中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock code: 03983)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

1. Revenue amounted to RMB5,794.6 million
2. Gross profit amounted to RMB1,719.3 million
3. Net profit attributable to owners of the parent amounted to RMB984.7 million
4. Basic earnings per share was RMB0.21
5. Proposed final dividend of RMB0.07 per share

(I) AUDITED FINANCIAL STATEMENTS

Consolidated Income Statement
Year ended 31 December 2009

	Notes	**2009**	2008 As previously reported	2008 Restated *(Note 12)*
		RMB'000	*RMB'000*	*RMB'000*
Revenue	4	**5,794,611**	5,518,176	6,811,793
Cost of sales		**(4,075,298)**	(3,250,002)	(4,505,431)
Gross profit		**1,719,313**	2,268,174	2,306,362
Other income and gains	4	**69,326**	127,764	138,264
Selling and distribution costs		**(132,809)**	(82,537)	(101,495)
Administrative expenses		**(349,409)**	(280,756)	(380,254)
Other expenses		**(23,617)**	(28,666)	(32,529)
Finance income		**32,400**	25,507	26,454
Finance costs	5	**(14,525)**	(12,080)	(22,860)
Exchange (losses)/gains, net		**(3,091)**	14,852	14,691
Share of profits of associates		**14,836**	4,742	4,742
Profit before tax	6	**1,312,424**	2,037,000	1,953,375
Income tax expense	7	**(197,726)**	(176,138)	(131,838)
Profit for the year		**1,114,698**	1,860,862	1,821,537
Attributable to:				
Owners of the parent		**984,701**	1,635,281	1,608,460
Minority interests		**129,997**	225,581	213,077
		1,114,698	1,860,862	1,821,537
Dividends	8	**322,700**	437,950	437,950
Earnings per share attributable to ordinary owners of the parent				
— Basic for the year (RMB)	9	**0.21**	0.35	0.35

Consolidated Statement of Comprehensive Income
Year ended 31 December 2009

	2009	2008 As previously reported	2008 Restated *(Note 12)*
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	**1,114,698**		1,821,537
Other comprehensive income for the year, net of tax	**—**		—
Total comprehensive income for the year, net of tax	**1,114,698**		1,821,537
Attributable to:			
Owners of the parent	**984,701**		1,608,460
Minority interests	**129,997**		213,077
	1,114,698		1,821,537

Consolidated Statement of Financial Position
As at 31 December 2009

	Notes	**2009**	2008 As previously reported	2008 Restated *(Note 12)*
		RMB'000	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Property, plant and equipment		**7,394,884**	6,202,554	7,052,332
Mining rights		**431,262**	—	103,449
Prepaid land lease payments		**471,513**	395,388	422,262
Intangible assets		**15,643**	15,294	15,707
Investments in associates		**664,675**	12,839	12,839
Available-for-sale investments		**600**	600	600
Deferred tax assets		**63,697**	42,101	89,686
		9,042,274	6,668,776	7,696,875
Current assets				
Inventories		**798,003**	526,759	836,244
Trade receivables	10	**109,249**	48,305	59,431
Bills receivable		**53,440**	30,351	60,685
Prepayments, deposits and other receivables		**511,911**	233,854	277,297
Loans receivable		**50,000**	—	—
Pledged bank deposits		**13,068**	14,246	14,246
Time deposits		**123,720**	—	—
Cash and cash equivalents		**1,944,674**	4,177,279	4,246,295
		3,604,065	5,030,794	5,494,198
Total assets		**12,646,339**	11,699,570	13,191,073

	Notes	2009	2008 As previously reported	2008 Restated *(Note 12)*
		RMB'000	*RMB'000*	*RMB'000*
Equity and liabilities				
Equity attributable to owners of the parent				
Issued capital		**4,610,000**	4,610,000	4,610,000
Reserves		**4,753,411**	4,377,276	5,235,385
Proposed dividends		**322,700**	437,950	437,950
		9,686,111	9,425,226	10,283,335
Minority interests		**1,258,099**	901,595	1,049,737
Total equity		**10,944,210**	10,326,821	11,333,072
Non-current liabilities				
Benefits liability		**61,484**	66,413	66,413
Interest-bearing bank and other borrowings		**1,000**	212,009	212,009
Other long-term liabilities		**110,316**	55,029	112,740
Deferred tax liabilities		**76,955**	76,564	82,258
		249,755	410,015	473,420
Current liabilities				
Trade payables	11	**148,385**	107,709	131,597
Other payables and accruals		**1,279,993**	757,576	1,084,329
Interest-bearing bank and other borrowings		—	77,775	147,775
Income tax payable		**23,996**	19,674	20,880
		1,452,374	962,734	1,384,581
Total liabilities		**1,702,129**	1,372,749	1,858,001
Total equity and liabilities		**12,646,339**	11,699,570	13,191,073

(II) NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

China BlueChemical Ltd. (the "Company") was established in the People's Republic of China (the "PRC") on 3 July 2000 as a limited liability company under the name of CNOOC Chemical Limited (中海石油化學有限公司). The Company's name was changed to China BlueChemical Ltd. (中海石油化學股份有限公司) on 25 April 2006. The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, PRC.

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sale of urea, phosphorus fertiliser and methanol.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated units until the date that such control ceases.

The Group's interest in its jointly-controlled entity is accounted for by proportionate consolidation from the date on which joint control over the jointly-controlled entity is established, which involves recognising in the consolidated financial statements a proportionate share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items on a line-by-line basis.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The consolidation policy of the acquisition among the entities under common control is dealt with in accordance with the principles set out in Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the Hong Kong Institute of Certificate Public Accountant ("AG 5") as if the acquisition had occurred from the date when the combining entities first came under the control of the ultimate holding company.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS32 *Financial Instruments: Presentation and Amendments IAS1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
Improvements to IFRSs	*Amendments to a number of IFRSs*

Other than as further explained below regarding the impact of IFRS 8 and IAS 1 (revised), the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

IFRS 8 *Operating Segments*

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 3 to the financial statement, including the related revised comparative information.

IAS 1 *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRS

The Group has not applied the following new and revised IFRSs, that have been issued but not yet effective, in these financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	*Amendments to* IFRS 1 *First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	*Amendments to* IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IFRS 32 Amendment	Amendment to IFRS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 14 Amendments	*Amendments Amendments to* IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfers of Assets from Customers*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17,IAS 38 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs, upon initial application. These new and revised IFRSs are unlikely to have a significant impact on the Group's results of operation and financial position.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has reportable operating segments as follows:

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

(ii) the phosphorus fertiliser segment is engaged in the manufacture and sale of mono-ammonium phosphate ("MAP") and di-ammonium phosphate ("DAP") fertiliser;

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

(iv) the "others" segment mainly comprises of segments engaged in port operation, the provision of transportation services and the manufacture, sale of woven plastic bags and BB fertilizer.

No operating segments has been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Business segments

	Urea	Phosphorus fertiliser	Methanol	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009						
Segment revenue:						
Sales to external customers	**3,320,139**	**991,622**	**1,220,456**	**262,394**	**—**	**5,794,611**
Inter-segment sales	**19,403**	**—**	**19,229**	**95,669**	[1]**(134,301)**	**—**
Total	**3,339,542**	**991,622**	**1,239,685**	**358,063**	**(134,301)**	**5,794,611**
Segment results	**1,422,205**	**177,617**	**381,769**	**52,582**	[2]**(33,450)**	**2,000,723**
Depreciation and amortisation	**(461,060)**	**(92,018)**	**(143,601)**	**(32,368)**	**—**	**(729,047)**
Share of profits of associates	**14,745**	**—**	**—**	**91**	**—**	**14,836**
Gain on disposal of unlisted investments	**25,177**	**—**	**735**	**—**	**—**	**25,912**
Segment profit before tax	**1,001,067**	**85,599**	**238,903**	**20,305**	**(33,450)**	**1,312,424**
As at 31 December 2009						
Operating assets	**4,894,103**	**1,603,012**	**2,320,422**	**2,514,684**	[3]**1,314,118**	**12,646,339**
Operating liabilities	**497,236**	**520,779**	**188,934**	**931,522**	[4]**(436,342)**	**1,702,129**
Other segment information:						
Investments in associates	**663,660**	**—**	**—**	**1,015**	**—**	**664,675**
Capital expenditure	**167,970**	**94,157**	**455,987**	**856,112**	**—**	**1,574,236**

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating Segment does not include unallocated administrative expenses (RMB117,246,000), finance income (RMB32,400,000), exchange losses on translation of foreign operations (RMB3,091,000), finance costs (RMB14,525,000), bank charges (RMB1,492,000), other income and gains (RMB37,589,000), other expense (RMB17,827,000), other unallocated expenses (RMB2,927,000), and other unallocated revenues (RMB53,669,000).

3. Segment assets do not include interest receivables (RMB1,700,000), loans receivable (RMB50,000,000), deferred tax assets (RMB63,697,000), available-for-sale financial assets (RMB600,000), cash and bank (RMB54,334,000), assets of centralised cost centre (RMB1,198,665,000), and inter-segment balances (RMB54,878,000).

4. Segment liabilities do not include interest payables (RMB69,000), long-term borrowings (RMB1,000,000), deferred tax liabilities (RMB76,955,000), liabilities of centralised cost centre (RMB70,521,000), and inter-segment balances (RMB584,887,000).

	Urea	Phosphorus fertiliser	Methanol	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2008 (Restated)						
Segment revenue:						
Sales to external customers	3,586,754	1,293,617	1,646,711	284,711	—	6,811,793
Inter-segment sales	26,320	7,330	25,116	139,940	[1](198,706)	—
Total	3,613,074	1,300,947	1,671,827	424,651	(198,706)	6,811,793
Segment results	1,713,550	63,333	884,349	55,028	[2](174,116)	2,542,144
Depreciation and amortisation	(441,325)	(84,796)	(145,801)	(27,329)	—	(699,251)
Share of profits of associates	4,650	—	—	92	—	4,742
Realized gain from disposal of available-for sale investments	92,767	—	6,526	6,447	—	105,740
Segment profit before tax	1,369,642	(21,463)	745,074	34,238	(174,116)	1,953,375
As at 31 December 2008 (Restated)						
Operating assets	5,709,654	1,443,918	2,427,802	1,800,686	[3]1,809,013	13,191,073
Operating liabilities	433,959	405,809	482,899	691,184	[4](155,850)	1,858,001
Other segment information:						
Investments in associates	11,915	—	—	924	—	12,839
Capital expenditure	120,177	96,034	182,559	474,695	—	873,465

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include interest and dividend income and unallocated gains (RMB39,074,000), corporate and other unallocated expenses (RMB205,021,000), finance cost (RMB22,860,000), net exchange gain (RMB14,691,000).

3. Segment assets do not include corporate and other unallocated assets (RMB1,846,657,000), and inter-segment balances (RMB37,644,000).

4. Segment liabilities do not include corporate and other unallocated liabilities (RMB225,464,000), and inter-segment balances (RMB381,314,000).

Geographic information

The following table presents revenue information based on location of the customers the years ended 31 December 2009 and 2008:

	2009 *RMB'000*	2008 *RMB'000* Restated
Sales to external customers:		
— PRC	**5,111,564**	6,437,626
— Others	**683,047**	374,167
	5,794,611	6,811,793

4. REVENUE, OTHER INCOME AND GAINS

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

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

	2009 *RMB'000*	2008 *RMB'000* Restated
Revenue		
Sale of goods	**5,545,053**	6,603,045
Rendering of services	**249,558**	208,748
	5,794,611	6,811,793
Other income and gains		
Gain on disposal of unlisted investments	**25,912**	105,915
Fair value gains on derivative financial instruments	**—**	6,136
Income from the sale of other materials	**9,393**	15,258
Income from rendering of other services	**323**	1,349
Payables waived	**3,600**	3,611
VAT refund	**29,984**	—
Indemnities received	**114**	1,350
Others	**—**	4,645
	69,326	138,264

5. FINANCE COSTS

	2009 *RMB'000*	2008 *RMB'000* Restated
Interest on bank loans and other loans wholly repayable within five years	**14,525**	22,860

6. PROFIT BEFORE TAX

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

	2009 *RMB'000*	2008 *RMB'000* Restated
Cost of inventories sold	**3,882,243**	4,315,176
Cost of services provided	**193,055**	190,255
Depreciation	**709,846**	683,953
Amortisation of mining rights	**1,310**	587
Amortisation of intangible assets	**5,592**	4,783
Amortisation of prepaid land lease payments	**12,299**	9,928
Auditors' remuneration	**3,100**	4,280
Employee benefits expense (including directors' and supervisors' remuneration):		
Wages and salaries	**355,947**	368,535
Defined contribution pension scheme *(note (i))*	**53,384**	45,440
Early retirement benefits and post-employment allowances *(note (ii))*	**(400)**	(1,735)
Medical benefit costs *(note (iii))*	**16,964**	14,946
Cash-settled share option expense	**446**	884
Housing fund *(note (iv))*	**11,430**	15,680
	437,771	443,750
Provision for bad and doubtful debts of trade receivables *	**—**	64
Write-back of provision for bad and doubtful debts of trade receivables*	**(15)**	(493)
Provision for bad and doubtful debts of other receivables *	**103**	172
Write-down of inventories to net realisable value	**2,413**	54,095
Impairment of items of property, plant and equipment *	**1,188**	114
Loss on disposal of items of property, plant and equipment *	**2,031**	4,295

* *These items are included in "Other expenses" on the face of the consolidated income statement.*

Notes:

(i) Defined contribution pension scheme

The Group's employees in the PRC are covered by a government-regulated scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension scheme at 20% of the employees' salaries. This defined contribution pension scheme continued to be available to the Group's employees for the years ended 31 December 2009 and 2008. The related pension costs are expensed as incurred.

In addition to the government-regulated scheme, commencing from 1 January 2005, the Group operates a supplementary defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. Contributions are made based on a percentage of the employee's basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme. The assets of this scheme are held separately from those of the Group in an independently administered fund.

(ii) Early retirement benefits and post-employment allowances

CNOOC Tianye Chemical Limited ("CNOOC Tianye"), the Group's 90% owned subsidiary, pays supplementary pensions to early retirees and allowances to retired employees in addition to the benefits under the government-regulated defined contribution pension scheme above. The benefits are assessed using the projected unit credit method and are charged to the consolidated income statement as shown in the actuarial reports which contained full valuations of the obligations for each of the relevant accounting periods.

(iii) Medical benefit costs

The Group contributes on a monthly basis to defined contribution medical benefit plans organised by the PRC government. The PRC government undertakes to assume the medical benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for medical benefits for their qualified employees under these plans.

(iv) Housing fund

The Group contributes on a monthly basis to a defined contribution housing fund plan organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

7. INCOME TAX EXPENSE

Major components of income tax expense for the years ended 31 December 2009 and 2008 are as follows:

	2009	2008
	RMB'000	*RMB'000*
		Restated
Current — PRC		
Charge for the year	**180,040**	136,910
Deferred	**17,686**	(5,072)
Total tax charge for the year	**197,726**	131,838

(a) Corporate income tax ("CIT")

During the 5th Session of the 10th National People's Congress, which concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

According to the document Finance Taxes [2008] No. 21 issued by the Ministry of Finance and the State Administration of Taxation on 20 February 2008, the Company, its subsidiaries and its associates registered in Hainan Province or Pudong New Area, Shanghai, the PRC, are entitled to transitional CIT rates of 20%, 22% and 24% for the years 2009, 2010 and 2011 respectively, and 25% from 2012.

The Company, Hainan CNOOC Complex Fertiliser Co., Ltd. and Hainan CNOOC Plastic Company Limited are entitled to a transitional CIT rate of 20% for the current year.

CNOOC Fudao Limited is entitled to a preferential tax rate of 15% for the three years ending 31 December 2010 after being assessed as a high new technology entity.

Hainan Basuo Port Limited ("Hainan Basuo") is entitled to an exemption from CIT for the five years ended 31 December 2009 and a 50% reduction in the applicable CIT rate for the five years ended 31 December 2014 as it is engaged in infrastructure development and operations. This is the fifth year for Hainan Basuo to be entitled to the exemption from CIT.

CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") is a foreign investment enterprise and is entitled to an exemption from CIT for its first two profitable years and a 50% reduction in the applicable CIT rate for the subsequent three years. CNOOC Jiantao has elected to benefit from the tax holiday starting from the year ended 31 December 2007. This is the first year for CNOOC Jiantao to be entitled to the 50% reduction of the applicable CIT rate 20%.

CNOOC Tianye, registered in Inner Mongolia, is entitled to a preferential tax rate of 15% for the three-year ending 31 December 2011 by virtue of being assessed as a high new technology entity.

CNOOC (Hainan) E&P Gas Limited ("CNOOC E&P") is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. CNOOC E&P has elected to benefit from the tax holiday starting from the year ended 31 December 2008. This is the second year for CNOOC E&P to be entitled to the exemption from CIT.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the years ended 31 December 2009 and 2008.

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for the country in which the Group is domiciled to the income tax expense at the effective tax rate is as follows:

	2009 ***RMB'000***	2008 *RMB'000* Restated
Profit before tax	**1,312,424**	1,953,375
Tax at the statutory tax rate of 25%	**328,106**	488,344
Lower tax rate for specific provinces/districts or concessions	**(109,734)**	(341,793)
Underprovision/(overprovision) of income tax expense in prior years	**3,203**	(10,863)
Profits attributable to associates	**—**	(698)
Income not subject to tax	**(4,113)**	(1,229)
Expenses not deductible for tax	**4,907**	4,083
Effect of changes in tax rates	**4,551**	—
Tax refund	**(30,300)**	—
Others	**1,106**	(6,006)
Income tax expense reported in the consolidated income statement	**197,726**	131,838
The Group's effective income tax rate	**15.1%**	6.7%

8. DIVIDENDS

	2009 ***RMB'000***	2008 *RMB'000*
Proposed final — RMB0.07 (2008: RMB0.095) per ordinary share	**322,700**	437,950

The proposed 2008 final dividend was approved at the annual general meeting on 12 June 2009. The proposed 2009 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2009 annual general meeting.

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

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE PARENT

	2009	2008
	RMB'000	*RMB'000*
		Restated
Earnings		
Profit for the year attributable to owners of the parent	**984,701**	1,608,460

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

Diluted earnings per share amounts for the years ended 31 December 2009 and 2008 have not been disclosed as no diluting events existed during these years.

10. TRADE RECEIVABLES

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

The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

An aging analysis of the trade receivables as at the end of the reporting period, based on invoice dates and net of provision for bad and doubtful debts, of the Group is as follows:

	2009	2008
	RMB'000	*RMB'000*
		Restated
Within six months	**98,846**	46,136
Over six months but within one year	**9,282**	13,146
Over one year but within two years	**1,121**	149
	109,249	59,431

11. TRADE PAYABLES

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

Group

	2009	2008
	RMB'000	*RMB'000*
		Restated
Within six months	**140,501**	122,707
Over six months but within one year	**42**	457
Over one year but within two years	**2,129**	7,624
Over two years but within three years	**4,915**	626
Over three years	**798**	183
	148,385	131,597

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

As at 31 December 2009, the amounts due to CNOOC group companies included in the above trade payable balances were RMB75,827,000 (2008: RMB74,001,000).

12. BUSINESS COMBINATION

(1) Business combination under common control

On 28 February 2009, the Company acquired 83.17% and 100% equity interest of Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") and ZHJ Mining Company Limited ("ZHJ Mining") respectively with an aggregate consideration of RMB1,161,018,000 (hereinafter referred to as "the Acquisition").

As the Company, DYK Chemical, and ZHJ Mining are all ultimately controlled by CNOOC, before and after the Acquisition, the Acquisition falls under the category of business combinations among entities under common control, which is not dealt with by IFRS 3 Business Combinations. The Company chose to refer to the principles set out in AG 5 when preparing the consolidated financial statements of the Group as if the Acquisition had occurred from the date when the combining entities first came under the control of CNOOC, and the consideration was regarded as the deemed distribution to CNOOC.

DYK Chemical is a company established in the PRC with limited liability in August 2005. It is principally engaged in phosphate mining and processing, and the sale and production of MAP and DAP fertilisers.

ZHJ Mining is a company established in the PRC with limited liability in July 2006. It is principally engaged in the exploitation and sale of phosphate ore and phosphate concentrate.

In accordance with AG 5, the comparative amounts of the consolidated financial statements of the Group as at 31 December 2008 have been restated to include the financial statement items of DYK Chemical and ZHJ Mining. The effects of the Acquisition on the Group's comparative amounts are as follows:

(a) Effect on the consolidated statement of financial position as at 31 December 2008

	The Group As previously reported	DYK Chemical	ZHJ Mining*	Total	Consolidation adjustments	As restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets						
Non-current assets						
Property, plant and equipment	6,202,554	754,074	95,704	7,052,332	—	7,052,332
Mining rights	—	57,574	45,875	103,449	—	103,449
Prepaid land lease payments	395,388	26,874	—	422,262	—	422,262
Intangible assets	15,294	—	413	15,707	—	15,707
Investments in associates	12,839	—	—	12,839	—	12,839
Available-for-sale investments	600	—	—	600	—	600
Deferred tax assets	42,101	42,556	5,029	89,686	—	89,686
	6,668,776	881,078	147,021	7,696,875	—	7,696,875
Current assets						
Inventories	526,759	302,664	6,821	836,244	—	836,244
Trade receivables	48,305	11,126	955	60,386	(955)	59,431
Bills receivable	30,351	25,473	4,861	60,685	—	60,685
Prepayments, deposits and other receivables	233,854	40,434	3,009	277,297	—	277,297
Pledged bank deposits	14,246	—	—	14,246	—	14,246
Cash and cash equivalents	4,177,279	66,316	2,700	4,246,295	—	4,246,295
	5,030,794	446,013	18,346	5,495,153	(955)	5,494,198
Total assets	11,699,570	1,327,091	165,367	13,192,028	(955)	13,191,073
Equity and liabilities						
Equity attributable to the owners of the parent						
Paid-up capital	4,610,000	1,000,624	50,000	5,660,624	(1,050,624)	4,610,000
Reserves	4,377,276	(120,408)	76,035	4,332,903	902,482	5,235,385
Proposed dividend	437,950	—	—	437,950	—	437,950
Minority interests	901,595	—	—	901,595	148,142	1,049,737
Total equity	10,326,821	880,216	126,035	11,333,072	—	11,333,072
Non-current liabilities						
Benefits liability	66,413	—	—	66,413	—	66,413
Interest-bearing bank and other borrowings	212,009	—	—	212,009	—	212,009
Other long-term liabilities	55,029	46,502	11,209	112,740	—	112,740
Deferred tax liabilities	76,564	2,956	2,738	82,258	—	82,258
	410,015	49,458	13,947	473,420	—	473,420
Current liabilities						
Trade payables	107,709	21,000	3,843	132,552	(955)	131,597
Other payables and accruals	757,576	306,417	20,336	1,084,329	—	1,084,329
Interest-bearing bank and other borrowings	77,775	70,000	—	147,775	—	147,775
Income tax payable	19,674	—	1,206	20,880	—	20,880
	962,734	397,417	25,385	1,385,536	(955)	1,384,581
Total liabilities	1,372,749	446,875	39,332	1,858,956	(955)	1,858,001
Total equity and liabilities	11,699,570	1,327,091	165,367	13,192,028	(955)	13,191,073

(b) Effect on the consolidated income statement of the year ended 31 December 2008

	The Group As previously reported *RMB'000*	DYK Chemical *RMB'000*	ZHJ Mining* *RMB'000*	Total *RMB'000*	Consolidation adjustments *RMB'000*	As restated *RMB'000*
Revenue	5,518,176	1,209,447	114,049	6,841,672	(29,879)	6,811,793
Cost of sales	(3,250,002)	(1,228,334)	(57,853)	(4,536,189)	30,758	(4,505,431)
Gross profit	2,268,174	(18,887)	56,196	2,305,483	879	2,306,362
Other income and gains	127,764	10,358	1,021	139,143	(879)	138,264
Selling and distribution costs	(82,537)	(17,182)	(1,776)	(101,495)	—	(101,495)
Administrative expenses	(280,756)	(69,595)	(29,903)	(380,254)	—	(380,254)
Other expenses	(28,666)	(2,815)	(1,048)	(32,529)	—	(32,529)
Finance income	25,507	906	41	26,454	—	26,454
Finance costs	(12,080)	(9,820)	(960)	(22,860)	—	(22,860)
Exchange (losses)/gains, net	14,852	(161)	—	14,691	—	14,691
Share of profits of associates	4,742	—	—	4,742	—	4,742
Profit before tax	2,037,000	(107,196)	23,571	1,953,375	—	1,953,375
Income tax expense	(176,138)	32,900	11,400	(131,838)	—	(131,838)
Profit for the year	1,860,862	(74,296)	34,971	1,821,537	—	1,821,537
Attributable to:						
Owners of the parent	1,635,281	(74,296)	34,971	1,595,956	12,504	1,608,460
Minority interests	225,581	—	—	225,581	(12,504)	213,077
	1,860,862	(74,296)	34,971	1,821,537	—	1,821,537

* *On 1 July 2009, ZHJ Mining was absorbed into DYK Chemical.*

(2) Business combination and acquisition of minority interests

On 30 July 2009, the Company entered into a capital injection agreement with Shanxi Hualu Thermoelectricity Co., Ltd. ("Shanxi Hualu"), pursuant to which the Company acquired a 51% equity interest in Shanxi Hualu Coal Chemical Ltd. ("Hualu Coal Chemical"), a company previously wholly owned by Shanxi Hualu, and became its controlling shareholder. The total consideration paid for the capital injection was RMB40,592,000. After the capital injection, the registered capital of Hualu Coal Chemical changed to RMB61,224,000.

Hualu Coal Chemical is principally engaged in preparatory work for methanol and dimethylether project.

The fair value of the identifiable assets and liabilities of Hualu Coal Chemical as at the date of acquisition were:

	As at 30 July 2009	
	Fair value recognised on acquisition	Carrying amount
	RMB'000	*RMB'000*
Property, plant and equipment	**17,213**	17,213
Prepaid land lease payments	**55,705**	43,705
Inventories, deposits	**40**	40
Prepayments and other receivables	**500**	500
Cash and bank balances	**40,794**	40,794
	114,252	102,252
Trade payables	**(1,826)**	(1,826)
Accruals and other payables	**(1,221)**	(1,221)
Other long-term liabilities	**(28,613)**	(28,613)
Deferred tax liabilities	**(3,000)**	—
	(34,660)	(31,660)
Net assets	**79,592**	70,592
Minority interest (49%)	**(39,000)**	
Total net assets acquired	**40,592**	
Consideration, settled in cash	**40,592**	
Analysis of cash flow on acquisition		
Cash acquired	**40,794**	
Consideration paid	**(40,592)**	
Net cash inflow on acquisition	**202**	

Up to 31 December 2009, Hualu Coal Chemical was still in the construction stage and no profit or loss was reported.

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

Production Management

Despite the serious impacts on the Company's operations brought by the international financial crisis to the economy during 2009, the Company was able to strengthen its production management to ensure its major plants maintained safe and steady operations. The CNOOC Tianye urea plant and methanol plant set a record of continuous operation, the longest cycle since they were put into operation, with utilisation rate of 117.4% and 101.7%, respectively, achieving the highest level in history together with the DAP plant in DYK Chemical, the utilisation rate being 114.7%.

Production information of the Group's various plants in 2009 are set out below:

	Year Ended 31 December			
	2009		2008	
Fertilisers	**Production volume** ***(tonnes)***	**Utilisation rate** ***(%)***	Production volume *(tonnes)*	Utilisation rate *(%)*
Urea				
Fudao Phase I	**529,566**	**101.8**	564,755	108.6
Fudao Phase II	**760,339**	**95.0**	870,765	108.8
CNOOC Tianye	**610,262**	**117.4**	513,603	98.8
Group total	**1,900,167**	**103.3**	1,949,123	105.9
Phosphate Fertilisers				
DYK Chemical MAP	**40,518**	**27.0**	43,424	28.9
DYK Chemical DAP	**401,330**	**114.7**	357,153	102.0
Group total	**441,848**	**88.4**	400,577	80.1
Chemical Products				
Methanol				
CNOOC Jiantao *(note)*	**606,134**	**101.0**	516,037	100.1
CNOOC Tianye	**203,343**	**101.7**	170,647	85.3
Group total	**809,477**	**101.2**	686,684	96.4

Note: CNOOC Jiantao's results from January to April 2008 were consolidated into the Group's results on a 60% shareholding basis; the results from May to December 2008 were consolidated on a 100% shareholding basis, its production volume in 2008 was 600,527 tonnes; the results in 2009 were consolidated on a 100% shareholding basis.

Sales Management

Leveraging on its advantages in the centralization of Group's sales, the Company strengthened its ability to resist market risks and achieved the sales target of its products successfully in 2009. We captured the period when the tariff was lower and recorded an export volume of urea of 483,029 tonnes in the year 2009, enhancing our operational benefits.

Urea

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

	Year ended 31 December			
	2009		2008	
Sales Region	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**210,163**	**10.7**	303,595	16.1
Northern China	**410,094**	**20.9**	156,021	8.3
Eastern China	**186,861**	**9.5**	343,163	18.2
South-eastern China	**73,960**	**3.8**	82,336	4.4
Southern China	**415,999**	**21.3**	283,770	15.1
Hainan	**177,887**	**9.1**	512,709	27.3
International	**483,029**	**24.7**	200,036	10.6
Total	**1,957,993**	**100.0**	1,881,630	100.0

Phosphate fertiliser

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

	Year ended 31 December			
	2009		2008	
Sales Region	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**108,974**	**27.1**	200,224	56.1
Northern China	**215,148**	**53.6**	106,422	29.8
Eastern China	**44,668**	**11.1**	22,053	6.1
South-eastern China	**3,461**	**0.9**	8,025	2.3
Southern China	**9,779**	**2.4**	14,151	4.0
Hainan	**—**	**—**	—	—
International	**19,460**	**4.9**	5,950	1.7
Total	**401,490**	**100.0**	356,825	100.0

Methanol

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

	Year ended 31 December			
	2009		2008	
Sales Region	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**86,323**	**10.8**	30,061	4.5
Northern China	**80,143**	**10.0**	107,403	15.9
Eastern China	**84,416**	**10.5**	55,459	8.2
South-eastern China	**19,724**	**2.5**	1,898	0.3
Southern China	**467,078**	**58.2**	380,367	56.3
Hainan	**63,892**	**8.0**	62,143	9.2
International	**—**	**—**	37,746	5.6
Total	**801,576**	**100.0**	675,077	100.0

Note: CNOOC Jiantao's results from January to April 2008 were consolidated into the Group's results on a 60% shareholding basis, the results from May to December 2008 were consolidated on a 100% shareholding basis; the sales volume of methanol in 2008 was 586,192 tonnes; the results in 2009 were consolidated on a 100% shareholding basis.

BB fertilisers

In 2009, the Group produced a total of 25,400 tonnes of BB fertilisers with sales volume of 23,082 tonnes.

Woven plastic bags

In 2009, the Group produced a total of 23.88 million woven plastic bags with sales volume of 23.05 million bags.

Sea-land logistics services

In 2009, the volume of freight handled by Hainan Basuo was 6.52 million tonnes.

2. Financial Review

The comparative figures for the corresponding period of 2008 disclosed in the following represent historical figures disclosed in the 2008 announcements that have not been restated, save for cash and cash equivalents held by the Group at the beginning of the reporting period.

Revenue

During the reporting period, the Group's revenue was RMB5,794.6 million, representing an increase of RMB276.4 million or 5.0%, from RMB5,518.2 million in 2008.

During the reporting period, the Group's revenue from phosphate fertilisers was RMB991.6 million, generated from newly acquired phosphate assets of DYK Chemical and ZHJ Mining (which are engaged in the production and sale of MAP and DAP).

During the reporting period, the Group's revenue of urea was RMB3,320.1 million, representing a decrease of RMB266.7 million or 7.4%, from RMB3,586.8 million in 2008. The decrease was primarily attributable to: (1) the decrease in tariff on export of urea by RMB102.1 million over last year; (2) the average selling price of urea decreased by RMB156.2 per tonne, contributing to an RMB293.9 million decrease in revenue; and (3) the sales volume of urea increased by 76,000 tonnes as compared to that of previous year, contributing to an RMB129.3 million increase in revenue.

During the reporting period, the Group's revenue from the sale of methanol was RMB1,220.5 million, representing a decrease of RMB426.2 million or 25.9%, from RMB1,646.7 million in 2008. The decrease was primarily attributable to: (1) the average selling price of methanol decreased by RMB916.7 per tonne, contributing to an RMB618.8 million decrease in revenue; and (2) the sales volume of methanol increased by 126,000 tonnes over the previous year, contributing to an RMB192.6 million increase in revenue.

During the reporting period, the revenue from the Group's other segments (mainly comprising port operations, provision of transportation services and the manufacture and sales of woven plastic bags and BB fertilisers) decreased by RMB22.3 million, which was primarily attributable to the decrease in the sale volume of BB fertilisers over the previous year.

Cost of sales

In 2009, the Group's cost of sales was RMB4,075.3 million, representing an increase of RMB825.3 million or 25.4%, from RMB3,250.0 million in 2008.

During the reporting period, the Group's cost of sales attributable to the newly acquired phosphate fertiliser assets of DYK Chemical and ZHJ Mining (which are engaged in the production and sale of MAP and DAP) was RMB815.8 million.

In 2009, the Group's cost of sales from the sale of urea was RMB2,136.9 million, representing a decrease of RMB40.9 million or 1.9%, from RMB2,177.8 million in 2008. The decrease was primarily attributable to: (1) a decrease in sales tax of RMB102.1 million due to the downward adjustment of tariff on export of urea of the Group in 2009; and (2) the long cycle of operation and lower production cost of our CNOOC Tianye Urea plant in 2009, which contributed to an RMB93.2 million decrease in cost of sales over 2008, partly offset by (3) an increase of sales volume of urea of CNOOC Tianye Urea plant of 107,000 tonnes over 2008, contributing to an RMB133.7 million increase in cost of sales; and (4) the overhaul of the Group's urea plants led to an increase of RMB20.7 million in costs in 2009.

In 2009, the Group's cost of sales from the sale of methanol was RMB908.8 million, representing an increase of RMB73.7 million or 8.8%, from RMB835.1 million in 2008. The increase was primarily attributable to: (1) the sales volume of methanol increased by 126,000 tonnes relative to 2008, contributing to an RMB143.3 million increase in cost of sales; (2) a RMB0.4 per m^3 decrease in CNOOC Tianye's average unit cost of natural gas for the production of methanol for the period from April to September 2009 and the long cycle of operation of the methanol plant in 2009 led to a decrease of RMB69.6 million in production costs.

In 2009, the Group's other costs of sales (mainly comprising the costs of port operations, provision of transportation services and the manufacture and sales of woven plastic bags and BB fertilisers) decreased by RMB23.3 million. The decrease was primarily attributable to the decrease of the sale volume of BB fertilisers and decrease in the costs of raw materials for the production of BB fertilisers.

Gross profit

During the reporting period, the Group's gross profit was RMB1,719.3 million, representing a decrease of RMB548.9 million or 24.2%, over RMB2,268.2 million in 2008. The decrease was primarily attributable to: (1) gross profit of RMB175.8 million from newly acquired fertiliser assets during the reporting period; (2) a decrease in gross profit of RMB225.8 million due to a decrease in the selling prices of urea during the reporting period; and (3) a decrease in gross profit of RMB498.9 million due to a decrease in the selling prices of methanol.

Other income and gains

During the reporting period, the Group's other income and gains were RMB69.3 million, representing a decrease of RMB58.5 million or 45.8%, over RMB127.8 million in 2008. The decrease was primarily attributable to: (1) a decrease of RMB80.0 million in investment income received from entrusted investment products during the reporting period; (2) a decrease of fair value gain on financial derivative instrument of RMB6.1 million in 2008 due to settlement of Japanese Yen-denominated loan relating to Fudao Phase II; and (3) an increase of value-added tax refunds of RMB30.0 million during the reporting period.

Selling and distribution costs

During the reporting period, the Group's selling and distribution costs were RMB132.8 million, representing an increase of RMB50.3 million or 61.0%, over RMB82.5 million in 2008. The increase in selling and distribution costs was primarily attributable to: (1) an increase of selling and distribution costs of RMB22.0 million from newly acquired phosphate fertiliser business during the reporting period; (2) repair charge of transportation equipment and lease payment of methanol tank in other parts of the country of RMB7.7 million in total; and (3) an increase of port miscellaneous amounts of RMB20.6 million from increase of direct export and sales volume of urea during the reporting period.

Administrative expenses

During the reporting period, the Group's administrative expenses were RMB349.4 million, representing an increase of RMB68.6 million or 24.4%, from RMB280.8 million in 2008. The increase was primarily attributable to an increase in administrative expenses of RMB68.4 million from newly acquired DYK Chemical and ZHJ Mining.

Other expenses

During the reporting period, the Group's other expenses were RMB23.6 million, representing a decrease of RMB5.1 million or 17.8%, from RMB28.7 million in 2008. The decrease was primarily attributable to a net loss on disposal of fixed assets of RMB1.2 million during the reporting period.

Finance income and finance costs

During the reporting period, the Group's finance income was RMB32.4 million, representing an increase of RMB6.9 million or 27.1%, from RMB25.5 million in 2008. The increase was primarily attributable to the increase of interest income which was in line with the increase in the average balance of bank deposits during the reporting period. During the reporting period, the Group's finance costs were RMB14.5 million, representing an increase of RMB2.4 million or 19.8%, from RMB12.1 million in 2008. The increase was primarily attributable to: (1) discounting interest on bank's acceptance bill accrued in the payment of consideration of acquisition of 83.17% interest in DYK Chemical and 100% interest in ZHJ Mining, contributing to an increase of finance cost of RMB8.6 million during the reporting period; (2) an increase of finance cost of RMB2.0 million from newly acquired DYK Chemical and ZHJ Mining; and (3) a decrease in interest expenses of RMB8.2 million as a result of the early settlement of U.S. dollar-denominated loan by CNOOC Jiantao during the reporting period.

Exchange gains/(losses), net

During the reporting period, the Group incurred net exchange losses of RMB3.1 million, representing a decrease of RMB18.0 million or 120.8% from RMB14.9 million of exchange gains in 2008. The reduction in net exchange losses was primarily attributable to the exchange gain of RMB13.6 million from U.S. dollar-denominated loan of CNOOC Jiantao in 2008.

Income tax expense

During the reporting period, the Group's income tax expense was RMB197.7 million, representing an increase of RMB21.6 million or 12.3%, from RMB176.1 million in 2008. The increase was primarily attributable to: (1) an increase of income tax expense due to the increase in tax rate applicable to the Group during the reporting period; (2) an increase of income tax expense of RMB24.4 million from acquisition of DYK Chemical and ZHJ Mining; and partly offset by (3) a decrease in income tax expense due to our lower profit before tax during the reporting period.

Net profit for the year

During the reporting period, the Group's net profit was RMB1,114.7 million, representing a decrease of RMB746.2 million or 40.1%, from RMB1,860.9 million in 2008.

The decrease of net profit was primarily attributable to a decrease in selling prices of fertilisers and methanol during the reporting period, partly offset by net profit of RMB61.2 million from the newly acquired phosphate fertiliser business.

Dividends

The board of directors of the Company recommended the payment of a final dividend of RMB0.07 per share for 2009, representing a total of RMB322.7 million.

The proposed final dividend for 2009 will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of acquisition, property, plant and equipment and prepaid land lease payments amounted to RMB3,372.2 million. Capital expenditure primarily consisted of acquisitions of businesses, including: (1) RMB1,161.0 million for acquisition of 83.17% interest in DYK Chemical and 100% interest in ZHJ Mining; (2) RMB637.0 million for the acquisition of 49% interest in Shanxi HuaLu Yangpoquan Coal Mining Co., Ltd.; and assets construction businesses, including (1) RMB592.9 million for the Inner Mongolia POM Project; (2) RMB442.2 million for the Hainan Methanol Project; (3) RMB216.9 million for the exploration concession right in Shanshuya, Yichang; (4) RMB143.0 million for the expansion of capacity and extension projects in Hainan Basuo and DYK Chemical; and (5) RMB179.2 million for plant upgrades and equipment purchases.

Pledge of assets

As at 31 December 2009, the Group had no pledge of assets.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to support its business and maximise shareholder value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debt or issue new shares. No changes were made in the objectives, policies or processes for capital management in 2009. The gearing ratio of the Group as at 31 December 2009 (calculated as interest bearing liabilities divided by total capitalisation plus interest bearing liabilities) was 0.01%, a decrease of 2.69% from 2.7% as at 31 December 2008, primarily attributable to the settlement in full of U.S. dollar-denominated loan of CNOOC Jiantao as at 31 December 2009.

Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB4,246.3 million. The net cash inflow from operating activities for the period was RMB1,790.0 million, net cash outflow from investing activities was RMB3,194.6 million, and net cash outflow from financing activities was RMB897.0 million. As at 31 December 2009, the Group's cash and cash equivalents were RMB1,944.7 million. The Group has sufficient cash flow to satisfy the capital needs of daily operation and future development.

Human resources and training

As of 31 December 2009, the Group had 5,922 employees. The aggregate wages and salaries for the year 2009 paid for the employees was approximately RMB355.9 million. The Company adopts an effective remuneration package policy and a systematic welfare plan as well as an effective performance evaluation system to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, capability and performance.

During the reporting period, the Company held 1,726 training courses in strict accordance with its annual training plans, there was a total of 42,248 enrolments and the aggregate training hours amounted to 246,174 hours.

Market risk

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

Commodity price risk

The Group is also exposed to commodity price risk arising from fluctuations in product sales prices, costs of raw materials and fuel.

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. During the reporting period, the Renminbi to US dollar exchange rate ranged from 6.8201 to 6.8399. The appreciation of Renminbi against the US dollar may have produced a double effect. The Group's revenue from sales of products may have declined as a result of the depreciation of the US dollar against Renminbi. The cost of import for equipment and raw materials may also have been reduced.

As at 31 December 2009, the Group repaid all of its U.S. denominated loan.

Inflation and currency risk

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC decreased by 0.7% during the reporting period. Such inflation in the PRC did not have a significant effect on the Group's operating results.

Liquidity risk

The Group monitors its risk exposure to shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of financings, such as bank overdrafts, bank loans and bonds. As at 31 December 2009, RMBNil (2008: RMB77.8 million), or 0% (2008: 27%) of the Group's debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

Post balance sheet events and contingent liabilities

As at 31 December 2009, the Group has no material post balance sheet events and contingent liabilities.

Material litigation and arbitration

As at 31 December 2009, the Group was not involved in any material litigation and arbitration.

3. Sector Review and Outlook

Fertiliser sector

The PRC government continued to enhance policies favourable to the agricultural sector in 2009, committing approximately RMB725.3 billion in aggregate to the agricultural sector, rural villages and farmers, an increase of approximately 21% as compared to that of 2008. The four types of agricultural subsidies, aggregating approximately RMB123.0 billion, grew by approximately 16% as compared to that of 2008. Meanwhile, minimum food purchase prices were substantially raised by 13% to 15.3%. These measures have, indeed, provide incentive to farmers to engage in crop-growing which resulted a grain production of approximately 531 million tonnes nationwide in 2009, heralding the sixth year of consecutive production increase. Steady growth in grain production fortified a solid foundation for the steady and healthy development of the fertiliser sector.

In 2009, the PRC government continued to provide concessions for fertiliser producing enterprise, such as favourable pricing for natural gas, electricity and rail transportation as well as preferential tax treatment. With effect from 25 January 2009, caps for sale price of producers of fertilisers (including urea and phosphate fertilisers) were abolished with a view to gradually establish a market-driven fertiliser pricing mechanism. This gave room for development of large fertiliser producers with technological and cost advantages in the PRC. In addition, commercial fertiliser reserve for the low season was further increased by the PRC government to 16 million tonnes, an increase of 4 million tonnes against that of 2008. From 1 December 2008, the PRC government has lowered the fertiliser export tariff in the low season substantially. In 2009, the duration for lower tariff periods for urea and ammonium phosphate were extended for one month and one and a half of a month, respectively, so as to alleviate the pressure on supply and demand in the domestic fertiliser market. Domestic enterprises with competitive advantages in exports were benefited as a result.

On 18 May 2009, the PRC government announced its adjustment and stimulation plans for the petrochemical industry. Key adjustments and measures specific to the fertiliser sector include: using clean coal gasification technologies and constructing large-scale nitrogenous fertiliser plants near places of energy supply to replace obsolete production capacities; optimising allocation of resources in relation to phosphate fertilisers, promoting technologies such as the integrated use of sulphur and low and mid-grade phosphate; continuing to develop Yunnan, Guizhou and Hubei as three leading production bases for phosphate fertilisers; enhancing the exploration and development of both domestic and foreign potassium ore resources; refining the fertiliser reserve system that supports the storage and reserve of urea and ammonium phosphate by key fertiliser producers. These measures will be beneficial to the structural adjustments of the industrial structure of the domestic fertiliser sector.

(I) Urea

In 2009, domestic urea production exceeded 63 million tonnes (in real terms), an increase of approximately 13% as compared to that of 2008.

Domestic demand for urea from the agricultural sector grew steadily in 2009. While price of urea in the PRC remained at a relatively high level amid to high season in the first half of year, it fell to a low record for the year in the third quarter due to the slump of international urea market and low season. Urea price bounced back in the fourth quarter due to recovery of the international urea market, activation of the national measures on low season fertiliser reserves and rises of production costs of urea producers.

(II) Phosphate fertilisers

In 2009, domestic MAP production exceeded 8 million tonnes (in real terms), an increase of approximately 3% over 2008 and domestic DAP production exceeded 10 million tonnes (in real terms), an increase of approximately 29% over 2008.

For the first three quarters of 2009, due to dual impact of high inventory level and low demand, the slump of global ammonium phosphate market continued with decreasing domestic ammonium phosphate market price, which rebounded in the fourth quarter resulting from increase in international and domestic demands, activation of national measures on low-season fertiliser reserves and rise in costs of raw materials.

Looking forward to 2010, more efforts will continue to be committed to the agricultural sector, rural villages and farmers under the principle of "Sustained increase in volume and steady rise in proportions" of the PRC government, coupled with higher minimum food purchase prices to assure sound supply of grains in the PRC.

The PRC government has further lowered fertiliser (urea and phosphate fertiliser) export tariffs since 1 January 2010 and extended the period during which lower tariff rate for the low season is applicable in order to safeguard the stable and sustainable production of domestic fertilisers.

As over-supply of nitrogenous and phosphate fertilisers is being corrected under the structural adjustment policy of the domestic fertiliser sector, the structural improvement in the fertiliser sector will facilitate the robust development of large-scale fertiliser producers with comprehensive competitive advantages in the PRC.

Methanol sector

As the economy was affected by the global financial crisis, shrinking demands from downstream industries of methanol internationally in early 2009 resulted in a drastic increase in methanol imports and a deep plummet in domestic methanol prices. Since early February, however, domestic methanol prices rose again as domestic demand had been driven up by the PRC's massive economic stimulation plan. Methanol price rose steadily in line with increasing international and domestic demands for methanol from downstream industries and as an alternative source of energy, as a result of recovery of the global economy and significant improvement in international energy prices.

"Methanol Gasoline (M85) for Motor Vehicles", the first methanol gasoline standard for vehicles in the PRC, became effective on 1 December 2009, which will promote the development of methanol as an alternative energy in the PRC in the long run.

In 2009, volume of domestic methanol production exceeded 11 million tonnes, a slight increase over 2008. Methanol's apparent consumption quantity of the domestic market was over 16 million tonnes in 2009, a substantial rise of approximately 36% over 2008.

Looking forward to 2010, the methanol sector is expected to be benefited from the slow ascent of the world economy and the reasonable growth of the PRC economy. It is anticipated that methanol price will fluctuate within a reasonable range with reference to energy prices in 2010.

Outlook

As there are signs of recovery in global economy in 2010, the Chinese economy will be stablised for growth, while uncertainty still exists due to structural conflicts. The Company will focus on the following in response to the challenges and opportunities:

1. Strengthen production management to ensure safe and stable operation of existing production plants and achievement of annual operational targets;

2. Actively move forward the construction of the Hainan Methanol Project and Inner Mongolia POM Project to ensure commencement of production as scheduled; continue the construction of the Shanxi Hequ Urea Project and the expansion and modification of DYK Chemical Phosphate Fertiliser Project;

3. Leverage strengthens of integrated sales and improve product sales;

4. Further widen channels of resources for development by seeking cooperation in domestic and foreign coal or potassium areas; and

5. Further improve energy-saving and pollutants discharge reduction and environmental protection and advance construction of ability of self-directed innovation.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The annual results for the year ended 31 December 2009 have been audited by Ernst and Young in accordance with Auditing Standard 700 (Engagement for the auditing of financial statements) issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the financial report for the year ended 31 December 2009.

Compliance with the Code on Corporate Governance Practices

The Company has, save as disclosed below, complied with the code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2009:

The code provision E.1.2 of the Corporate Governance Code provides that the Chairman shall attend the annual general meeting of the Company. Due to other business commitments, Mr. Wu Mengfei, the Chairman of the Board, was unable to attend the annual general meeting (the "AGM") of the Company held on 12 June 2009 and entrusted Mr. Fang Yong, an Executive Director and Executive Vice President of the Company, to preside over the meeting. Mr. Wu Mengfei was also contactable at all times during the AGM to answer questions, if necessary.

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

The Board confirms, having made specific enquiries with all directors and supervisors, that during the year ended 31 December 2009, all members of the Board and all supervisors have complied with the required standards of the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 of the Listing Rules.

Closure of register of members

The register of members will be closed from 5 May 2010 to 4 June 2010 (both days inclusive), during which no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 4 May 2010.

Purchase, Sales and Redemption of the Company's Securities

During 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the securities of the Company.

Disclosure on the Website of the Stock Exchange

Paragraphs 45 to 45(A) of Appendix 16 of the Listing Rules provide that all data shall be published on the website of the Stock Exchange (http://www.hkex.com.hk) and on the website of the Company (http://www.chinabluechem.com.cn) in due course.

By order of the Board
China BlueChemical Ltd.
WU Mengfei
Chairman

Hong Kong, the People's Republic of China, 28 March 2010

As at the date of this announcement, the executive directors of China BlueChemical Ltd. are Mr. YANG Yexin, Mr. FANG Yong and Mr. CHEN Kai; non-executive director is Mr. WU Mengfei; independent non-executive directors are Mr. TSUI Yiu Wa, Alec, Mr. ZHANG Xinzhi and Mr. LI Yongwu.

* *for identification only*