totaling at 140,476 tonnes. In the first half of 2017, the DYK DAP Phase I Plant produced 97,581 tonnes of DAP and 50,363 tonnes of compound fertilisers, totaling at 147,944 tonnes, and sold 120,650 tonnes of DAP and 37,190 tonnes of compound fertilisers, totaling at 157,840 tonnes.

BB fertilisers

In the first half of 2018, the Group produced a total of 19,906 tonnes of BB fertilisers with a sales volume of 23,091 tonnes.

Financial Review

Revenue and gross profit

During the reporting period, the Group's revenue was RMB5,498.2 million, representing an increase of RMB361.1 million, or 7.0%, from RMB5,137.1 million during the same period of 2017.

During the reporting period, the Group's external revenue from urea was RMB2,081.8 million, representing an increase of RMB291.1 million, or 16.3%, from RMB1,790.7 million during the same period of 2017, which was primarily attributable to (1) a decrease in the sales volume of urea by 56,644 tonnes, resulting in a decrease in revenue by RMB100.4 million; and (2) an increase in revenue by RMB391.5 million resulted from an increase in the selling price of urea by RMB318.0 per tonne.

During the reporting period, the Group's external revenue from phosphate fertilisers and compound fertilisers was RMB1,062.0 million, representing a decrease of RMB74.0 million, or 6.5%, from RMB1,136.0 million during the same period of 2017, which was primarily attributable to (1) a decrease in the sales volume of phosphate fertilisers and compound fertilisers by 104,314 tonnes, resulting in a decrease in revenue by RMB262.1 million; and (2) an increase in revenue by RMB188.1 million resulted from an increase in the selling price of phosphate fertilisers and compound fertilisers by RMB357.0 per tonne.

During the reporting period, the Group's external revenue from methanol was RMB1,812.9 million, representing an increase of RMB137.7 million, or 8.2%, from RMB1,675.2 million during the same period of 2017, which was primarily attributable to (1) a decrease in the sales volume of methanol by 48,588 tonnes, resulting in a decrease in revenue by RMB125.2 million; and (2) an increase in revenue by RMB262.9 million resulted from an increase in the selling price of methanol by RMB349.5 per tonne.

During the reporting period, the Group's external revenue from other segments (primarily comprising port operations and provision of transportation services, trading of fertilisers and chemicals, manufacture and sales of BB fertilisers and woven plastic bags) increased by RMB6.3 million, or 1.2%, to RMB541.5 million as compared to RMB535.2 million during the same period of 2017, which was primarily attributable to (1) an increase in revenue by RMB14.6 million due to the turnkey business in shipping transportation of Hainan Basuo Port Limited; (2) a decrease in revenue by RMB5.8 million in the trading segment of the year compared to that of last year; and (3) a decrease by RMB2.5 million in revenue from other income segment (mainly comprising the sales of liquid ammonium and formaldehyde), which partially offset the above increase.

The Group's gross profit during the reporting period was RMB1,336.0 million, representing an increase of RMB492.3 million, or 58.3%, from RMB843.7 million during the same period of 2017, which was primarily attributable to (1) a significant year-on-year increase in the selling prices of our major products, namely urea, phosphate and compound fertilisers and methanol, which resulted in a significant increase in price-driven revenue; (2) the resumption of production of the CNOOC Tianye Urea Plant on 1 March 2018, which was 24 days ahead of time compared to the same period of 2017 and therefore reduced the loss arising from the suspension; and (3) the planned overhaul of Fudao Phase I Urea Plant, Hainan Phase II Methanol Plant and DYK DAP Phase II Plant in the first half of the year, resulting in an increase in overhaul cost and suspension loss, which partially offset the increase in gross profit due to the aforesaid reasons.

Other income, other gains and losses

The Group's other income as well as other gains and losses for the reporting period amounted to RMB265.7 million, representing an increase by RMB131.8 million, or 98.4%, from RMB133.9 million in the same period of 2017. The increase was primarily attributable to (1) the bank investment gains of RMB162.1 million; (2) a gain of RMB63.1 million from the disposal of the equity interests of China BlueChemical Yichang Mining Ltd.; and (3) profits of RMB40.5 million from other segments.

Selling and distribution costs

The Group's selling and distribution costs for the reporting period amounted to RMB205.6 million, representing an increase of RMB29.0 million, or 16.4%, from RMB176.6 million in the same period of 2017. The increase was primarily attributable to the adoption of one-invoice settlement by Huahe Urea during the reporting period resulting in the increase of the freight expense of RMB18.6 million, and the increase of sales of Tianye Urea resulting in the increase of freight expense of RMB0.9 million.

Administrative expenses

The Group's administrative expenses for the reporting period amounted to RMB190.6 million, representing a decrease of RMB17.7 million, or 8.5%, from RMB208.3 million in the same period of 2017. The decrease was primarily attributable to the facts that (1) no provision for dismissal costs was made by CNOOC Tianye in the reporting period, resulting in a decrease of dismissal costs of RMB11.4 million; and (2) provision for litigation costs of RMB5.0 million was made by the headquarter of the Company in the same period of last year, and no such provision was made in the reporting period.

Other expenses

The Group's other expenses for the reporting period amounted to RMB16.1 million, representing an increase of RMB11.0 million, or 215.7%, from RMB5.1 million in the same period of 2017. The increase was primarily due to (1) the provision of utilities and property management costs of RMB7.5 million by Hainan Basuo Port Limited; and (2) an increase in other non-operating expenses by RMB3.5 million.

Finance income and finance costs

The Group's finance income for the reporting period increased by RMB1.7 million to RMB6.0 million from RMB4.3 million in the same period of 2017.

The Group's finance costs for the reporting period amounted to RMB50.0 million, representing a decrease by RMB11.1 million from RMB61.1 million in the same period of 2017. The decrease was primarily attributable to (1) the offsetting of current finance costs of Huahe Coal Chemical with the current loan discounted fund of RMB8.0 million provided by government; and (2) a decrease in finance costs of Hubei Dayukou Chemical Co., Ltd by RMB3.4 million due to the decrease in external finance fund.

During the reporting period, the Group has a good financial resources, mainly including bank borrowing and other financial institution financing.

Net exchange losses

During the reporting period, the Group recorded net exchange losses of RMB1.2 million, representing a decrease of RMB13.8 million compared with net exchange losses of RMB15.0 million in the same period of 2017, which was primarily attributable to (1) exchange losses of RMB31.4 million in deposits due to the depreciation of USD, which is mainly attributable to the decline in the exchange rates of USD for the first half of 2018; and (2) exchange gains of RMB30.2 million from the Company's operation due to fluctuations in exchange rates.

Share of profits/losses of associates and joint ventures

The Group's share of profits of associates and joint ventures for the reporting period amounted to RMB0.4 million, representing a decrease of RMB34.6 million in losses from the share of losses of associates and joint ventures of RMB34.2 million for the same period of 2017, which was primarily due to the recognition of investment loss of RMB31.1 million for the joint venture CBC (Canada) in the same period of 2017.

Income tax expenses

The Group's income tax expenses for the reporting period were RMB293.7 million, representing an increase of RMB140.2 million from RMB153.5 million in the same period of 2017. The increase was primarily due to (1) an increase in current income tax expenses by RMB211.5 million arising from increase in profits; and (2) a decrease in current income tax adjustment of RMB71.3 million from the previous period.

Net profit for the period

The Group's profit after tax for the reporting period was RMB850.8 million, representing an increase by RMB522.9 million, from the net profit of RMB327.9 million in the same period of 2017.

Dividends

The board of directors of the Company (the "Board") did not recommend the payment of an interim dividend for the six-month period ended 30 June 2018. During the reporting period, the Company distributed the dividend amounted to RMB322.7 million in cash for 2017.

Significant investment

During the reporting period, the Group had no significant investment.

Significant acquisition and disposal of subsidiaries, joint ventures and associates

During the reporting period, the Company disposed 51% of the equity interests of China BlueChemical Yichang Mining Ltd..

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of acquisitions, property, plant and equipment as well as prepaid land lease payments amounted to RMB59.8 million.

Pledge of assets

As at 30 June 2018, 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 according to the change of economic conditions. To maintain or realign our capital structure, the Group may incur new debts or issue new shares. As at 30 June 2018, the Group's total interest-bearing bank borrowings amounted to RMB2,725 million, among which are all bearing interests at floating rate. The gearing ratio of the Group as at 30 June 2018 (calculated as interest-bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 15.9%.

Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB6,604.9 million. For the reporting period, the net cash inflow from operating activities was RMB1,011.8 million, net cash inflow from investing activities was RMB348.6 million, net cash inflow from financing activities was RMB13.8 million, and the effect caused by the exchange movement on cash and cash equivalents was RMB2.5 million. As at 30 June 2018, the Group's cash and cash equivalents were RMB7,981.7 million with the main currency of RMB. The Group has sufficient working capital to meet the funds required for its day-to-day operation and future development.

Human resources and training

As at 30 June 2018, the Group had 5,012 employees. The Company has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentives to its staff. The Company determines staff remuneration according to their positions, performance and capability. Please refer to note 28 in Notes to the Financial Statements for details in relation to remuneration of employees of the Company.

During the reporting period, the Company held training courses with a total of 35,791 enrolments and 153,391 training hours according to its annual training plan.

During the reporting period, the Company held 201 safety training courses at Company level, with a total of 3,897 enrolments and 10,665 training hours, covering topics such as safety awareness, regulatory information, risk management measures, knowledge on fire hazard prevention, emergency management, traffic safety and occupational hygiene knowledge.

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in RMB and secondarily in USD. During the reporting period, the RMB to USD exchange rate ranged between 6.2764 and 6.6166. Fluctuation in the exchange rate of RMB to USD may affect our sales revenue from export of products, as well as import of our equipment and raw materials.

Inflation and currency risk

According to the statistics of 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 period.

Subsequent events and contingent liabilities

As at 30 June 2018, the Group had no subsequent events or contingent liabilities.

Material litigation and arbitration

As at 30 June 2018, the Company had no material litigation or arbitration.

Sector Outlook

In the second half of 2018, domestic demand for chemical fertilisers will enter into the off-season and particular attention should be paid to the global market trend. The fully-marketised operational environment and the upgrade of environmental protection standards will further facilitate the consolidation of the chemical fertiliser industry in the PRC.

The methanol sector is still undergoing a development boom, where downstream traditional demand keeps steadily growing while methanol-to-olefins and methanol fuels still have much room for growth and therefore serve as the major driving forces of the demands for methanol.

Our Key Tasks in the second half of 2018

1. To continuously endeavour to coordinate the stable supply of upstream natural gas, with emphasis on the put-into-use of the natural gas from Dongfang 13-2 Gasfield as planned;
2. To persistently strengthen and enhance HSE and refined production management, in an effort to achieve safe and stable operation of each production unit;
3. To bolster our operating capacity and put heightened emphasis on autumn sales as well as winter storage and sales of chemical fertilisers;
4. To continue to optimise the product structure by increasing the production and sales proportions of NPK and value-added fertilisers;
5. To continue to step up efforts on cost reduction, quality improvement and efficiency enhancement, and to lower raw material procurement costs and strictly manage expenses;
6. To continue the feasibility studies of producing high value-added chemical products using natural gas in Hainan in tandem with the development of the offshore natural gas field in South of Hainan; and
7. To continuously pay attention to domestic and overseas development, merger and acquisition opportunities which are in line with the Company's development strategies.

Supplemental Information

Audit Committee

The Audit Committee has reviewed, with the management, the accounting principles and standards adopted by the Group and discussed internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2018. The Group's unaudited interim results for the six months ended 30 June 2018 have been reviewed independently by the Company's external auditor, Messrs. BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. Neither the Audit Committee nor Messrs. BDO Limited has any disagreement over the accounting treatments adopted in preparing the interim results during the reporting period.

Compliance with Corporate Governance Code

The Company strives to maintain a high level of corporate governance in order to enhance transparency and ensure the protection of the overall interests of the shareholders. During the six months ended 30 June 2018, the Company had complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Disclosures on Information of Directors, Supervisors and Chief Executive

Change of Information of Directors

In compliance with the requirements set out in Rule 13.51B(1) of the Listing Rules, changes of the information of the directors are as follows:

Mr. Xia Qionglong was appointed as the Chairman of Company, a member and a Chairman of the Nomination Committee of the Board with effect on 28 March 2018. At the annual general meeting of the Company held on 31 May 2018, Mr., Wang Weimin was appointed as executive Director of the Company.

Mr. Chen Bi has resigned from his position as the Chairman of Company, a non- executive Directors of the Company, a member and a Chairman of the Nomination Committee of the Board, the effective date of the resignation was 28 March 2018.

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

In respect of the transactions of securities by our Directors and Supervisors, the Company has adopted a set of standard code on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. The Board confirms that having made specific enquiries with all directors and supervisors of the Company, during the six months ended 30 June 2018, all members of the Board and all Supervisors have complied with the required standards as set out in the Model Code.

Interests of substantial shareholders

As at 30 June 2018, to the best knowledge of any of the Directors and chief executives of the Company, pursuant to the register required to be kept under Section 336 of the SFO, the interests and short positions in any shares and underlying shares of the Company of substantial shareholders and other persons (excluding Directors, Supervisors and chief executives of the Company) are set out as below:

Names of substantial shareholders	Capacity	Number of Shares held (shares)	Class of shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total shares in issue (%)
China National Offshore Oil Corporation (Note 1)	Beneficial owner	2,738,999,512 (L)	Domestic Shares	97.33 (L)	59.41 (L)
Commonwealth Bank of Australia (Note 2)	Interests in controlled corporation	353,610,319 (L)	H Shares	19.97 (L)	7.67 (L)
Hermes Investment Management Ltd	Investment manager	195,270,000 (L)	H Shares	11.03 (L)	4.24 (L)
Edgbaston Investment Partners LLP	Investment manager	140,524,000 (L)	H Shares	7.93 (L)	3.05 (L)
Edgbaston Asian Equity Trust	Beneficial owner	107,048,000 (L)	H Shares	6.04 (L)	2.32 (L)
Mondrian Investment Partners Limited	Investment manager	101,634,000 (L)	H Shares	5.74 (L)	2.20 (L)

Notes: The letter (L) denotes long position.

- (1) Mr. Meng Jun, a non-executive Director, is also the general manager of the Finance and Assets department of CNOOC. Mr. Guo Xinjun, a non-executive Director, is also the deputy general manager of the Strategy and Planning department of CNOOC.
- (2) These Shares are held directly by a number of controlled corporations of Commonwealth Bank of Australia, which are Colonial Holding Company Limited, Commonwealth Insurance Holdings Limited, Capital 121 Pty Limited, Colonial First State Group Ltd, Colonial First State Investments Limited, First State Investment Managers (Asia) Limited, First State Investments (Asia) Limited, First State Investments (Hong Kong) Ltd.

Save as disclosed above, to the best knowledge of any of the Directors and chief executives of the Company, as at 30 June 2018, no person (other than a Director, Supervisor and chief executive of the Company or their respective associates) had any interests and short positions in the shares and underlying shares (as the case may be) of the Company which were required to be entered into the register kept pursuant to Section 336 of the SFO.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

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

As at 30 June 2018, none of the Directors, Supervisors, chief executives or their associates had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed to have or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in the Listing Rules.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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To the Board of Directors of China Bluechemical Ltd.
(incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements of China BlueChemical Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 46, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and certain explanatory notes (the "interim condensed consolidated financial statements"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

BDO Limited
Certified Public Accountants

Amy Yau Shuk Yuen
Practising Certificate no. P06095

Hong Kong
28 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive income

For the six months ended 30 June 2018

	Notes	Six months ended	
		30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Revenue	4	5,498,224	5,137,095
Cost of sales		(4,162,234)	(4,293,363)
Gross profit		1,335,990	843,732
Other Income	4	43,139	23,995
Other gains and losses	5	222,553	109,903
Selling and distribution costs		(205,643)	(176,621)
Administrative expenses		(190,647)	(208,379)
Other expenses		(16,072)	(5,065)
Finance income		5,962	4,257
Finance costs	6	(49,994)	(61,099)
Net exchange losses	7	(1,151)	(15,041)
Share of losses of joint ventures		(35)	(33,471)
Share of profits/(losses) of associates		433	(763)
Profit before income tax	8	1,144,535	481,448
Income tax expenses	9	(293,734)	(153,545)
Profit for the period		850,801	327,903
Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value gains on unlisted investments during the period		-	110,428
Reclassification adjustment relating to disposal upon maturity		-	(110,428)
Exchange differences arising on translation		(2,423)	501
Other comprehensive income for the period		(2,423)	501
Total comprehensive income for the period		848,378	328,404

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive income - Continued

For the six months ended 30 June 2018

	Notes	Six months ended	
		30 June 2018	30 June 2017
		(Unaudited) RMB'000	(Unaudited) RMB'000
<hr/>			
Profit attributable to:			
Owners of the Company		752,353	290,159
Non-controlling interests		98,448	37,744
		<hr/> 850,801	<hr/> 327,903
Total comprehensive income attributable to:			
Owners of the Company		749,930	290,660
Non-controlling interests		98,448	37,744
		<hr/> 848,378	<hr/> 328,404
Earnings per share attributable to ordinary owners of the Company			
- Basic for the period (RMB)	10	0.16	0.06

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	Notes	30 June 2018 RMB'000	31 December 2017 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	7,357,283	7,661,025
Mining rights		136,755	137,743
Prepaid lease payments	12	581,273	589,032
Investment properties		119,226	122,273
Intangible assets		27,320	30,331
Investment in joint ventures	13	226,858	229,476
Investment in associates	14	218,903	218,470
Available-for-sale investment		-	600
Financial asset at fair value through other comprehensive income		600	-
Deferred tax assets	15	844,580	840,105
Other long-term prepayment		-	6,900
		9,512,798	9,835,955
CURRENT ASSETS			
Inventories		1,136,711	1,210,432
Trade receivables	16	217,709	267,428
Bills receivable	16	46,102	31,138
Prepayments, deposits and other receivables	17	243,071	321,710
Tax recoverable		298,109	286,001
Pledged bank deposits		44,136	6,942
Time deposits with original maturity over three months		264,664	287,505
Cash and cash equivalents	18	7,981,681	6,590,294
		10,232,183	9,001,450
Assets classified as held for sale		-	411,587
		10,232,183	9,413,037
TOTAL ASSETS		19,744,981	19,248,992
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Issued capital	19	4,610,000	4,610,000
Reserves		8,972,700	8,222,770
Proposed dividends	20	-	322,700
		13,582,700	13,155,470
Equity attributable to owners of the Company		13,582,700	13,155,470
Non-controlling interests		879,456	1,092,459
TOTAL EQUITY		14,462,156	14,247,929

Condensed Consolidated Statement of Financial Position - Continued

At 30 June 2018

	Notes	30 June 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT LIABILITIES			
Benefits liability		58,187	65,852
Interest-bearing bank borrowings	21	785,000	785,000
Deferred tax liabilities	15	45,112	47,079
Deferred revenue	25	175,531	175,210
Obligations under finance leases	24	-	1,336,118
Other long-term liabilities		113,935	114,057
		1,177,765	2,523,316
CURRENT LIABILITIES			
Interest-bearing bank borrowings	21	575,000	25,000
Trade payables	22	642,538	876,622
Contract liabilities		364,909	-
Bills payable	22	42,000	12,900
Other payables and accruals	23	941,458	1,369,394
Obligations under finance leases	24	1,365,750	60,000
Income tax payable		173,405	132,609
		4,105,060	2,476,525
Liabilities associated with assets classified as held for sale		-	1,222
		4,105,060	2,477,747
TOTAL LIABILITIES		5,282,825	5,001,063
TOTAL EQUITY AND LIABILITIES		19,744,981	19,248,992
NET CURRENT ASSETS		6,127,123	6,935,290
TOTAL ASSETS LESS CURRENT LIABILITIES		15,639,921	16,771,245
NET ASSETS		14,462,156	14,247,929

Xia Qing Long
Director

Lee Kit Ying
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the Company			
	Share 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 2018	4,610,000	1,025,702	1,071,998	48,212
Profit for the period	-	-	-	-
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	-	-
Disposal of a subsidiary (Note 26)	-	-	-	-
Appropriation of safety fund	-	-	-	25,801
Utilisation of safety fund	-	-	-	(20,131)
Final 2017 dividends declared	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-
Balance at 30 June 2018 (unaudited)	4,610,000	1,025,702	1,071,998	53,882
Balance at 1 January 2017	4,610,000	1,007,237	1,010,957	55,408
Profit for the period	-	-	-	-
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	-	-
Appropriation of safety fund	-	-	-	19,737
Utilisation of safety fund	-	-	-	(7,962)
Final 2016 dividends declared	-	-	-	-
Balance at 30 June 2017 (unaudited)	4,610,000	1,007,237	1,010,957	67,183

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 Group's PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund at financial year end, until the accumulated total of the fund reaches 50% of their registered capital. The appropriation to the statutory reserve fund is determined by the articles of association of the Company's subsidiaries and approval by the boards of directors of the subsidiaries.
- iii. Special reserve represents safety fund. The Group's PRC subsidiaries are required to appropriate an amount of safety fund, in accordance with relevant PRC rules and regulations. Safety fund is used to improve, renovate and maintain safety facilities and equipment and update the safety supplies for the operation personnel, etc.

Retained profits RMB'000	Proposed dividends RMB'000	Translation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
6,074,941	322,700	1,917	13,155,470	1,092,459	14,247,929
752,353	-	-	752,353	98,448	850,801
-	-	(2,423)	(2,423)	-	(2,423)
752,353	-	(2,423)	749,930	98,448	848,378
-	-	-	-	(200,886)	(200,886)
(25,801)	-	-	-	-	-
20,131	-	-	-	-	-
-	(322,700)	-	(322,700)	-	(322,700)
-	-	-	-	(110,565)	(110,565)
6,821,624	-	(506)	13,582,700	879,456	14,462,156
6,400,915	230,500	1,624	13,316,641	997,219	14,313,860
290,159	-	-	290,159	37,744	327,903
-	-	501	501	-	501
290,159	-	501	290,660	37,744	328,404
(19,737)	-	-	-	-	-
7,962	-	-	-	-	-
-	(230,500)	-	(230,500)	-	(230,500)
6,679,299	-	2,125	13,376,801	1,034,963	14,411,764

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended	
	2018	2017
	RMB'000	RMB'000
Net cash from operating activities	1,011,826	606,445
Net cash from/(used in) investing activities:		
Purchases of property, plant and equipment	(61,821)	(109,501)
Proceeds from disposal of property, plant and equipment	292	-
Proceeds from disposal of a subsidiary	259,270	-
Withdrawal of time deposits	287,505	-
Placement of time deposits	(264,664)	(497,105)
Purchase of available-for-sale investments	-	(7,895,000)
Disposal of available-for-sale investments	-	8,003,021
Purchase of financial assets at fair value through profit or loss	(7,493,393)	-
Disposal of financial assets at fair value through profit or loss	7,615,503	-
Interest received	5,893	4,257
	348,585	(494,328)
Net cash from financing activities:		
Dividends paid	(322,700)	(230,500)
Dividends paid to non-controlling interests	(122,565)	-
New bank borrowings raised	569,500	990,000
Repayment of bank borrowings	(19,500)	(250,000)
Repayment of obligations under finance leases	(30,000)	(30,000)
Interest paid related to obligations under finance leases	(22,282)	(22,462)
Transaction charge paid for finance leases	(19,375)	(20,218)
Interest paid	(19,429)	(30,948)
Other financing cash flows	154	(692)
	13,803	405,180
Net increase in cash and cash equivalents	1,374,214	517,297
Cash and cash equivalents at 1 January	6,604,933	5,698,412
Effect of foreign exchange rate changes	2,534	(19,240)
Cash and cash equivalents at 30 June, represented by		
Bank balances and cash	7,981,681	6,196,469

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. Corporate information and basis of preparation

China BlueChemical Ltd. (the “Company”) was established in the People’s Republic of China (the “PRC”) and the registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, PRC. The immediate holding company and ultimate holding company of the Company is China National Offshore Oil Corporation (“CNOOC”), a state-owned enterprise established in the PRC.

The Company’s ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKSE”).

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

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

2. Principal accounting policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

The IASB has issued a number of new or amended International Financial Reporting Standards (“IFRSs”) that are first effective for the current accounting period of the Group:

- IFRS 9, Financial Instruments
- IFRS 15, Revenue from Contracts with Customers
- IFRIC-Interpretation 22, Foreign Currency Transactions and Advance Considerations
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 included in Annual Improvements to IFRSs 2014–2016 Cycle, Investments in Associates and Joint Ventures
- Amendments to IAS 40, Transfers of Investment Property
- Amendments to IFRS 1 included in Annual Improvements to IFRSs 2014–2016 Cycle, First-time Adoption of Hong Kong Financial Reporting Standards

The impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the group’s accounting policies.

The Group applied the cumulative effect transition method to adopt IFRS 9 and IFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the restated consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

2. Principal accounting policies - Continued

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	Notes	31 December 2017 (Unaudited) RMB'000	IFRS 9 (Unaudited) RMB'000	IFRS15 (Unaudited) RMB'000	1 January 2018 (Restated) (Unaudited) RMB'000
Condensed Consolidated Statement of Financial Position (extract)					
Non-current assets					
Financial asset at fair value through other comprehensive income	(a)	-	600	-	600
Available-for-sale investment	(a)	600	(600)	-	-
Total assets		19,248,992	-	-	19,248,992
Current liabilities					
Contract liabilities	(c)	-	-	585,038	585,038
Other payables and accruals	(c)	1,369,394	-	(585,038)	784,356
Total liabilities		5,001,063	-	-	5,001,063

(a) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in these financial statements.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has classified its financial assets into the appropriate IFRS 9 categories. The majority of the Group's financial assets include:

- equity investment in unlisted company previously classified as available-for-sale investment was reclassified to financial asset at fair value through other comprehensive income ("FVTOCI"); and
- bills receivable as disclosed in Note 16 are held within a business model whose objective is achieved by both collecting cash flows and endorsing the bills receivable to suppliers or discounting to banks, and the contractual terms give rise to cash flows on specific dates that are solely payments of principal and interest on the principal outstanding. Accordingly, bills receivable will be subsequently measured at FVTOCI upon the application of IFRS 9, with the fair value gains or losses accumulated in reserve subsequently reclassified to profit or loss upon derecognition. However, the directors of the Company consider the impact on the amounts recognised in other comprehensive income is immaterial as the fair value of bills receivable is close to their carrying amounts given all bills receivable will mature within one year; and
- The Group's wealth management in licensed bank carried at fair value are held within the business model whose objective is not solely receiving payments of principal and interest on the principal outstanding or selling the financial instruments in open market. Accordingly, the Group has classified these instruments at fair value with subsequent fair value gains or losses to be recognised in profit or loss; and

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

2. Principal accounting policies - Continued

(a) IFRS 9 Financial Instruments – Impact of adoption - Continued

- All other financial assets and financial liabilities continue to be measured on the same basis as are measured under IAS 39.

The Group was required to revise its impairment methodology under IFRS 9 for each classes of financial assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather than only incurred credit losses model as is the case under IAS 39.

While trade and bills receivables, deposits and other receivables and cash and cash equivalents are subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(b) IFRS 9 Financial Instruments – Accounting policies

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement category:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised asset.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gain and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investments at fair value through other comprehensive income ("FVTOCI"). The Group reclassified debt instruments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its deposits and other receivables carried at amortised cost and adopt three-stages approach to assess the impairment. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. But the identifiable impairment loss was immaterial.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

2. Principal accounting policies - Continued

(c) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the cumulative effect transition method and therefore has not restated comparatives for the 2017 financial year.

The Group has changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of IFRS 15:

Contract liabilities in relation to the advance consideration received from customers for contracts were previously included in other payables and accruals.

In summary, the following adjustments were made to the amounts recognised in the opening consolidated statement of financial position on 1 January 2018:

	IAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	IFRS15 carrying amount 1 January 2018 RMB'000
Current liabilities			
Contract liabilities	-	585,038	585,038
Other payables and accruals	1,369,394	(585,038)	784,356

The amount by each financial statements line items affected in the current period and period to date by the application of IFRS 15 as compared to IAS 18 and IAS 11 that were previously in effect before the adoption of IFRS 15 is as follows:

	As at 30 June 2018		Amount as reported RMB'000
	Amounts without the adoption of IFRS 15 RMB'000	Effects of adoption of IFRS 15 RMB'000	
Condensed consolidated statement of financial position (extract)			
Current liabilities			
Contract liabilities	-	364,909	364,909
Other payables and accruals	1,306,367	(364,909)	941,458

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

2. Principal accounting policies - Continued

(d) IFRS 15 Revenue from Contracts with Customers – Accounting policies

Under IFRS 15, revenue is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the asset may transfer over time or at point in time. Control of the asset is transferred over time if the Group's performance:

- Provides all the benefits received and consumed simultaneously by the customer; or
- Creates and enhances an asset that the customer controls as the Group performs; or
- Do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The Group's contracts with customers for the sales of urea, MAP, DAP and compounded fertiliser, methanol, chemicals, and Bulk Blending (the "BB") fertilizer and woven plastic bags (collectively referred to as the "Goods") and for the provision of transportation services generally include one performance obligation. The Group has concluded that revenue from sales of Goods should be recognised at the point in time when control of the assets is transferred to the customers, generally on delivery of the goods. While revenue from provision of transportation services should be recognised at the point in time when the transportation services are completed.

Therefore, the adoption of IFRS 15 did not have an impact on timing of revenue recognition and amount to be recognised.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

3. Operating segment information

Information reported to the Chief Executive Officer, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods and services delivered or produced. 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 port operations and provision of transportation services; trading of fertilisers and chemicals; manufacture and sale of Bulk Blending (the "BB") fertiliser and woven plastic bags.

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

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

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

3. Operating segment information – continued

	Urea RMB'000	Phosphorus and compound fertilise RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Six months ended 30 June 2018 (Unaudited)						
Segment revenue:						
Sales to external customers	2,081,792	1,062,048	1,812,858	541,526	-	5,498,224
Inter-segment sales	-	-	-	76,655	(76,655)	-
Total	2,081,792	1,062,048	1,812,858	618,181	(76,655)	5,498,224
Segment results:						
Segment profit before tax	271,008	7,784	576,996	83,018	-	938,806
Interest and unallocated income						222,553
Corporate and other unallocated expenses						(16,071)
Net exchange losses						(1,151)
Share of losses of joint ventures						(35)
Share of profits of associates						433
Profit before income tax						1,144,535
Six months ended 30 June 2017 (Unaudited)						
Segment revenue:						
Sales to external customers	1,790,715	1,135,965	1,675,174	535,241	-	5,137,095
Inter-segment sales	958	-	-	80,595	(81,553)	-
Total	1,791,673	1,135,965	1,675,174	615,836	(81,553)	5,137,095
Segment results:						
Segment profit/ (loss) before tax	63,771	(36,221)	442,458	49,287	-	519,295
Interest and unallocated income						120,866
Corporate and other unallocated expenses						(109,438)
Net exchange losses						(15,041)
Share of losses of joint ventures						(33,471)
Share of losses of associates						(763)
Profit before income tax						481,448

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

4. Revenue and other income

An analysis of revenue and other income is as follows:

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Revenue		
Sale of goods	5,305,946	4,959,398
Rendering of services	192,278	177,697
	5,498,224	5,137,095
Other income		
Income from sale of other materials	16,198	13,385
Income from rendering of other services	14,216	837
Gross rental income	231	2,737
Government grants	3,660	6,815
Others	8,834	221
	43,139	23,995

5. Other gains and losses

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Gain on maturity of unlisted investments	162,110	110,428
Loss on disposal of property, plant and equipment	(2,617)	(525)
Gain on disposal of a subsidiary	63,060	-
	222,553	109,903

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

6. Finance costs

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Interest on bank and financial institution borrowings	22,952	33,389
Financial charges payable under obligations under finance leases	27,042	27,710
Total interest expense on financial liabilities not at fair value through profit or loss	49,994	61,099

7. Net exchange losses

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Exchange gains	30,540	6,610
Exchange losses	(31,691)	(21,651)
	(1,151)	(15,041)

8. Profit before income tax

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

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Cost of inventories sold	4,040,140	4,137,627
Cost of services provided	121,928	152,788
Depreciation of property, plant and equipment	363,208	491,714
Amortisation of mining rights	988	1,160
Amortisation of prepaid lease payments	7,654	7,921
Amortisation of intangible assets	3,011	2,995
Amortisation of investment properties	3,047	3,112
Write-down of inventories to net relisable value, included in cost of sales	166	2,948

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

9. Income tax expenses

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Current tax		
PRC Enterprise Income Tax	285,555	191,804
Under-provision in prior year	14,621	1,408
	300,176	193,212
Deferred tax	(6,442)	(39,667)
Total income tax expenses	293,734	153,545

The tax charge for the period can be reconciled to the profit or loss per the consolidated statement of profit or loss and other comprehensive income as follows:

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Profit before income tax	1,144,535	481,448
Tax at the statutory tax rate of 25%	286,134	120,362
Income tax on concessionary rate	(46)	(79)
Under-provision in respect of prior years	14,621	1,408
Tax effect of share of (profits)/losses of joint ventures and associates	(99)	8,558
Tax effect of expenses not deductible for tax purposes	1,709	-
Tax effect of revenue not taxable for tax purposes	(15,719)	-
Tax effect of tax losses not recognised	-	22,031
Tax effect of deductible temporary differences not recognised	10,122	2,481
Utilization of deductible temporary differences not recognised	(2,988)	(214)
Others	-	(1,002)
Income tax expenses	293,734	153,545
The Group's effective income tax rate	26%	32%

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

10. Earnings per share

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Profit for the period attributable to owners of the Company	752,353	290,159
	Six months ended	
	30 June 2018	30 June 2017
	'000	'000
Number of ordinary shares	4,610,000	4,610,000

The Group had no potential dilutive ordinary shares in issue during the six months ended 30 June 2018 and the six months ended 30 June 2017.

11. Property, plant and equipment

During the six months ended 30 June 2018, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB64,736,000 (six months ended 30 June 2017: RMB26,312,000). Property, plant and equipment with carrying amount of approximately to RMB5,305,000 (six months ended 30 June 2017: RMB1,223,000) were disposed of during the six months ended 30 June 2018.

12. Prepaid lease payments

The Group did not acquire land use right during the six months ended 30 June 2018 and the six months ended 30 June 2017. There is no disposal of land use right during the six months ended 30 June 2018 and the six months ended 30 June 2017.

As of the date of issuance of the interim financial statements, the land use right certificate held by CNOOC Hualu Shanxi Coal Chemical Co., Ltd. ("CNOOC Hualu") has not been invalidated after CNOOC Hualu was served the relevant seizure notification by the local land bureau and provided full impairment against the carrying amount of the land use right in 2014. In addition, the directors of the Company are of the view that there is no evidence the payables for acquisition of the said land use right amounting to RMB26,339,000 (31 December 2017: RMB26,339,000), presented under "Other long term liabilities" and "Other payables and accruals", are no longer payable.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

13. Investment in joint ventures

	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Cost of investment in joint ventures	265,299	265,299
Share of post-acquisition profits and other comprehensive income, net of dividends received	(38,441)	(35,823)
	226,858	229,476

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 '000	Direct Indirect	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	RMB481,398	Direct Indirect	41.26 -	Phosphorus mining and processing manufacture and sales of phosphorus ore and chemical products
CBC (Canada) Holding Corp ("CBC (Canada)") (中海化學(加拿大)控股公司)	Canada 28 May 2013	CAD24,000	Direct Indirect	60.00 -	Investment holding
Hainan Basuo Port Labour Service Limited ("Basuo Labour Service") (海南八所港勞動服務有限公司)	PRC 14 March 2007	RMB5,000	Direct Indirect	- 36.56	Provision of overseas shipping services

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

14. Investment in associates

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cost of investment in associates	670,031	670,031
Share of post-acquisition profits and other comprehensive income, net of dividends received	(451,128)	(451,561)
	218,903	218,470

The Group's other receivables with its associates are disclosed in note 17.

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	Direct Indirect	Percentage of equity interest attributable to the Company		Principal activities
				30 June 2018	31 December 2017	
Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal") (Note) (山西華鹿陽坡泉煤礦有限公司)	PRC 31 August 2001	RMB52,000	Direct Indirect	49.00 -	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	- 36.56	Provision of overseas shipping services
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	- 45.21	- 45.21	Manufacture and sale of woven plastic bags
United Agricultural Means of Production (Beijing) Co., Ltd. (聯合惠農農資(北京)有限公司)	PRC 7 June 2016	RMB100,000	Direct Indirect	30.00 -	30.00 -	Merchandising

Note: The mining rights and mining assets, including inventory, fixed assets, mining rights, use rights of highway Xunda line and land use rights of Yangpoquan Coal have been published on auction on 25 July 2018 and 26 July 2018 through the network platform of Alibaba Judicial Auction (the "Auction"). The Auction has been closed with an auction result of RMB4,002,481,294. After recognition of impairment against the carrying amount of investment in Yangpoquan Coal in 2014, the management of the Group are of the view that no further impairment indication presents and no further impairment is recognised for the current period.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

15. Deferred tax assets/liabilities

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:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Unaudited) RMB'000
Deferred tax assets	844,580	840,105
Deferred tax liabilities	(45,112)	(47,079)
	799,468	793,026

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and preceding interim periods:

	Accelerated tax depreciation RMB'000	Impairment losses RMB'000	Wages and salaries RMB'000	Fair value adjustment on acquisition of subsidiaries RMB'000	Unused tax losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017 (Audited)	25,527	524,750	16,057	(51,007)	276,626	4,885	796,838
(Charge)/credit to profit or loss	(1,287)	(4,019)	-	1,965	39,955	3,053	39,667
As at 30 June 2017 (Unaudited)	24,240	520,731	16,057	(49,042)	316,581	7,938	836,505
(Charge)/credit to profit or loss	(744)	9,592	(36)	1,963	(60,703)	6,449	(43,479)
As at 31 December 2017 and 1 January 2018 (Audited)	23,496	530,323	16,021	(47,079)	255,878	14,387	793,026
(Charge)/credit to profit or loss	4,205	(8)	-	1,967	(4,278)	4,556	6,442
As at 30 June 2018 (Unaudited)	27,701	530,315	16,021	(45,112)	251,600	18,943	799,468

As at 30 June 2018, the Group has unused tax losses of RMB1,667,059,000 (31 December 2017: RMB1,799,495,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1,006,400,000 (31 December 2017: RMB1,023,513,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB660,659,000 (31 December 2017: RMB775,982,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB660,659,000 (31 December 2017: RMB775,982,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB135,463,000 (31 December 2017: RMB579,915,000). 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.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

16. Trade receivables and bills receivable

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

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade receivables	217,709	267,428
Bills receivable	46,102	31,138
	263,811	298,566

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within six months	259,510	297,451
Over six months but within one year	3,277	713
Over one year but within two years	713	-
Over two years	311	402
	263,811	298,566

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Unaudited) RMB'000
Neither past due nor impaired	263,811	297,853
Less than one month past due	-	600
One to three months past due	-	113
	263,811	298,566

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.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

16. Trade receivables and bills receivable - continued

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 30 June 2018, the amounts due from CNOOC, its subsidiaries, and associates, (other than the ultimate holding company collectively referred to as the “CNOOC group companies”) included in the above trade receivable balances are in aggregate RMB70,560,000 (31 December 2017: RMB236,604,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

As at 30 June 2018, the Group has transferred bills receivable through endorsement to its suppliers to settle its payables amounted to RMB255,259,000 (31 December 2017: RMB 266,366,000). As at 30 June 2018. The directors of the Company considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant. Hence, the Group has derecognised these bills receivable and payables to suppliers in its entirety, given the limited exposure in respect of the settlement obligation of these bills receivable.

Most of 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.

17. Prepayments, deposits and other receivables

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Unaudited) RMB'000
Prepayments	118,872	175,514
Prepaid lease payments	15,309	15,204
Deposits and other receivables	115,544	138,616
Less: allowance for doubtful debts	(6,654)	(7,624)
	243,071	321,710

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Unaudited) RMB'000
Ultimate holding company	2,020	20
CNOOC group companies	38,482	42,167
Associates	21,036	11,960
Other related parties	2,315	-
	63,853	54,147

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

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

18. Cash and cash equivalents

The Group's bank balances and cash were denominated in RMB as at 30 June 2018 and 31 December 2017, except for amounts of RMB481,107,000 (31 December 2017: RMB938,981,000) which was translated from US\$72,712,000 (31 December 2017: USD143,702,000); RMB45,827,000 (31 December 2017: RMB1,092,000) which was translated from HK\$54,335,000 (31 December 2017: HKD1,306,000); RMB Nil (31 December 2017: RMB24,000) which was translated from EUR Nil (31 December 2017: EUR3,000).

As at 30 June 2018, included in the Group's bank balances and cash were RMB392,770,000 (31 December 2017: RMB395,220,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"). The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit.

19. Issued capital

	Number of shares '000	Nominal value RMB'000
Registered capital	4,610,000	4,610,000
Issued and fully paid:		
Domestic Shares of RMB1 each, currently not listed:		
- State-owned shares	2,739,000	2,739,000
- Other legal person shares	75,000	75,000
Unlisted Foreign Shares of RMB1 each	25,000	25,000
H shares of RMB1 each	1,771,000	1,771,000
As at 30 June 2018 (unaudited)		
and 31 December 2017 (audited)	4,610,000	4,610,000

20. Proposed dividends

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

During the current interim period, a final and special dividend of RMB0.07 per share in respect of the year ended 31 December 2017 (six months ended 30 June 2017: a final dividend of RMB0.05 per share in total in respect of the year ended 31 December 2016) was declared and paid to the owners of the Company. The amount of dividend declared and paid in the interim period of 2018 amounted to RMB322,700,000 (six months ended 30 June 2017: RMB230,500,000).

The board of directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

21. Interest-bearing bank borrowings

During the six months ended 30 June 2018, the Group obtained new short term bank borrowings denominated in RMB amounting to RMB550,000,000 (six months ended 30 June 2017: bank borrowings of RMB600,000,000 and other borrowings from CNOOC Finance of RMB390,000,000), which are repayable by 28 September 2018, bearing interest rate of 4.13%.

The unsecured long term bank loans have effective interest rates of 4.28%-4.41%, payable within 2018 to 2023. The amounts due are based on the scheduled repayment dates set out in the loan agreements.

The proceeds from bank borrowings raised during the current period are to be used for financing working capital.

22. Trade payables and bills payable

The trade payables and bills payable are non-interest-bearing and are normally settled in 30 to 180 days.

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade payables	642,538	876,622
Bills payable	42,000	12,900
	684,538	889,522

An aging analysis of trade payables and bills payable of the Group, based on invoice date, is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within six months	606,343	837,939
Over six months but within one year	38,270	12,942
Over one year but within two years	19,905	22,485
Over two years but within three years	7,186	3,613
Over three years	12,834	12,543
	684,538	889,522

As at 30 June 2018, the amounts due to CNOOC group companies included in the above trade payables and bills payable balances amounted to RMB174,762,000 (31 December 2017: RMB283,433,000).

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

23. Other payables and accruals

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Advances from customers	-	585,038
Accruals	12,652	21,426
Accrued payroll	158,378	172,822
Other payables	478,518	244,265
Dividend payable	6,823	18,823
Long-term liabilities due within one year	1,798	1,798
Interest payable	2,962	1,148
Payables to government	21,848	21,848
Other tax payables	52,535	53,344
Port construction fee payable	164,656	164,656
Payables in relation to the construction and purchase of property, plant and equipment	41,288	84,226
	941,458	1,369,394

As at 30 June 2018, the amounts due to the ultimate holding company, CNOOC group companies, associates and other related parties included in contract liabilities and other payables and accruals, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Due to the ultimate holding company	532	532
Due to CNOOC group companies	80,357	94,683
Due to associates	557	-
Due to other related parties	7,940	3,284
	89,386	98,499

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

24. 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. Under the existing sale and leaseback contracts signed in 2016, the lease terms are three years and will be renewed no later than the end of the lease terms. Interest rates are around 2.66% per annum varying based on the benchmark interest rate of the People’s Bank of China. 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 lease payments	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases				
Due for settlement within 12 months	1,396,250	96,507	1,365,750	60,000
Due for settlement over 12 months	-	1,347,312	-	1,336,118
Less: future finance charges	(30,500)	(47,701)	-	-
Present value of lease obligations	1,365,750	1,396,118	1,365,750	1,396,118

25. Deferred revenue

Deferred revenue represents unconditional 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.

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

26. Disposal of a subsidiary

On 19 July 2017, the directors of the Company resolved to dispose the Group's 51% owned subsidiary, China BlueChemical Yichang Mining Ltd. ("Yichang Mining") in others segment. The disposal was effected in order to direct the Group's resources to its core segments of business. Yichang Mining has been in construction stage since it received the mining right in 2016.

The disposal was completed on 26 February 2018, on which date control of Yichang Mining passed to the independent acquirers.

The net assets of the subsidiary on the date of disposal were as follow:

	30 June 2018 (Unaudited) RMB'000
Property, plant and equipment	67,577
Mining and exploration rights	329,120
Cash and cash equivalents	12,876
Prepayments, deposits and other receivables	633
Other payables and accruals	(229)
Income tax payable	(5)
	409,972
Non-controlling interests	(200,886)
Gain on disposal of subsidiaries included in other gains and losses for the period	63,060
Total consideration	272,146
Satisfied by:	
Cash	272,146

27. Commitments and contingent liabilities

a. Contingent liabilities

At the end of the reporting period, the Group did not have any significant contingent liability.

b. Capital commitments

As at 30 June 2018 and 31 December 2017, the Group had the following capital commitments:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Contracted, but not provided for acquisition of plant and machinery	51,369	78,527

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

27. Commitments and contingent liabilities - Continued

c. Operating lease commitments

(i) As lessor

The Group leases certain of its buildings and land use rights 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 30 June 2018 and 31 December 2017, the Group had total future minimum lease receivables from CNOOC group companies and third-party companies under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	816	1,528
In the second to fifth years, inclusive	5,704	5,668
After five years	3,491	3,491
	10,011	10,687

(ii) As lessee

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

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	7,007	3,004
In the second to fifth years, inclusive	4,645	1,233
After five years	2,953	1,959
	14,605	6,196

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

28. Related party transactions

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

	Six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
(A) Included in revenue and other income		
(a) CNOOC group companies		
Sale of goods	183,579	182,910
Provision of transportation services	58	72
Provision of packaging and assembling services	49,834	40,263
Provision of other services	-	74
	233,471	223,319
(b) Other related parties		
Sale of goods	149	182,155
Provision of transportation services	-	6,263
	149	188,418
(B) Included in cost of sales and other expenses		
(a) CNOOC group companies		
Purchase of raw materials	1,140,413	1,294,563
Lease of offices	10,112	13,227
Labour services	10,967	7,289
Network services	414	219
Logistics services	1,468	5,033
	1,163,374	1,320,331
(b) Other related parties		
Purchase of raw materials	-	4,778
Labor services	-	3,300
	-	8,078
(C) Included in loans and finance income/costs		
(a) CNOOC Finance		
Finance income	2,067	1,608
Interest paid to CNOOC Finance	-	2,628
Fees and charges paid to CNOOC Finance	596	695
Loans received from CNOOC Finance	1,078,798	390,000
	1,078,798	390,000
(D) Included in finance leaseback		
(a) CNOOC Leasing		
Finance lease charges	8,020	8,640
Interest on finance leaseback	19,022	19,070
	19,022	19,070

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

28. Related party transactions - continued

(2) Balances with related parties

Details for following balances are set out in notes 16, 17, 18, 21, 22, 23 and 24 to the condensed consolidated financial statements. Those balances were mainly formed through routine trading transactions, reception of construction services, and other miscellaneous transactions with related parties.

	Due from related parties		Due to related parties	
	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
The ultimate holding company	2,020	20	532	532
CNOOC group companies (excluding CNOOC Finance)	107,457	277,339	1,620,691	1,774,187
Associates	22,621	11,960	625	-
CNOOC Finance	-	-	110	47
Other related parties	3,367	1,432	8,688	3,284
			30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Deposits placed by the Group with CNOOC Finance			392,770	395,220

(3) Compensation of key management personnel of the Group

	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Short-term employee benefits	1,342	1,317
Post-employment benefits	79	40
	1,421	1,357

Notes to the Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

28. Related party transactions - continued

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs.

The Group’s deposits and borrowings with certain state-owned banks in the PRC as at 30 June 2018 and 31 December 2017 are summarised below:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cash and cash equivalents	7,952,382	6,550,913
Pledged bank deposits	44,136	6,942
Time deposits	264,664	287,505
	8,261,182	6,845,360
Short-term bank borrowings	25,000	25,000
Long-term bank borrowings	785,000	785,000

29. Financial instruments

(a) Financial instruments not measured at fair value

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

The fair values of trade receivables, financial assets included in deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, bills payable and financial liabilities included in other payables and accruals, approximate 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 and obligation under finance leases 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 Condensed Consolidated Financial Statements - Continued

For the six months ended 30 June 2018

29. Financial instruments - Continued

(b) Financial instruments measured at fair value

The following table presents the fair value of the Group's financial instruments that are measured at fair value at the end of the reporting period:

	30 June 2018 (Unaudited) Level 3 RMB'000
Financial asset at FVTOCL:	
– Unlisted equity investment	600

There was no financial instruments measured at fair value for the year ended 31 December 2017.

During the six months ended 30 June 2018 and 30 June 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Input for the asset or liability that is not based on observable market data (unobservable input).

The fair value of unlisted equity investment is determined based on transaction price and factors or events that have occurred after the acquisition date. Since there is no significant change in market condition or the performance and operation of the investee, the Directors considered the fair value of the unlisted equity securities is approximately the transaction price.

30. Events after the reporting period

There is no material event after the reporting period.

31. Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2018.

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
Joint Company Secretary	Wu Xiaoxia Ng Sau Mei
Authorized representatives	Xia Qinglong Wu Xiaoxia
Alternate to authorized representatives	Li Xi
Principal banker	Bank of China, Hainan Branch
Auditor	BDO Limited 25th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong
Hong Kong law legal adviser	Freshfields Bruckhaus Deringer 55th Floor, One Island East, Taikoo Place, Quarry Bay, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
Investor Relations/Public Relations Hong Kong	Tel: (852) 22132533 Fax: (852) 25259322
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