



中海石油化学股份有限公司
China BlueChemical Ltd.

(於中華人民共和國註冊成立的股份有限公司)
(a joint stock limited company incorporated in the People's
Republic of China with limited liability)



股票代碼
HKSE CODE
3983

中期報告 INTERIM REPORT 2020

中海石油化学股份有限公司

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Financial Highlights

Selected data of condensed consolidated statement of profit or loss

For the six months ended 30 June 2020

(All amounts expressed in thousands of Renminbi, except for per share data)

Selected data	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Revenue	4,971,572	5,269,002
Cost of sales	(4,286,245)	(4,242,289)
Gross profit	685,327	1,026,713
Other income, other gains and losses	59,036	92,186
Selling and distribution costs	(224,952)	(191,404)
Administrative expenses	(189,860)	(198,168)
Other expenses	(7,057)	(15,555)
Change in fair value of financial assets at fair value through profit or loss	28,774	37,106
Finance income	119,283	118,203
Finance costs	(38,596)	(45,563)
Net exchange gains/(losses)	127	(2,652)
Share of (losses)/profits of joint ventures	(133)	442
Share of profits/(losses) of associates	450	(922)
Profit before income tax	432,399	820,386
Income tax expenses	(132,783)	(222,997)
Profit for the period	299,616	597,389
Profit for the period attributable to:		
Owners of the Company	309,939	548,708
Non-controlling interests	(10,323)	48,681
	299,616	597,389
Earnings per share attributable to ordinary owners of the Company		
- Basic for the period (RMB per share)	0.07	0.12

Selected data of condensed consolidated statement of financial position

As at 30 June 2020

(All amounts expressed in thousands of Renminbi)

Selected data	30 June 2020	31 December 2019
	(Unaudited)	(Audited)
Assets		
Non-current assets	8,074,685	8,534,570
Current assets	11,502,154	10,885,002
Total assets	19,576,839	19,419,572
Equity and liabilities		
Total equity	15,019,513	15,117,089
Non-current liabilities	498,792	666,033
Current liabilities	4,058,534	3,636,450
Total equity and liabilities	19,576,839	19,419,572

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 (%)		
		2020	2019	Change %	2020	2019	Change
Chemical Fertilisers							
Urea	Fudao Phase I	273,298	270,606	1.0	105.1	104.1	1.0
	Fudao Phase II	450,303	390,696	15.3	112.6	97.7	14.9
	CNOOC Tianye	318,133	231,393	37.5	122.4	89.0	33.4
	CNOOC Huahe	339,109	323,990	4.7	130.4	124.6	5.8
	Group total	1,380,842	1,216,685	13.5	117.0	103.1	13.9
Phosphate Fertilisers and Compound Fertilisers	DYK MAP	24,591	22,873	7.5	32.8	30.5	2.3
	DYK DAP Phase I (Note 1)	140,065	127,884	9.5	80.0	73.1	6.9
	DYK DAP Phase II	247,134	273,600	(9.7)	98.9	109.4	(10.5)
	Group total	411,790	424,357	(3.0)	82.4	84.9	(2.5)
Chemical Products							
Methanol	Hainan Phase I	319,158	275,733	15.7	106.4	91.9	14.5
	Hainan Phase II	431,285	385,329	11.9	107.8	96.3	11.5
	CNOOC Tianye	55,255	84,777	(34.8)	55.3	84.8	(29.5)
	Group total	805,698	745,839	8.0	100.7	93.2	7.5
POM	CNOOC Tianye POM	16,639	9,903	68.0	83.2	99.0	(15.8)
	Group total	16,639	9,903	68.0	83.2	99.0	(15.8)

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

		For the six months ended 30 June		
		2020	2019	Change %
Chemical Fertilisers				
Urea	Fudao Phase I	259,779	256,187	1.4
	Fudao Phase II	425,799	387,998	9.7
	CNOOC Tianye	287,329	216,565	32.7
	CNOOC Huahe	356,458	310,277	14.9
	Group total	1,329,366	1,171,027	13.5
Phosphate Fertilisers and Compound Fertilisers	DYK MAP	31,587	15,500	103.8
	DYK DAP Phase I (Note 1)	125,043	126,527	(1.2)
	DYK DAP Phase II	265,562	249,466	6.5
	Group total	422,192	391,493	7.8
Chemical Products				
Methanol	Hainan Phase I	281,956	290,829	(3.1)
	Hainan Phase II	410,052	385,746	6.3
	CNOOC Tianye	45,104	67,254	(32.9)
	Group total	737,112	743,829	(0.9)
POM	CNOOC Tianye POM	15,127	9,566	58.1
	Group total	15,127	9,566	58.1

Note 1: In the first half of 2020, the DYK DAP Phase I Plant produced 21,360 tonnes of DAP and 118,705 tonnes of compound fertilisers, totaling at 140,065 tonnes, and sold 18,930 tonnes of DAP and 106,113 tonnes of compound fertilisers, totaling at 125,043 tonnes. In the first half of 2019, the DYK DAP Phase I Plant produced 5,588 tonnes of DAP and 122,296 tonnes of compound fertilisers, totaling at 127,884 tonnes, and sold 13,195 tonnes of DAP and 113,332 tonnes of compound fertilisers, totaling at 126,527 tonnes.

CEO's Report

Dear shareholders,

For being appointed as the Chief Executive Officer (CEO) and President, I would like to extend sincere thanks to our shareholders and the Board for their trust. Under the backdrop of severe market condition, the management of the Company and I will work together to overcome the difficulties and hardships and try utmost effort to enhance the operating results through reinforcing the production and operation management, increasing our marketing ability and improving our cost efficiency and quality.

In the first half of 2020, in the face of the sudden impact of the COVID-19 epidemic and the challenge of low oil price, the Company actively responded to the situation, fully guaranteed the use of fertilisers for spring farming, with various plants breaking the long period operation record; adhered to the philosophy of “all costs can be reduced”, with a focus on cost reduction and efficiency improvement in all aspects; kept up with the market pace, formulated strategies in a scientific manner, coordinated the allocation of resources and achieved benefits from the market; and continued to optimize product mix and actively promote the implementation of new projects. In the first half of the year, the urea production and sales volume of the Company hit a record high for the same period in years, realising the revenue of RMB 4,972 million and the profit attributable to owners of the Company of RMB 310 million.

Review on the First Half of the Year

During the reporting period, the Company actively responded to the National Three-year Action Plan for special rectification of safe production, continued to strengthen refined production management, and increased efforts in the review and inspection of hidden dangers. CNOOC Fudao Hainan Phase I methanol and Fudao Phase II urea have broken the long period record since their respective commencement of production, and have established the historical record of two plants with long period operating of over 400 days at the same time. In the first half of the year, the Company recorded an output of urea of 1,381,000 tonnes, an output of methanol of 806,000 tonnes, an output of phosphate fertilisers and compound fertilisers of 412,000 tonnes and an output of POM of 17,000 tonnes.

The Company continued to enhance the work on cost reduction, quality improvement and efficiency enhancement, with various measures to compress and reduce costs and expenses. DYK Chemical actively kept track of the market situation to sophisticatedly control the purchase volume. CNOOC Huahe sought the optimal combination of coal types and coal prices through multiple channels; the comprehensive energy consumption per unit product of four plants of CNOOC Fudao decreased significantly, achieving an energy saving of 20,577 tonnes of standard coal in the first half of the year, and the comprehensive energy consumption per unit product of CNOOC Huahe was further reduced to a record low.

In terms of marketing, the Company seized the timing and grasped the rhythm, and coordinated both the domestic and overseas markets; strengthened the channel deepening and increased the sales effort for value-added products; and actively promoted the construction of e-commerce platform. In the first half of the year, the Company sold 1,329,000 tonnes of urea, a record high for the same period in years; and realised the sales volume of value-added products to 207,000 tonnes.

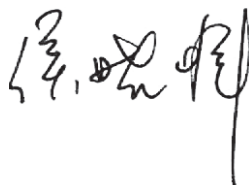
The product mix of the Company continued to be optimized, and the first automobile urea plant of the Company was successfully put into trial operation in June. The acrylonitrile project, with CNOOC Fudao as the construction and operation entity, has made solid progress, as a key project for the high-quality development of the Company in the new era, which will continue to lay the foundation for the transformation of the Company into high value-added new material sector.

Outlook for the Second Half of 2020

Looking ahead to the second half of the year, the impact of the COVID-19 epidemic and low oil prices will continue to a certain extent; the recovery of domestic economic activities and the stability of maintaining the domestic and foreign grain will be conducive to increasing the demand for fertilisers; the domestic methanol-to-olefin industry will maintain a higher operation rate, the traditional methanol downstream industry will resume, and the market expects that the price of methanol will be predominantly in the state of recovery and bottomed out slowly; the price of POM is expected to rebound in stages.

In the second half of the year, the Company will continue to focus on epidemic prevention and control to ensure safe production; continue to strengthen and improve refined production management, and strive to achieve safe and stable operation of all production plants; promote the construction of acrylonitrile projects with high quality and efficiency; achieve benefits from refined management and continue to promote cost reduction and efficiency improvement; improve the autumn sales of chemical fertilisers and the stock sales in winter; strengthen export trade, increase the proportion of direct sales, and strive to improve both quality and price; and promote the online application of e-commerce platform and logistics system, and innovate the sales model with digital means; continue to optimize product mix, upgrade “creator of value-added fertilizers” brand and increase the contribution of production and sales of value-added products; strengthen the research effort on the use of natural gas with high content of CO₂ and pay close attention to the development opportunities which are in line with the strategy of the Company.

Hou Xiaofeng
Chief Executive Officer (CEO), President



Management Discussion and Analysis

Sector Review

Chemical fertiliser industry

In 2020, the PRC government proposed that ensuring grain safety is always the top priority for governing the national administration. Stability is the utmost objective of grain production, especially in policies, area and output. The assessment of the provincial chief responsibility system for food safety shall be strengthened, and the sowing and growing area and output of grain in all provincial administrative regions shall remain basically stable in 2020. In the first half of the year, the COVID-19 epidemic suppressed the market demand of the fertiliser industry for a short period of time, however, subsequently the demand was unleashed concentratedly in a short period of time.

(I) Urea

In the first half of the year, the operation rate of domestic urea plants was slightly higher than that of the same period last year, with a total domestic output of urea of 27.57 million tonnes (in kind), representing an increase of 1.3 million tonnes or approximately 3% as compared to the same period last year; the accumulated export volume of urea was approximately 1.718 million tonnes, representing a year-on-year decrease of approximately 2.6%.

In the first half of the year, the domestic urea price rose at first and tailed off subsequently. From late February to mid-March, the domestic urea price surged to RMB1,780 per tonne, as driven by the initiation of agricultural demand in spring and increase in the stock for resumption of operation of compound fertiliser plants; since mid-March, with the gradual resumption of operation and production of domestic enterprises, the domestic urea output increased significantly, leading to a gradual decline in domestic urea price, and then continued to decrease to RMB1,698 per tonne in fluctuation to the end of June.

(II) Phosphate fertilisers

In the first half of the year, the domestic output of ammonium phosphate was approximately 12.5 million tonnes (in kind), representing a year-on-year decrease of approximately 9%. Affected by the epidemic, the export volume of China decreased significantly in the first quarter, with a year-on-year decrease of approximately 26% to 2.03 million tonnes of DAP in the first half of the year.

At the beginning of the year, affected by the suspension of operation and production of enterprises and restriction on logistics, the delivery of the phosphate fertiliser market was sluggish; in March, driven by the market demand in spring, the price of phosphate fertiliser bottomed out and the price of DAP rose to RMB2,280 per tonne. In the second quarter, as the domestic market entered into the off-season for fertilisers utilisation, the domestic market experienced a slight decline, and the price of DAP reached RMB2,160 per tonne at the end of June; however, as the international demand increased, the major FOB price of DAP rose to US\$310 to US\$315 per tonne, representing an increase of US\$15 per tonne from the beginning of the year.

Chemical industry

In the first half of the year, impacted by the combining effect of the low crude oil prices and COVID-19 epidemic, the domestic chemical market was not optimistic overall, and the prices of major bulk products decreased.

(I) Methanol

In the first half of the year, the domestic production capacity increased by approximately 4.4 million tonnes and the domestic output of methanol was approximately 30.7 million tonnes, representing an increase of 1.24 million tonnes as compared to the same period last year or approximately 4.2% year-on-year; the import volume was approximately 5.9 million tonnes, representing an increase of 1.25 million tonnes as compared to the same period last year or 26.9% year-on-year.

In the first quarter, the price of methanol rose at first and decreased subsequently; the market price of methanol in the South China ranged from RMB1,570 to RMB2,400 per tonne; the price of methanol in Inner Mongolia ranged from RMB1,350 to RMB1,850 per tonne. In the second quarter, large amount of imported methanol was received at port and the market price fluctuated and declined within a narrow range. The market price in the South China ranged from RMB1,360 to RMB1,770 per tonne, and the price of methanol in Inner Mongolia ranged from RMB1,300 to RMB1,480 per tonne.

(II) POM

In the first half of the year, the domestic output of POM reached 131,000 tonnes, representing a year-on-year increase of 16%. The import and export volume was basically flat, and the apparent consumption increased by 7% year-on-year; price decreased by 16% year-on-year.

The first quarter is the traditional peak season for POM, while manufacturers increased their production as usual, and the price declined due to oversupply, with an average product price of RMB11,130 per tonne; in the second quarter, affected by the epidemic and decline in international crude oil prices, the price of methanol, which is an upstream raw material, dragged the price of POM down to RMB10,881 per tonne.

Business Review

During the reporting period, the Company actively responded to the impact of the epidemic and low oil prices, strengthened the refined production management, and achieved stable operation of all plants. In addition to the record success of both Hainan Phase I methanol plant and Fudao Phase II urea plant achieved the operating cycle of more than 400 days, Hainan Phase II achieved a long-term running for more than 300 days and CNOOC Tianye urea plant achieved a long-term running for more than 200 days. Leveraging these, in the first half of the year, the output of urea of the Company reached a record high of 1.381 million tonnes, the output of methanol was 806,000 tonnes, the output of phosphate fertilisers and compound fertilisers was 412,000 tonnes, and the output of POM was 17,000 tonnes.

In the first half of the year, facing the unfavourable market situation of prices plummeting of chemical fertilisers and chemical products, the Company increased the sales effort on value-added products, increased the sales proportion of products with higher gross profit, promoted the deep penetration of sales channels, etc., so as to continuously stimulate the growth momentum of marketing engine. The Company sold 1.329 million tonnes of urea, 737,000 tonnes of methanol, 422,000 tonnes of phosphate fertilisers and compound fertilisers and 15,000 tonnes of POM, of which the sales volume of urea reached a record high as compared to the same period in years; the product mix was adjusted continuously, with the sales volume of value-added products reaching 207,000 tonnes. By seizing the favourable international market conditions, the Company exported approximately 147,000 tonnes of urea and approximately 50,000 tonnes of DAP in the first half of the year.

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					
	2020			2019		
	Production volume (tonnes)	Sales volume (tonnes)	Utilisation rate (%)	Production volume (tonnes)	Sales volume (tonnes)	Utilisation rate (%)
Chemical fertilisers						
Urea						
Fudao Phase I	273,298	259,779	105.1	270,606	256,187	104.1
Fudao Phase II	450,303	425,799	112.6	390,696	387,998	97.7
CNOOC Tianye	318,133	287,329	122.4	231,393	216,565	89.0
CNOOC Huahe	339,109	356,458	130.4	323,990	310,277	124.6
Group total	1,380,842	1,329,366	117.0	1,216,685	1,171,027	103.1
Phosphate fertilisers and Compound fertilisers						
DYK MAP	24,591	31,587	32.8	22,873	15,500	30.5
DYK DAP Phase I (Note 1)	140,065	125,043	80.0	127,884	126,527	73.1
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Group total	411,790	422,192	82.4	424,357	391,493	84.9
Chemical products						
Methanol						
Hainan Phase I	319,158	281,956	106.4	275,733	290,829	91.9
Hainan Phase II	431,285	410,052	107.8	385,329	385,746	96.3
CNOOC Tianye	55,255	45,104	55.3	84,777	67,254	84.8
Group total	805,698	737,112	100.7	745,839	743,829	93.2
POM						
CNOOC Tianye POM	16,639	15,127	83.2	9,903	9,566	99.0
Group total	16,639	15,127	83.2	9,903	9,566	99.0

Note 1: In the first half of 2020, the DYK DAP Phase I Plant produced 21,360 tonnes of DAP and 118,705 tonnes of compound fertilisers, totaling at 140,065 tonnes, and sold 18,930 tonnes of DAP and 106,113 tonnes of compound fertilisers, totaling at 125,043 tonnes. In the first half of 2019, the DYK DAP Phase I Plant produced 5,588 tonnes of DAP and 122,296 tonnes of compound fertilisers, totaling at 127,884 tonnes, and sold 13,195 tonnes of DAP and 113,332 tonnes of compound fertilisers, totaling at 126,527 tonnes.

BB fertilisers

In the first half of 2020, the Group produced a total of 19,639 tonnes of BB fertilisers with a sales volume of 17,856 tonnes.

Financial Review

Revenue and gross profit

During the reporting period, the Group's revenue was RMB4,971.6 million, representing a decrease of RMB297.4 million, or 5.6%, from RMB5,269.0 million during the same period of 2019.

During the reporting period, the Group's external revenue from urea was RMB2,096.7 million, representing an increase of RMB11.9 million, or 0.6%, from RMB2,084.8 million during the same period of 2019. This was primarily attributable to: (1) an increase of 158,339 tonnes in the sales volume of urea, leading to an increase of RMB281.9 million in revenue; and (2) a decrease of RMB203 per tonne in the selling price of urea, leading to a decrease of RMB270.0 million in revenue.

During the reporting period, the Group's external revenue from phosphate fertilisers and compound fertilisers was RMB875.3 million, representing a decrease of RMB108.7 million, or 11.0%, from RMB984.0 million in the corresponding period of 2019. This was primarily attributable to: (1) an increase of 30,561 tonnes in the sales volume of phosphate fertilisers and compound fertilisers, leading to an increase of RMB76.8 million in revenue; and (2) a decrease of RMB440 per tonne in the selling price of phosphate fertilisers and compound fertilisers, leading to a decrease of RMB185.5 million in revenue.

During the reporting period, the Group's external revenue from methanol was RMB1,095.6 million, representing a decrease of RMB399.5 million, or 26.7%, from RMB1,495.1 million in the same period of 2019. This was primarily attributable to: (1) a decrease of 6,717 tonnes in the sales volume of methanol, leading to a decrease of RMB13.5 million in revenue; and (2) a decrease of RMB524 per tonne in the selling price of methanol, leading to a decrease of RMB386.0 million in revenue.

During the reporting period, the Group's external revenue from other segments (primarily comprising port operations and provision of transportation services; trading in fertilisers and chemicals, manufacture and sales of POM, BB fertilisers and woven plastic bags) amounted to RMB904.0 million, representing an increase of RMB198.9 million, or 28.2%, from RMB705.1 million in the corresponding period of 2019. This was mainly attributable to: (1) an increase of RMB173.6 million in revenue as compared with last year as a result of the increase in trading business volume during the year; (2) the Tianye POM Line C resumed in the second half of 2019, and the concurrent operation of both lines A and C in the first half of this year led to an increase in revenue of RMB18.0 million year-on-year; (3) an increase in revenue of RMB14.6 million due to the increase in throughput of Hainan Basuo Port; (4) a year-on-year decrease of RMB6.8 million in revenue due to a decrease in the sales volume and the price of BB fertilisers in Hainan; and (5) a decrease in revenue of RMB0.5 million from other income (mainly including liquid ammonia and formaldehyde).

During the reporting period, the Group's gross profit was RMB685.3 million, representing a decrease of RMB341.4 million, or 33.3%, from RMB1,026.7 million in the corresponding period of 2019. This was mainly attributable to: (1) in the first half of the year, benefiting from various measures to reduce cost and increase efficiency, the costs of various products of the Company were well controlled; however, the selling prices of major products decreased significantly as compared with the same period of last year, leading to a significant decrease in the gross profit, where the gross profit of methanol decreased by RMB270.4 million year-on-year, and the gross profit of phosphate fertilisers and compound fertilisers decreased by RMB50.3 million year-on-year; (2) the overhaul of Fudao Phase I as scheduled, which increased overhaul costs by RMB36.1 million; and (3) benefiting from a better cost control and an increase in business volume, the gross profits of businesses such as POM and Basuo Port Labour Service increased to a certain extent.

Other income, other gains and losses

During the reporting period, other income, other gains and losses of the Group amounted to RMB59.0 million in aggregate, representing a decrease of RMB33.2 million, or 36.0%, from RMB92.2 million in the corresponding period of 2019. During the reporting period, the main components of income were: (1) profit from other businesses, such as sales of materials, utilities and methanol trading of Tianye, of RMB19.6 million; (2) investment income from banking wealth management products of RMB17.1 million; (3) special governance subsidies for enterprises in special difficulties of RMB9.8 million received by Tianye; and (4) other various financial subsidies and insurance compensation of RMB12.5 million. The year-on-year decrease in other income, other gains and losses during the reporting period was mainly attributable to: (1) the receipt of subsidies of RMB49.9 million for "Three Supplies and One Property" in the previous period, and there was no such income in the current period; (2) the interest income from wealth management products was presented in other gains and losses when received, and the actual income for the period increased by RMB10.5 million year-on-year; (3) profit from other businesses for the period increased by RMB4.8 million year-on-year; and (4) an increase of RMB1.4 million in others.

Selling and distribution costs

During the reporting period, the Group's selling and distribution costs amounted to RMB224.9 million, representing an increase of RMB33.5 million, or 17.5%, from RMB191.4 million in the corresponding period of 2019. This was primarily attributable to: (1) an increase of RMB28.2 million in direct selling expenses as compared with the corresponding period of last year as a result of the overall increase in sales volume of products and the adjustment of transportation settlement method during the reporting period; (2) an increase of RMB3.4 million in advertising and exhibition expenses for the expansion of business; and (3) a year-on-year increase of RMB1.9 million in depreciation and staff costs.

Administrative expenses

During the reporting period, the Group's administrative expenses amounted to RMB189.9 million, representing a decrease of RMB8.3 million, or 4.2%, from RMB198.2 million for the same period in 2019, which was mainly attributable to the decrease in tax expenses as a result of the corresponding tax reduction and exemption policies for taxes such as property tax and land use tax during the reporting period.

Other expenses

During the reporting period, the Group's other expenses were RMB7.1 million, representing a decrease of RMB8.5 million, or 54.6%, from RMB15.6 million for the same period of 2019, which was primarily attributable to: (1) a year-on-year decrease of RMB5.5 million in external donations; (2) loss on disposal of land in Basuo Port of RMB2.2 million for the previous period, and there was no such expense for the current period; (3) in February of this year, Basuo Port handed over the public transport management to the government, reducing the public security fee by RMB1.2 million compared with the corresponding period of last year; and (4) an increase of RMB0.4 million in other expenses.

Finance income and finance costs

The Group's finance income for the reporting period increased by RMB1.1 million to RMB119.3 million from RMB118.2 million for the same period of 2019, which was primarily attributable to the finance income of RMB1.1 million from the addition of sizable certificate of deposit business of the Group during the reporting period.

The Group's finance costs for the reporting period amounted to RMB38.6 million, representing a decrease of RMB7.0 million from RMB45.6 million for the same period of 2019. This was mainly attributable to the decrease in finance costs resulting from the decrease in external financing amount of CNOOC Huahe and the decrease in finance costs resulting from the decrease in external financing interest rate of Hubei Dayukou.

During the reporting period, the Group has sound financial resources, mainly including bank borrowings and financings from other financial institutions.

Net exchange losses

During the reporting period, the Group recorded a net exchange gain of RMB0.1 million, representing an increase in gain of RMB2.8 million as compared with a net exchange loss of RMB2.7 million for the same period in 2019. It was mainly the exchange gain recorded in the Company's operating transactions attributable to exchange rate fluctuations.

Share of profits/losses of associates and joint ventures

During the reporting period, the Group's share of profits of associates and joint ventures amounted to RMB0.3 million, representing an increase of RMB0.8 million in profits as compared with the share of losses of associates and joint ventures of RMB0.5 million in 2019, which was mainly attributable to: (1) the recognition of investment loss of RMB1.2 million in the previous period to an associate, United Wealthfert Co., Ltd., which recorded a small profit in the current period; (2) an increase of RMB0.4 million for the period in the investment loss recognised for CBC (Canada) Holding Corp from the corresponding period of last year.

Income tax expenses

The Group's income tax expenses for the reporting period were RMB132.8 million, representing a decrease of RMB90.2 million from RMB223.0 million in the same period of 2019. This was mainly attributable to: (1) a year-on-year decrease of RMB89.4 million in current income tax expenses due to the decrease in profit; and (2) a year-on-year decrease of RMB0.8 million in deferred tax due to the effect of impairment or loss in previous years.

Net profit for the period

The Group's profit after tax for the reporting period was RMB299.6 million, representing a decrease of RMB297.8 million from the net profit of RMB597.4 million in the same period of 2019.

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 2020. During the reporting period, the Company distributed the dividend amounted to RMB350.4 million in cash for 2019.

Significant investment

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

Significant acquisition and disposal of subsidiaries, joint ventures and associates

The Company disposed of its 49% equity interest in Shanxi Hualu Yangpoquan Coal Mining Co., Ltd.* and its 51% equity interest in CNOOC Hualu Shanxi Coal Chemical Co., Ltd.* and the creditor's right of RMB61.47502275 million through listing-for-sale on China Beijing Equity Exchange*.

As disclosed in the announcement of the Company dated 10 June 2020, Hequ Taiyang Coal Industry Co., Ltd. ("Taiyang Coal") is the ultimate transferee for such disposal. On 18 June 2020, the Company entered into the Equity Transaction Agreements with Taiyang Coal for a final consideration of RMB739.06502275 million. Other major terms of the Equity Transaction Agreements are: (1) Taiyang Coal shall make the one-off payment of the Final Consideration in cash, excluding the guarantee already paid by it, to the clearing account designated by China Beijing Equity Exchange within five business days after the Equity Transaction Agreements come into effect, (2) if Taiyang Coal failed to make full payment of the Final Consideration within the period as stipulated in the Equity Transaction Agreements, Taiyang Coal shall pay the liquidated damages for default payment. Such liquidated damages shall be calculated as 2‰ of the consideration payable per day during the default payment period. If the payment is overdue for more than 180 days, the Company has the right to terminate the Equity Transaction Agreements and require Taiyang Coal to bear the liability for breach of contract at 30% of the Final Consideration as stipulated in the Equity Transaction Agreements. After each of the Equity Transaction Agreements come into effect, when either party terminates the contract without proper reason, it shall make the one-off payment of liquidated damages to the counterparty at 30% of the Final Consideration as stipulated in the Equity Transaction Agreements, and when causing damages to the counterparty, it shall also be liable for compensation.

As at the date of this report, Taiyang Coal, the transferee, had not paid the consideration, excluding the guarantee already paid by it (30% of the Final Consideration of RMB739.06502275 million).

Capital expenditure

During the reporting period, the total capital expenditure of the Group amounted to RMB82.1 million. Among them, RMB71.0 million was for the purchase of equipment and upgrade and improvement projects, RMB6.2 million was for the energy saving and emission reduction projects, RMB3.3 million was for the mid- and downstream and related projects, RMB1.3 million was for the purchase of electronic equipment projects, and RMB0.3 million was for the base infrastructure projects.

Pledge of assets

As at 30 June 2020, property, plant and equipment of RMB938.2 million were charged by the Group as collateral for interest-bearing bank borrowings.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit ranking 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 in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. As at 30 June 2020, the Group's total interest-bearing liabilities amounted to RMB2.03 billion, of which RMB300 million were fixed-rate liabilities and the remaining were floating-rate liabilities. The gearing ratio of the Group as at 30 June 2020 (calculated as interest-bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 12.1%.

Cash and cash equivalents

During the reporting period, the Group's cash and cash equivalents were RMB824.1 million at the beginning of the period. During the period, net cash inflow from operating activities amounted to RMB220.0 million, net cash inflow from investing activities amounted to RMB379.7 million, net cash outflow from financing activities amounted to RMB420.1 million, and the effect of exchange rate changes on cash and cash equivalents was a decrease of RMB0.6 million. As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB1,003.0 million, which were mainly denominated in 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 2020, the Group had a total of 4,834 employees. The Group has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Group strictly complied with the annual training plan, with a total number of attendees of 31,886 persons and a total training time of 115,004 hours.

During the reporting period, the Group organised on-site safety education and three-level safety training for employees at all levels (including contractors), and organised and enrolled in a total of 3,307 network security trainings and external trainings, with a total number of attendees of 49,114 persons and a total training time of 212,938 hours.

Market risks

The major market risks exposed to the Group are the changes in the selling prices of its major products and in the costs of raw materials (mainly natural gas, coal, phosphate ore, synthetic ammonia and sulphur), fuels (mainly natural gas and coal) and power, as well as 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 its products and the costs of raw materials and fuels.

Interest rate risk

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

Foreign exchange risk

The Group's sales revenue was primarily denominated in RMB and secondarily in USD. During the reporting period, the RMB to USD exchange rate ranged between 6.8606 and 7.1316. Fluctuations in the exchange rate between RMB and USD will affect the Group's revenue from the export sales of products and the import of equipment and raw materials.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 3.85% during the reporting period, which did not have any significant effect on the Group's operating results.

Subsequent events and contingent liabilities

As at 30 June 2020, the Company had neither subsequent events nor contingent liabilities.

Material litigation and arbitration

As at 30 June 2020, the Company had neither material litigation nor arbitration.

Sector Outlook

In the second half of 2020, the impact of the epidemic and low oil prices will continue to a certain extent; the recovery of domestic economic activities and the stability maintaining of the domestic and foreign grain will be conducive to increase the demand for fertiliser, and the export of fertiliser will gradually exert its influence on the improvement of domestic market; the domestic methanol-to-olefins industry will maintain a higher operation rate, the operation of the traditional downstream methanol industry (such as formaldehyde, ice acetic acid, MTBE) will effectively increase, and the market expects that the price of methanol will be predominantly riding on the trend of recovery and bottomed out slowly; the price of POM is expected to rebound in stages.

Our Key Tasks in the second half of 2020

1. Continue to focus on epidemic prevention and control to ensure safe production;
2. Persistently strengthen and enhance HSE and refined production management, in an effort to achieve safe and stable operation of each production unit;
3. Promote the construction of acrylonitrile projects with high quality and efficiency;
4. Give full play to the advantages of marketing coordination, increase efforts to expand marketing as well as sales and promote the launch of e-commerce platform and logistics system;
5. Continue to optimize product mix and increase the proportion of production and sales of value-added products;
6. Continue to promote cost reduction and efficiency improvement, strictly control on expenses and optimize procurement of raw materials; and
7. Strengthen the research effort on the use of natural gas with high content of CO₂ in Hainan and pay close attention to the development opportunities which are in line with the strategy of the Company.

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 2020. The Group's unaudited interim results for the six months ended 30 June 2020 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, the independent auditor, 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 2020, 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"), except the followings.

On 24 December 2019, Mr. Xia Qinglong resigned from the positions of the chairman of the Board and an executive Director, and Mr. Wang Weimin, an executive Director, was appointed by the Board to perform the duties and responsibilities of the chairman of the Board until the effective date of the appointment of the new chairman of the Board. In view of Mr. Wang Weimin's experience, personal profile and his roles in the Company, the Board considers that it has no unfavorable impact on the business prospects and operational efficiency of the Company that Mr. Wang Weimin, in addition to acting as the CEO and president of the Company, acts as the chairman of the Board. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that:

- (i) there is sufficient check and balance in the Board as the decision to be made by the Board requires approval by at least a majority of the Directors and our Board has three independent non-executive Directors out of the six Directors, which is in compliance with the Listing Rules;
- (ii) Mr. Wang Weimin and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they act for the benefit and in the best interest of the Company and make decisions for the Company accordingly;
- (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company; and
- (iv) the overall strategic and other key business, financial, and operational policies of the Company are made collectively after thorough discussion at both Board and senior management levels.

On 28 May 2020, Mr. Wang Weimin was appointed as the chairman of the Board and resigned as CEO and president of the Company. On 12 August 2020, Mr. Hou Xiaofeng was appointed as CEO and president of the Company. Currently, the Company complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Disclosures on Information of Directors, Supervisors and Chief Executive

Mr. Wang Weimin was appointed as the Chairman as well as the chairman of nomination committee of the Board with effect from 28 May 2020. Mr. Wang Weimin has resigned from his position as the chief executive officer and president of the Company due to other work commitment with effect from 28 May 2020.

Mr. Liu Jianyao was appointed as Supervisor with effect from 28 May 2020.

Mr. Hou Xiaofeng was appointed as the chief executive officer and president of the Company with effect from 12 August 2020. Mr. Hou Xiaofeng was appointed as an executive director of the Company with effect from 26 August 2020.

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 2020, 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 2020, 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)
Hermes Investment Management Ltd	Investment manager	229,536,000 (L)	H Shares	12.96 (L)	4.98 (L)
Mitsubishi UFJ Financial Group, Inc. (Note 2)	Interests in controlled corporation	176,734,000 (L)	H Shares	9.97(L)	3.83 (L)
Hermes Investment Funds PLC	Beneficial owner	143,333,345 (L)	H Shares	8.09 (L)	3.11 (L)
Citigroup Inc. (Note 3)	Approved lending Agent/Interests in controlled corporation/	138,998,264 (L)	H Shares	7.84 (L)	3.02 (L)
	Person having a security interest in shares	880,000 (S)		0.04 (S)	0.02 (S)
		138,023,141 (P)		7.79 (P)	2.99 (P)
Invesco Asset Management Limited	Investment manager	106,966,000 (L)	H Shares	6.03 (L)	2.32 (L)
Edgbaston Investment Partners LLP	Investment manager	105,106,000 (L)	H Shares	5.93 (L)	2.28 (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) Mitsubishi UFJ Financial Group, Inc. indirectly holds these shares through its controlled corporations, namely Mitsubishi UFJ Trust and Banking Corporation, First Sentier Investors Holdings Pty Ltd, First Sentier Investors Asia Holdings Ltd and First State Investments (Hong Kong) Ltd.
- (3) Citigroup Inc. indirectly holds these shares through its controlled corporations, namely Citicorp LLC, Citibank, N.A., Citigroup Global Markets Holdings Inc., Citigroup Financial Products Inc., Citigroup Global Markets Holdings Bahamas Limited and Citigroup Global Markets Limited.

Save as disclosed above, to the best knowledge of any of the Directors and chief executives of the Company, as at 30 June 2020, 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 2020, 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 2020, 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, except that the associate of Ms. Liu Lijie, a Supervisor of the Company, held 80,000 H shares of the Company.

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 50, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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 other 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**”) issued by the International Accounting Standards Board. 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, 27 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended	
		30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
Revenue	4	4,971,572	5,269,002
Cost of sales		(4,286,245)	(4,242,289)
Gross profit		685,327	1,026,713
Other income	4	42,511	88,104
Other gains and losses	5	16,525	4,082
Selling and distribution costs		(224,952)	(191,404)
Administrative expenses		(189,860)	(198,168)
Other expenses		(7,057)	(15,555)
Change in fair value of financial assets at fair value through profit or loss		28,774	37,106
Finance income		119,283	118,203
Finance costs	6	(38,596)	(45,563)
Net exchange gains/(losses)	7	127	(2,652)
Share of (losses)/profits of joint ventures		(133)	442
Share of profits/(losses) of associates		450	(922)
Profit before income tax	8	432,399	820,386
Income tax expenses	9	(132,783)	(222,997)
Profit for the period		299,616	597,389
Other comprehensive income for the period, net of tax			
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation of foreign operations		557	130
Share of other comprehensive income of joint ventures		(1,956)	1,660
Share of other comprehensive income of associates		55	2
Other comprehensive income for the period		(1,344)	1,792
Total comprehensive income for the period		298,272	599,181

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - Continued

For the six months ended 30 June 2020

	Notes	Six months ended	
		30 June 2020	30 June 2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit attributable to:			
Owners of the Company		309,939	548,708
Non-controlling interests		(10,323)	48,681
		<u>299,616</u>	<u>597,389</u>
Total comprehensive income attributable to:			
Owners of the Company		308,595	550,500
Non-controlling interests		(10,323)	48,681
		<u>298,272</u>	<u>599,181</u>
Earnings per share attributable to owners of the Company			
- Basic for the period (RMB per share)	10	0.07	0.12

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	6,508,628	6,752,340
Mining rights		132,965	133,744
Prepaid lease payments	12	565,413	571,221
Investment properties		96,689	99,445
Intangible assets		15,990	28,574
Investments in joint ventures	13	225,830	227,919
Investments in associates	14	35,195	216,587
Financial assets at fair value through other comprehensive income		600	600
Deferred tax assets	15	493,375	504,140
		8,074,685	8,534,570
CURRENT ASSETS			
Inventories	16	1,243,814	1,110,767
Trade receivables	17	465,140	32,608
Bills receivable	18	339,235	333,354
Contract assets		86,718	58,233
Prepayments, deposits and other receivables	19	375,709	337,246
Financial assets at fair value through profit or loss	20	2,022,734	2,898,451
VAT recoverable		261,077	286,118
Pledged bank deposits		4,129	4,129
Time deposits with original maturity over three months		5,500,000	5,000,000
Cash and cash equivalents	21	1,002,954	824,096
		11,301,510	10,885,002
A disposal group and a non-current asset classified as held for sale	28	200,644	-
		11,502,154	10,885,002
TOTAL ASSETS		19,576,839	19,419,572
EQUITY			
CAPITAL AND RESERVES			
Issued capital	22	4,610,000	4,610,000
Reserves		9,658,684	9,350,089
Proposed dividends	23	-	350,360
		14,268,684	14,310,449
Equity attributable to owners of the Company		14,268,684	14,310,449
Non-controlling interests		750,829	806,640
TOTAL EQUITY		15,019,513	15,117,089

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - Continued

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
LIABILITIES			
NON-CURRENT LIABILITIES			
Benefits liability		36,874	42,455
Interest-bearing bank and other borrowings	24	287,000	422,000
Lease liabilities		22,221	22,190
Deferred tax liabilities	15	16,120	19,382
Deferred revenue	25	131,094	130,126
Other long-term liabilities		5,483	29,880
		498,792	666,033
CURRENT LIABILITIES			
Trade payables	26	1,059,920	688,471
Contract liabilities		353,504	442,869
Other payables and accruals	27	814,004	876,619
Interest-bearing bank and other borrowings	24	1,746,143	1,587,000
Lease liabilities		5,792	4,527
Income tax payable		48,020	36,964
		4,027,383	3,636,450
Liabilities associated with a disposal group classified as held for sale	28	31,151	-
		4,058,534	3,636,450
TOTAL LIABILITIES		4,557,326	4,302,483
TOTAL EQUITY AND LIABILITIES		19,576,839	19,419,572
NET CURRENT ASSETS		7,443,620	7,248,552
TOTAL ASSETS LESS CURRENT LIABILITIES		15,518,305	15,783,122
NET ASSETS		15,019,513	15,117,089

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 2020	4,610,000	1,109,316	1,420,561	51,041
Profit for the period	-	-	-	-
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	-	-
Appropriation and utilisation of safety fund, net	-	-	-	17,626
2019 final dividends declared (Note 23)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-
Balance at 30 June 2020 (Unaudited)	4,610,000	1,109,316	1,420,561	68,667
Balance at 1 January 2019	4,610,000	1,025,702	1,185,957	62,302
Profit for the period	-	-	-	-
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	-	-
Appropriation and utilisation of safety fund, net	-	-	-	14,391
2018 final dividends declared (Note 23)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-
Balance at 30 June 2019 (Unaudited)	4,610,000	1,025,702	1,185,957	76,693

Notes:

- 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 earnings RMB'000	Proposed dividends RMB'000	Translation reserve RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
6,763,796	350,360	5,375	14,310,449	806,640	15,117,089
309,939	-	-	309,939	(10,323)	299,616
-	-	(1,344)	(1,344)	-	(1,344)
309,939	-	(1,344)	308,595	(10,323)	298,272
(17,626)	-	-	-	-	-
-	(350,360)	-	(350,360)	-	(350,360)
-	-	-	-	(45,488)	(45,488)
7,056,109	-	4,031	14,268,684	750,829	15,019,513
6,634,282	691,500	939	14,210,682	916,956	15,127,638
548,708	-	-	548,708	48,681	597,389
-	-	1,792	1,792	-	1,792
548,708	-	1,792	550,500	48,681	599,181
(14,391)	-	-	-	-	-
-	(691,500)	-	(691,500)	-	(691,500)
-	-	-	-	(162,813)	(162,813)
7,168,599	-	2,731	14,069,682	802,824	14,872,506

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended	
	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
Net cash from operating activities	219,852	530,895
Net cash from investing activities		
Interest received	67,765	79,562
Purchase of property, plant and equipment	(116,078)	(97,306)
Government grants received	5,984	517
(Increase)/decrease in time deposits	(500,000)	102,684
Purchase of financial assets at fair value through profit or loss	(3,300,000)	(2,050,000)
Disposal of financial assets at fair value through profit or loss	4,221,596	456,559
Proceeds from disposal of property, plant and equipment	480	4,082
Net cash flow generated from/(used in) investing activities	379,747	(1,503,902)
Net cash from financing activities		
Dividends paid	(350,360)	(691,500)
Dividends paid to non-controlling interests	(45,488)	(162,813)
Decrease in pledged bank deposits	-	(70)
New bank and other borrowings raised	1,618,143	1,840,848
Repayment of bank and other borrowings	(1,594,000)	(51,000)
Interest paid	(38,533)	(36,759)
Payment of lease liabilities	(2,441)	(1,353,570)
Transaction charge for other bank borrowings	(7,420)	-
Net cash flow used in financing activities	(420,099)	(454,864)
Net increase /(decrease) in cash and cash equivalents	179,500	(1,427,871)
Cash and cash equivalents at beginning of the period	824,096	3,400,039
Effect of foreign exchange rate changes	(629)	(1,617)
Cash and cash equivalents at end of the period	1,002,967	1,970,551
Analysis of cash and cash equivalents:		
Bank balances and cash	1,002,954	1,970,551
Bank balance and cash under asset held for sale (Note 28)	13	-
	1,002,967	1,970,551

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

China BlueChemical Ltd. (the “**Company**”) was established in 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 “**Stock Exchange**”).

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

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 the significant judgments made by the management in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

The IASB has issued a number of new or amended International Financial Reporting Standards (“**IFRSs**”) that are first effective on 1 January 2020 (and 1 June 2020 for the amendment to IFRS 16) and are therefore applicable for the current accounting period of the Group.

IFRSs	Effective Date
• Amendments to IFRS 3, Definition of as Business	1 January 2020
• Amendments to IAS 1 and IAS 8, Definition of Material	1 January 2020
• Amendments to IFRS 9 and IAS 39 and IFRS 7, Interest Rate Benchmark Reform	1 January 2020
• Conceptual Framework for Financial Reporting (Revised)	1 January 2020
• Amendment to IFRS 16, COVID-19-Related Rent Concessions	1 June 2020

The new or amended IFRSs that are effective from 1 January 2020 (and 1 June 2020 for the amendment to IFRS 16) did not have any material impact on the group’s accounting policies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

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, POM and woven plastic bags.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

3. OPERATING SEGMENT INFORMATION - Continued

	Urea RMB'000	Phosphorus and compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Six months ended						
30 June 2020 (Unaudited)						
Segment revenue						
Sales to external customers	2,096,668	875,294	1,095,573	904,037	-	4,971,572
Inter-segment sales	-	-	-	197,728	(197,728)	-
Total	2,096,668	875,294	1,095,573	1,101,765	(197,728)	4,971,572
Segment profit/(loss) before income tax	338,419	(6,129)	20,981	(40,245)	-	313,026
Interest and unallocated income						164,582
Corporate and other unallocated expenses						(45,653)
Net exchange gains						127
Share of losses of joint ventures						(133)
Share of profits of associates						450
Profit before income tax						432,399
Six months ended						
30 June 2019 (Unaudited)						
Segment revenue						
Sales to external customers	2,084,832	983,965	1,495,089	705,116	-	5,269,002
Inter-segment sales	-	-	-	190,247	(190,247)	-
Total	2,084,832	983,965	1,495,089	895,363	(190,247)	5,269,002
Segment profit/(loss) before income tax	431,325	40,515	286,659	(33,254)	-	725,245
Interest and unallocated income						159,391
Corporate and other unallocated expenses						(61,118)
Net exchange losses						(2,652)
Share of profits of joint ventures						442
Share of losses of associates						(922)
Profit before income tax						820,386

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

4. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

	Six months ended	
	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods, recognised at a point in time*	4,758,028	5,070,039
Rendering of services, recognised overtime*	213,544	198,963
	4,971,572	5,269,002
Other income		
Income from sale of other materials, recognised at a point in time*	10,037	8,151
Income from rendering of other services, recognised overtime*	10,585	12,114
Gross rental income	2,962	1,396
Government grants	17,760	63,855
Others	1,167	2,588
	42,511	88,104

* Revenue from contracts with customer within the scope of IFRS 15.

5. OTHER GAINS AND LOSSES

	Six months ended	
	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of financial assets at FVTPL	17,105	6,559
Reversal of impairment loss on other receivables	-	163
Loss on disposal of property, plant and equipment	(580)	(2,640)
	16,525	4,082

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

6. FINANCE COSTS

	Six months ended	
	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	37,963	32,145
Interest on lease liabilities	633	13,418
	38,596	45,563

7. NET EXCHANGE GAINS/LOSSES

	Six months ended	
	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Exchange gains	3,370	8,581
Exchange losses	(3,243)	(11,233)
	127	(2,652)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

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 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	4,111,275	4,075,941
Write-down of inventories to net realisable value	-	3,625
Cost of services provided	174,970	162,723
Cost of sales recognised as expenses	4,286,245	4,242,289
Depreciation and amortisation:		
Depreciation of property, plant and equipment		
- Owned property, plant and equipment	315,198	293,289
- Right-of-use assets included in:		
- Buildings	804	1,165
- Plant and machinery	1,963	50,469
Amortisation of mining rights	779	826
Amortisation of prepaid lease payments	5,681	7,374
Amortisation of investment properties	2,756	3,830
Amortisation of intangible assets	3,347	3,604
	330,528	360,557

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

9. INCOME TAX EXPENSES

	Six months ended	
	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax	120,531	206,105
Under-provision in prior year	2,440	6,307
	122,971	212,412
Deferred tax (Note 15)	9,812	10,585
Total income tax expenses	132,783	222,997

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

(a) Enterprise income tax ("EIT")

Under the Enterprises Income tax Law of the PRC (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

(b) Hong Kong profits tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2020 and 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

9. INCOME TAX EXPENSES - Continued

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

	Six months ended	
	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	432,399	820,386
Tax at the statutory tax rate of 25%	108,100	205,097
Tax effect of concessionary tax rate	(266)	(431)
Tax effect of share of (profits)/losses of joint ventures and associates	(79)	120
Tax effect of revenue not taxable for tax purposes	-	(6,268)
Tax effect of expenses not deductible for tax purposes	1,245	737
Tax effect of tax losses not recognised	28,625	21,721
Tax effect of deductible temporary differences not recognised	-	3,658
Utilisation of deductible temporary differences not recognised	(7,282)	(7,944)
Under-provision in respect of prior years	2,440	6,307
Income tax expenses	132,783	222,997
The Group's effective income tax rate	31%	27%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

10. EARNINGS PER SHARE

	Six months ended	
	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
for the period attributable to owners of the Company	309,939	548,708
	Six months ended	
	30 June 2020	30 June 2019
	'000	'000
	(Unaudited)	(Unaudited)
Shares		
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 2020 and 2019.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to RMB78,626,000 (six months ended 30 June 2019: RMB116,109,000). Property, plant and equipment with carrying amount of RMB1,080,000 (six months ended 30 June 2019: RMB4,101,000) were disposed of during the six months ended 30 June 2020.

12. PREPAID LEASE PAYMENTS

The Group did not acquire land use right during the six months ended 30 June 2020 and 2019.

As of the date of issuance of the condensed consolidated financial statements, the land use right certificate held by CNOOC Hualu Shanxi Coal Chemical Co., Ltd. ("CNOOC Hualu"), a subsidiary of the Company, has been invalidated and written-off 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 2019: RMB26,339,000), presented as "Other long term liabilities" and "Other payables and accruals" under "Liabilities associated with a disposal group classified as held for sale" (31 December 2019: non-current liabilities and current liabilities respectively), are no longer payable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

13. INVESTMENTS IN JOINT VENTURES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cost of investments in joint ventures	265,299	265,299
Share of post-acquisition losses and other comprehensive income, net of dividends received	(39,469)	(37,380)
	225,830	227,919

The Group's other receivables and other payables with its joint ventures were disclosure in Notes 19 and 27 respectively.

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
				30 June 2020	31 December 2019	
				%	%	
貴州錦麟化工有限責任公司 (transliterated as Guizhou Jinlin Chemical Co., Ltd.)	PRC 12 April 2007	RMB481,398	Direct Indirect	41.26 -	41.26 -	Phosphorus mining and processing, manufacturing and sales of phosphorus ore and chemical products
CBC (Canada) Holding Corp. (中海化學(加拿大)控股公司)	Canada 28 May 2013	CAD24,000	Direct Indirect	60.00 -	60.00 -	Investment holding
海南八所港勞動服務有限公司 (transliterated as Hainan Basuo Port Labour Service Limited)	PRC 24 April 2005	RMB5,000	Direct Indirect	- 36.56	- 36.56	Provision of overseas shipping services

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

14. INVESTMENTS IN ASSOCIATES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cost of investments in associates	670,031	670,031
Share of post-acquisition losses and other comprehensive income, net of dividends received	(452,939)	(453,444)
Transfer to a non-current asset classified as held for sale	(181,897)	-
	35,195	216,587
A non-current asset classified as held for sale represented by:		
Cost of investment in an associate	637,000	-
Share of post-acquisition losses and other comprehensive income, net of dividends received	(455,103)	-
	181,897	-

The Group's trade receivables, other receivables, trade payables and other payables with its associates were disclosed in Notes 17, 19, 26 and 27 respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

14. INVESTMENTS IN ASSOCIATES - Continued

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

Name of the entity	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company		Principal activities
				30 June 2020	31 December 2019	
				%	%	
山西華鹿陽坡泉煤礦有限公司 (transliterated as Shanxi Hualu Yangpoquan Coal Mining Co., Ltd.) ("Yangpoquan Coal")(Note)	PRC 31 August 2001	RMB52,000	Direct Indirect	49.00 -	49.00 -	Mining and sale of coal
中國八所外輪代理有限公司 (transliterated as China Basuo Overseas Shipping Agency Co., Ltd.)	PRC 24 May 2000	RMB1,800	Direct Indirect	- 36.56	- 36.56	Provision of overseas shipping services
內蒙古鴻豐包裝有限責任公司 (transliterated as Inner Mongolia Hong Feng Packaging Co., Ltd.)	PRC 9 December 1999	RMB3,297	Direct Indirect	- 45.21	- 45.21	Manufacture and sale of woven plastic bags
聯合惠農農資(北京)有限公司 (transliterated as United Agricultural Means of Production (Beijing) Co., Ltd.)	PRC 7 June 2016	RMB100,000	Direct Indirect	- 30.00	30.00 -	Merchandising

Note: Yangpoquan Coal has been classified as held for sale at the end of the reporting period. Details of the transaction are disclosed in Note 28 to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Deferred tax assets	493,375	504,140
Deferred tax liabilities	<u>(16,120)</u>	<u>(19,382)</u>
	<u>477,255</u>	484,758

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

15. DEFERRED TAX ASSETS/LIABILITIES - Continued

The following are the major deferred tax liabilities and assets recognised and movements thereon during the period:

	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
At 1 January 2019							
(Audited)	21,576	496,889	16,021	(43,147)	264,312	7,894	763,545
(charge)/credit to profit or loss	(1,149)	(6,513)	(1,742)	1,934	(4,962)	1,847	(10,585)
At 30 June 2019							
(Unaudited)	20,427	490,376	14,279	(41,213)	259,350	9,741	752,960
(charge)/credit to profit or loss	(3,293)	(45,282)	36	21,831	(237,197)	(4,297)	(268,202)
At 31 December 2019 and 1 January 2020							
(Audited)	17,134	445,094	14,315	(19,382)	22,153	5,444	484,758
(charge)/credit to profit or loss	-	(9,724)	-	953	567	(1,608)	(9,812)
Transfer to liabilities associated with a disposal group classified as held for sale (Note 28)	-	-	-	2,309	-	-	2,309
At 30 June 2020							
(Unaudited)	17,134	435,370	14,315	(16,120)	22,720	3,836	477,255

As at 30 June 2020, the Group has unused tax losses of RMB1,834,517,000 (31 December 2019: RMB RMB1,720,019,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB90,880,000 (31 December 2019: RMB88,612,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB1,743,637,000 (31 December 2019: RMB1,631,407,000). Included in unrecognised tax losses are losses of RMB1,743,637,000 (31 December 2019: RMB1,631,407,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB449,604,000 (31 December 2019: RMB647,372,000). 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 2020

16. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Raw materials and spare parts	508,596	451,814
Work in progress	154,899	164,741
Finished goods	585,213	499,058
	1,248,708	1,115,613
Write-down	(4,846)	(4,846)
Transfer to a disposal group classified as held for sale (Note 28)	(48)	-
Net realisable value	1,243,814	1,110,767

17. TRADE RECEIVABLES

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

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	465,902	33,370
Less: impairment loss	(762)	(762)
	465,140	32,608

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

17. TRADE RECEIVABLES - Continued

An aging analysis of trade receivables 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within six months	462,079	32,608
Over six months but within one year	3,061	-
	465,140	32,608

The expected credit losses ("ECLs") allowance is assessed collectively for receivables that were neither past due nor impaired and individually for impaired trade receivables with an aggregate carrying amount of RMB762,000 (31 December 2019: RMB762,000).

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Neither past due nor impaired	462,079	32,608
One to three months past due	3,061	-
	465,140	32,608

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

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

17. TRADE RECEIVABLES - Continued

As at 30 June 2020, the amounts due from the ultimate holding company, its subsidiaries and associates (other than the ultimate holding company collectively referred to as the “CNOOC group companies”), associates and the Company’s subsidiaries’ non-controlling shareholders and the non-controlling shareholders’ subsidiaries (the “Other Related Parties”) included in the above trade receivables, which are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group, can be analysis as follow:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
CNOOC group companies	280,854	1,700
Associates	2,140	1,650
Other Related Parties	-	114
	282,944	3,464

18. BILLS RECEIVABLE

The bills receivable of the Group as at 30 June 2020 and 31 December 2019 were all mature within six months.

As at 30 June 2020, the Group has transferred bills receivables having maturity less than six months from the reporting dates to its suppliers to settle its payables through endorsing the bills to its suppliers amounted to RMB193,719,000 (31 December 2019: RMB374,999,000). The Group has derecognised these bills receivables and the payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 30 June 2020, the Group’s maximum exposure to loss, which is same as the amount payable by the Group to banks or the suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB193,719,000 (31 December 2019: RMB374,999,000).

The fair value of bills receivable are close to their carrying amounts given all bills receivable will mature within six months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Prepayments	177,212	156,201
Deposits and other receivables	219,806	196,198
Less: impairment loss	(15,153)	(15,153)
	381,865	337,246
Transfer to a disposal group classified as held for sales (Note 28)	(6,156)	-
	375,709	337,246

Movement in the loss allowance in respect of other receivables during the period/year is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Balance at beginning of the period/year	15,153	24,255
Reversal of impairment losses	-	(174)
Write off impairment loss recognised	-	(8,928)
Balance at end of the period/year	15,153	15,153

The impairment loss recognised relates to the ECLs on certain other receivables, there was neither significant increase in credit risk since initial recognition nor credit impairment that has occurred during the period/year. The loss allowance for these receivables was limited to 12 months ECLs.

Apart from the loss allowance mentioned above, none of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES - Continued

The amounts due from the ultimate holding company, CNOOC group companies, associates, joint venture and Other Related Parties included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Ultimate holding company	-	14
CNOOC group companies	44,127	47,069
Associates	6,114	6,383
Joint venture	-	5,205
Other Related Parties	277	1,643
	50,518	60,314

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Wealth management products	2,022,734	2,898,451

Financial assets at FVTPL represent wealth management products in licensed bank. Gain on maturity of financial assets at FVTPL of RMB17,105,000 (six months ended 30 June 2019: RMB6,559,000) was recognized for the six months ended 30 June 2020. The wealth management products will mature on 20 July 2020, 24 July 2020, 31 July 2020 and 22 October 2020 respectively (31 December 2019: the wealth management products were matured on 16 January 2020 and 27 May 2020 respectively).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

21. CASH AND CASH EQUIVALENT

The Group's bank balances and cash were denominated in RMB as at 30 June 2020 and 31 December 2019, except for amounts of RMB182,100,000 (31 December 2019: RMB121,474,000) which was translated from US\$25,736,000 (31 December 2019: US\$17,413,000) and RMB9,818,000 (31 December 2019: RMB11,409,000) which was translated from HK\$11,039,000 (31 December 2019: HK\$12,737,000).

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

As at 30 June 2019, included in the Group's cash and cash equivalents were RMB147,710,000 (31 December 2019: RMB399,857,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"), a licensed financial institution, which is a subsidiary of the ultimate holding company.

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

22. ISSUED CAPITAL

	Number of shares	Nominal value
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 2020 (unaudited) and 31 December 2019 (audited)	4,610,000	4,610,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

23. PROPOSED DIVIDENDS

Pursuant to the articles of association of the Company, the net profit after income 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 six months ended 30 June 2020, a final dividend of RMB0.076 per share in respect of the year ended 31 December 2019 (six months ended 30 June 2019: a final dividend of RMB0.150 per share in respect of the year ended 31 December 2018) was declared and paid to the owners of the Company. The dividend declared and paid during the six months ended 30 June 2020 amounted to RMB350,360,000 (six months ended 30 June 2019: RMB691,500,000).

The board of directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

During the six months ended 30 June 2020, the Group obtained new short term unsecured and secured bank and other borrowings denominated in RMB amounting to RMB918,143,000 and RMB700,000,000 respectively (six months ended 30 June 2019: unsecured and secured bank borrowings of RMB740,848,000 and RMB1,100,000,000).

The unsecured bank borrowings have effective interest rates of 2.05%-4.41% (31 December 2019: 4.35%-4.41%) payable within 2020 to 2022. The amounts due are based on the scheduled repayment dates set out in the loan agreements.

Other borrowings due to CNOOC International Financial Leasing Limited (“**CNOOC Leasing**”) amounted to RMB693,000,000 (31 December 2019: RMB1,069,000,000), which are bearing interest rates of 3.24% (31 December 2019: 3.37%-4.41%) per annum and secured by certain property, plant and equipment amounted to RMB938,196,000 (31 December 2019: RMB977,166,000).

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

25. DEFERRED REVENUE

Deferred revenue mainly includes 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 2020

26. TRADE PAYABLES

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within six months	989,011	671,056
Over six months but within one year	54,707	-
Over one year but within two years	9,017	11,822
Over two years but within three years	3,359	1,152
Over three years	3,826	4,441
	1,059,920	688,471

As at 30 June 2020, the amounts due to CNOOC group companies and associates included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
CNOOC group companies	216,672	301,291
Associates	-	68
	216,672	301,359

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

27. OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Accrued payroll	202,679	189,117
Other payables	246,574	229,443
Long-term liabilities due within one year in relation to CNOOC Hualu land use right	1,798	1,798
Interest payable	1,764	2,334
Dividends payable	13,445	13,445
Payables to government	21,103	21,103
Other tax payables	17,535	30,954
Port construction fee payable	158,773	158,773
Payables in relation to the construction and purchase of property, plant and equipment	154,634	229,652
	818,305	876,619
Transfer to liabilities associated with a disposal group classified as held for sale (Note 28)	(4,301)	-
	814,004	876,619

As at 30 June 2020, the amounts due to the ultimate holding company, CNOOC group companies, associate, joint venture and Other Related Parties included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Ultimate holding company	979	532
CNOOC group companies	17,677	25,948
CNOOC Leasing	496	-
Associates	5,502	1,237
Joint venture	-	55
Other Related Parties	-	14
	24,654	27,786

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

28. A DISPOSAL GROUP AND A NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

The Group has entered into 2 equity transaction agreements dated on 18 June 2020 with 河曲縣泰陽煤業有限公司 (transliterated as Hequ Taiyang Coal Industry Co., Ltd.) (the “Purchaser”) to dispose (i) the Group’s 51% of equity interest in a subsidiary, CNOOC Hualu which under other segment; and (ii) 49% of equity interest in an associate, Yangpoquan Coal, at considerations of RMB102,065,000 and RMB637,000,000 respectively. The directors of the Company expect the transactions will be completed within one year.

- (a) The following assets and liabilities relating to a disposal group CNOOC Hualu, have been reclassified as held for sale in the condensed consolidated statement of financial position.

	RMB’000
	(Unaudited)
Assets classified as held for sale	
Cash and cash equivalents	13
Prepayments, deposits and other receivables	6,156
Inventories	48
Property, plant and equipment	3,293
Prepaid lease payments	9,237
	<u>18,747</u>
Liabilities associated with a disposal group classified as held for sale	
Other payables and accruals	4,301
Deferred tax liabilities	2,309
Other long-term liabilities	24,541
	<u>31,151</u>

CNOOC Hualu incurred net loss of RMB176,000 (six months ended 30 June 2019: RMB203,000) during the six months ended 30 June 2020. The disposal of CNOOC Hualu did not constitute a discontinued operation as it does not represent a major line of business.

- (b) The following non-current asset relating to Yangpoquan Coal has been classified as held for sale in the condensed consolidated statement of financial position.

	RMB’000
	(Unaudited)
Asset classified as held for sale	
Investment in an associate	181,897

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

29. 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 2020 and 31 December 2019, the Group had the following capital commitments:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for acquisition of plant and machinery	104,503	114,464

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

30. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
(A) Included in revenue and other income		
(a) CNOOC group companies		
Sale of goods	179,758	198,024
Provision of packaging and assembling services	45,170	48,859
Provision of transportation services	45	67
Provision of logistics services	10,408	13,552
Provision of lease of property and land	2,590	-
	237,971	260,502
(b) Other Related Parties		
Sale of goods	85,348	169,592
Provision of transportation services	5,492	6,736
	90,840	176,328
(B) Included in cost of sales and other expenses		
(a) CNOOC group companies		
Purchase of raw materials	1,449,269	1,317,120
Labour services	55,797	17,084
Construction and installation services	443	697
Lease of offices	13,236	13,253
Logistics services	510	119
Network services	114	2,135
	1,519,369	1,350,408
(b) Other Related Parties		
Purchase of raw materials	15,114	25,704
(C) Included in finance income/costs		
(a) CNOOC Finance		
Finance income	2,137	1,288
Fees and charges	21	93
(b) CNOOC Leasing		
Interest on bank borrowings	16,086	5,664
Interest on lease liabilities	-	12,851
Fees and charges	5,405	1,760

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

30. RELATED PARTY TRANSACTIONS - Continued

(2) Balances with related parties

Details of the following balances are set out in trade receivables (Note 17), contract assets, prepayments, deposits and other receivables (Note 19), interest-bearing bank and other borrowings (Note 24), trade payables (Note 26), contract liabilities and other payables and accruals (Note 27) to the condensed consolidated financial statements. The balance with CNOOC Finance resulted from interest and loans. Others were mainly formed through routine trading transactions, reception of construction services, and other miscellaneous transactions with related parties.

	Due from related parties		Due to related parties	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Ultimate holding company	-	14	979	12,424
CNOOC group companies	398,449	102,213	235,407	332,002
Associates	8,254	8,033	5,502	1,830
Joint venture	-	5,205	-	55
CNOOC Leasing	-	-	693,496	1,069,000
Other Related Parties	277	1,757	-	16,510
			30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Deposits placed by the Group with CNOOC Finance			147,710	399,857

(3) Compensation of key management personnel of the Group

	Six months ended	
	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
Short-term employee benefits	2,393	5,720
Post-employment benefits	64	40
	2,457	5,760

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

30. 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 2020 and 31 December 2019 are summarised below:

	30 June 2020 RMB’000 (Unaudited)	31 December 2019 RMB’000 (Audited)
Cash and cash equivalents	826,009	764,554
Pledged bank deposits	4,129	4,129
Time deposits	5,500,000	5,000,000
	6,330,138	5,768,683
Interest-bearing bank borrowings	2,033,143	2,009,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

31. 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 and other payables, 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 and other borrowings approximate their fair values as the interest rates will adjust periodically based on People's Bank of China's benchmark rates and is close to market interest rate.

(b) Financial instruments measured at fair value

The valuation techniques used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

Information about level 2 fair value measurements

The fair value of wealth management products was calculated as the present value of the estimated future cash flows based on market interest rates of instruments with similar terms and risks.

Information about level 3 fair value measurements

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

The fair value of bills receivable was close to their carrying amounts given all bills receivable will mature within six months.

There were no changes in valuation techniques during the period.

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

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2020

31. FINANCIAL INSTRUMENTS - Continued

(b) Financial instruments measured at fair value - Continued

	Unaudited		
	30 June 2020		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL			
-Wealth management products	2,022,734	-	2,022,734
Financial assets at FVOCI			
-Unlisted equity investment	-	600	600
-Bills receivable	-	339,235	339,235
	Audited		
	31 December 2019		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL			
-Wealth management products	2,898,451	-	2,898,451
Financial assets at FVOCI			
-Unlisted equity investment	-	600	600
-Bills receivable	-	333,354	333,354

During the six months ended 30 June 2020 and 30 June 2019, 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.

32. EVENTS AFTER THE REPORTING PERIOD

There is no material event after the reporting period.

33. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 27 August 2020.

Company Information

Registered Office	No.3, Park Third Road, Basuo Town, 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.3, Park Third Road, Basuo Town, 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	Wang Weimin Wu Xiaoxia
Alternate to authorized representatives	Zhou Yuying
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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