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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 2010

FINANCIAL HIGHLIGHTS

1. Revenue amounted to RMB6,867.3 million
2. Gross profit amounted to RMB2,188.7 million
3. Net profit attributable to owners of the parent amounted to RMB1,175.3 million
4. Basic earnings per share was RMB0.25
5. Proposed final dividend for the year of RMB0.09 per share

(I) AUDITED FINANCIAL STATEMENTS

Consolidated Income Statement

Year ended 31 December 2010

	Notes	**2010** *RMB'000*	2009 *RMB'000*
Revenue	4	**6,867,250**	5,794,611
Cost of sales		**(4,678,512)**	(4,075,298)
Gross profit		**2,188,738**	1,719,313
Other income and gains	4	**67,289**	69,326
Selling and distribution costs		**(147,795)**	(132,809)
Administrative expenses		**(382,619)**	(349,409)
Other expenses		**(34,803)**	(23,617)
Finance income		**11,324**	32,400
Finance costs	5	**(11,915)**	(14,525)
Exchange losses, net		**(4,179)**	(3,091)
Share of (losses)/profits of associates		**(374)**	14,836
Profit before tax	6	**1,685,666**	1,312,424
Income tax expense	7	**(316,012)**	(197,726)
Profit for the year		**1,369,654**	1,114,698
Attributable to:			
Owners of the parent		**1,175,285**	984,701
Non-controlling interests		**194,369**	129,997
		1,369,654	1,114,698
Dividends	8	**414,900**	322,700
Earnings per share attributable to ordinary owners of the parent			
– Basic for the year (RMB)	9	**0.25**	0.21

Consolidated Statement of Comprehensive Income
Year ended 31 December 2010

	2010	2009
	RMB'000	*RMB'000*
Profit for the year	**1,369,654**	1,114,698
Other comprehensive income for the year	**—**	—
Total comprehensive income for the year, net of tax	**1,369,654**	1,114,698
Attributable to:		
Owners of the parent	**1,175,285**	984,701
Non-controlling interests	**194,369**	129,997
	1,369,654	1,114,698

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	**31 December 2010** *RMB'000*	31 December 2009 *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**8,944,151**	7,394,884
Investment properties		**2,041**	—
Mining rights		**484,136**	431,262
Prepaid land lease payments		**475,902**	471,513
Intangible assets		**10,856**	15,643
Investments in associates		**654,693**	664,675
Available-for-sale investments		**600**	600
Deferred tax assets		**78,446**	63,697
		10,650,825	9,042,274
Current assets			
Inventories		**983,644**	798,003
Trade receivables	10	**105,705**	109,249
Bills receivables		**35,700**	53,440
Prepayments, deposits and other receivables		**296,649**	511,911
Loans receivable		—	50,000
Pledged bank deposits		**8,556**	13,068
Time deposits		**58,500**	123,720
Cash and cash equivalents		**2,387,092**	1,944,674
		3,875,846	3,604,065
Total assets		**14,526,671**	12,646,339

Consolidated Statement of Financial Position *(continued)*
As at 31 December 2010

	Notes	**31 December 2010** *RMB'000*	31 December 2009 *RMB'000*
Equity and liabilities			
Equity attributable to owners of the parent			
Issued capital		**4,610,000**	4,610,000
Reserves		**5,541,238**	4,753,411
Proposed dividends		**414,900**	322,700
		10,566,138	9,686,111
Non-controlling interests		**1,355,866**	1,258,099
Total equity		**11,922,004**	10,944,210
Non-current liabilities			
Benefits liability		**57,607**	61,484
Interest-bearing bank borrowings		**335,700**	1,000
Other long-term liabilities		**113,200**	110,316
Deferred tax liabilities		**73,588**	76,955
		580,095	249,755
Current liabilities			
Trade payables	11	**222,684**	148,385
Other payables and accruals		**1,683,101**	1,279,993
Income tax payable		**118,787**	23,996
		2,024,572	1,452,374
Total liabilities		**2,604,667**	1,702,129
Total equity and liabilities		**14,526,671**	12,646,339

(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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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.

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 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRS Financial Reporting Standards — Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
IFRIC — Int 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included *Improvements to IFRSs issued in October 2008*	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in May 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), and amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) Improvements to IFRSs 2009 issued in May 2009

Improvements to IFRSs 2009 issued in May 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

IAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRS

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

IFRS 1 Amendment	*Amendment to IFRS 1 First-time Adoption of international Financial Reporting Standards —Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2]
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets [4]
IFRS 9	*Financial Instruments* [5]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	*Amendment to IAS 32 Financial Instruments: Presentation — Classification of Rights Issues* [1]
IFRIC — Int 14 Amendments	*Amendments to IFRIC-Int 14 Prepayments of a Minimum Funding Requirement* [3]
IFRIC — Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the IASB has issued Improvements to IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC — Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010

2 Effective for annual periods beginning on or after 1 July 2010

3 Effective for annual periods beginning on or after 1 January 2011

4 Effective for annual periods beginning on or after 1 July 2011

5 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In November 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in IAS 39 in respect of liabilities are carried forward into IFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IFRS 3 *Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) IAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) IAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

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:

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

(b) the phosphorus fertiliser segment is engaged in the manufacture and sale of mono-ammonium phosphate ("MAP") and di-ammonium phosphate ("DAP") 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 operation, the provision of transportation services, the manufacture and sale of BB fertiliser, woven plastic bags, and trading of chemical fertiliser.

No operating segments have 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 adjusted 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 2010						
Segment revenue:						
Sales to external customers	**3,514,770**	**1,234,119**	**1,690,889**	**427,472**	**—**	**6,867,250**
Inter-segment sales	**24,793**	**1,121**	**25,871**	**132,741**	[1]**(184,526)**	**—**
Total	**3,539,563**	**1,235,240**	**1,716,760**	**560,213**	**(184,526)**	**6,867,250**
Segment results	**1,517,790**	**234,179**	**662,108**	**58,028**	[2]**(73,733)**	**2,398,372**
Depreciation and amortisation	**(478,394)**	**(84,831)**	**(149,749)**	**(30,694)**	**—**	**(743,668)**
Share of (losses)/profits of associates	**(823)**	**—**	**—**	**449**	**—**	**(374)**
Gain on disposal of unlisted investments	**24,840**	**1,753**	**3,779**	**964**	**—**	**31,336**
Segment profit before tax	**1,063,413**	**151,101**	**516,138**	**28,747**	**(73,733)**	**1,685,666**
As at 31 December 2010						
Operating assets	**5,334,868**	**1,811,115**	**3,395,500**	**3,052,335**	[3]**932,853**	**14,526,671**
Operating liabilities	**209,676**	**581,792**	**568,749**	**1,483,486**	[4]**(239,036)**	**2,604,667**
Other segment information:						
Investments in associates	**653,230**	**—**	**—**	**1,463**	**—**	**654,693**
Capital expenditure*	**228,806**	**250,185**	**1,034,331**	**619,799**	**—**	**2,133,121**

* Capital expenditure consists of additions to property, plant and equipment, investment properties, intangible assets and cost of acquisitions of a subsidiary and equity interest in an associate.

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include unallocated administrative expenses (RMB102,612,000), finance income (RMB11,324,000), exchange losses on translation of foreign operations (RMB4,179,000), finance costs (RMB11,915,000), bank charges (RMB988,000), other income and gains (RMB26,626,000), other expenses (RMB28,190,000), and other unallocated revenues (RMB36,201,000).

3. Segment assets do not include interest receivables (RMB580,000), deferred tax assets (RMB78,446,000), available-for-sale financial assets (RMB600,000), cash and bank (RMB50,503,000), assets of centralised cost centre (RMB852,408,000) and inter-segment balances (RMB49,684,000).

4. Segment liabilities do not include interest payables (RMB635,000), long-term borrowings (RMB335,700,000), deferred tax liabilities (RMB73,588,000), liabilities of centralised cost centre (RMB897,000), and inter-segment balances (RMB649,856,000).

Business segments

	Urea *RMB'000*	Phosphorus fertiliser *RMB'000*	Methanol *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *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	856,122	—	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 expenses (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).

Geographic information

The following table presents revenue information based on the location of the customers for the years ended 31 December 2010 and 2009:

	2010	2009
	RMB'000	*RMB'000*
Sales to external customers:		
— PRC	**5,724,542**	5,111,564
— Others	**1,142,708**	683,047
	6,867,250	5,794,611

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:

	2010	2009
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**6,490,707**	5,545,053
Rendering of services	**376,543**	249,558
	6,867,250	5,794,611
Other income and gains		
Gain on disposal of unlisted investments	**31,336**	25,912
Income from the sale of other materials	**17,389**	9,393
Income from rendering of other services	**4,937**	323
Payables waived	**—**	3,600
VAT refund	**501**	29,984
Gain on disposal of items of property, plant and equipment	**4,733**	—
Gross rental income	**886**	—
Indemnities received	**4,427**	114
Government grant	**3,080**	—
	67,289	69,326

5 FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interest on bank loans	**11,915**	14,525

6 PROFIT BEFORE TAX

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

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories sold	**4,295,986**	3,882,243
Cost of services provided	**293,721**	193,055
Depreciation	**724,339**	709,846
Depreciation of investment properties	**45**	—
Amortisation of mining rights	**1,426**	1,310
Amortisation of prepaid land lease payments	**11,692**	12,299
Amortisation of intangible assets	**6,166**	5,592
Auditors' remuneration	**3,570**	3,500
Employee benefits expense (including directors' and supervisors' remuneration):		
Wages and salaries	**426,549**	355,947
Defined contribution pension scheme (note (i))	**52,015**	53,384
Early retirement benefits and post-employment allowances (note (ii))	**(306)**	(400)
Medical benefit costs (note (iii))	**19,124**	16,964
Cash-settled share option expense	**1,064**	446
Housing fund (note (iv))	**22,694**	11,430
	521,140	437,771
Write-back of provision for bad and doubtful debts of trade receivables*	**(5)**	(15)
Provision for bad and doubtful debts of other receivables*	**1,505**	103
Write-down of inventories to net realisable value	—	2,413
Impairment of items of property, plant and equipment*	—	1,188
Loss on disposal of items of property, plant and equipment*	—	2,031

* 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 2010 and 2009. 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, 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 2010 and 2009 are as follows:

	2010	2009
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**331,232**	180,040
Deferred	**(15,220)**	17,686
Total tax charge for the year	**316,012**	197,726

(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 ("CNOOC Plastic") are entitled to a transitional CIT rate of 22% for the current year.

CNOOC Fudao Limited ("CNOOC Fudao") 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.

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 second year for CNOOC Jiantao to be entitled to the 50% reduction of the applicable CIT rate of 22%.

CNOOC Tianye, registered in Inner Mongolia, is entitled to a preferential tax rate of 15% for the three-year ending 31 December 2011 after 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 first year for CNOOC E&P to be entitled to the 50% reduction of the applicable CIT rate of 22%.

(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 2010 and 2009.

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:

	2010	2009
	RMB'000	*RMB'000*
Profit before tax	**1,685,666**	1,312,424
Tax at the statutory tax rate of 25%	**421,417**	328,106
Lower tax rate for specific provinces/districts or concessions	**(121,092)**	(109,734)
Adjustments in respect of current tax of previous period	**12,807**	3,203
Income not subject to tax	—	(4,113)
Expenses not deductible for tax	**2,880**	4,907
Effect of changes in tax rates	—	4,551
Tax refund	—	(30,300)
Others	—	1,106
Income tax expense reported in the consolidated income statement	**316,012**	197,726
The Group's effective income tax rate	**18.7%**	15.1%

8 DIVIDENDS

	2010	2009
	RMB'000	*RMB'000*
Proposed final — RMB0.09 (2009: RMB0.07) per ordinary share	**414,900**	322,700

The proposed 2009 final dividend was approved at the annual general meeting on 4 June 2010. The proposed 2010 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2010 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 ("PRC GAAP") and IFRS.

9 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE PARENT

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the parent	**1,175,285**	984,701
	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 2010 and 2009 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:

	2010	2009
	RMB'000	*RMB'000*
Within six months	**103,608**	98,846
Over six months but within one year	**—**	9,282
Over one year but within two years	**1,819**	1,121
Over two years but within three years	**278**	—
	105,705	109,249

11 TRADE PAYABLES

The trade payables are unsecured, 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:

	2010	2009
	RMB'000	*RMB'000*
Within six months	**207,430**	140,501
Over six months but within one year	**1,235**	42
Over one year but within two years	**7,255**	2,129
Over two years but within three years	**1,511**	4,915
Over three years	**5,253**	798
	222,684	148,385

As at 31 December 2010, the amounts due to CNOOC group companies included in the above trade payable balances were RMB145,408,000 (2009: RMB75,827,000).

12 BUSINESS COMBINATIONS

(1) On 16 July 2010, the Company entered into an equity transfer agreement with China National Chemical Engineering Group Corporation ("CNCEC"), pursuant to which the Company acquired and agreed to sell an 80% equity interest in Hegang Huahe Coal Chemical Ltd ("Huahe Chemical"). The total consideration for the equity transfer is RMB81,810,000 (the actual consideration being RMB81,808,000). Upon completion of the equity transfer, the Company has a direct interest in 80% of the equity in Huahe Chemical. Huahe Chemical is mainly engaged in fertilizer production.

The Group had elected to measure the Non-Controlling Interest ("NCI") in Huahe Chemical at the NCI's proportionate share of Huahe Chemical's identifiable net assets.

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

	As at 31 August 2010	
	Fair value recognised on acquisition	**Carrying amount**
	RMB'000	*RMB'000*
Property, plant and equipment	79,439	77,179
Mining rights	51,500	51,500
Inventories	13	13
Prepayments, deposits and other receivables	1,381	1,381
Cash and cash equivalents	1,416	1,416
	133,749	131,489
Trade payables	(52)	(52)
Other payables and accruals	(27,937)	(27,937)
Other long term liabilities	(3,500)	(3,500)
	(31,489)	(31,489)
Net assets	102,260	100,000
Non-controlling interests (20%)	(20,452)	
Total net assets acquired	81,808	
Consideration	81,808	
Analysis of cash flow on acquisition		
Cash acquired	1,416	
Consideration, settled in cash	(81,808)	
Net cash outflow on acquisition	(80,392)	

Upon 31 December 2010, Huahe Chemical was still in the construction stage.

(2) On 11 July 2010, CNOOC Fudao, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Zhejiang AMP Incorporation ("Zhejiang AMP"), a minority promoter of the Company, in respect of the acquisition of the 21% equity interest in Guangxi Fudao Agricultural Means Production Limited ("Guangxi Fudao AMP") held by Zhejiang AMP at a consideration of RMB7,019,500 (actual consideration paid was RMB6,918,000 after adjustments) by CNOOC Fudao. Prior to the acquisition agreement, the equity interests of Guangxi Fudao AMP, which was an associated company of the Company, were held as to 30% by CNOOC Fudao and as to 70% by Zhejiang AMP. Subsequent to completion of the acquisition, the equity interests of Guangxi Fudao AMP, which became a company controlled by the Company, were held as to 51% by CNOOC Fudao and as to 49% by Zhejiang AMP.

The Group had elected to measure the Non-Controlling Interest ("NCI") in Guangxi Fudao AMP at the NCI's proportionate share of Guangxi Fudao AMP's identifiable net assets.

The fair value of the identifiable assets and liabilities of Guangxi Fudao AMP as at the date of acquisition were:

	As at 31 July 2010	
	Fair value recognised on acquisition	**Carrying amount**
	RMB'000	*RMB'000*
Property, plant and equipment	13,760	13,760
Investment properties	2,086	2,086
Prepaid land lease payments	6,282	1,670
Deferred tax assets	2,896	2,896
Inventories	76,500	76,500
Prepayments, deposits and other receivables	17,589	17,589
Trade receivables	2,403	2,403
Cash and cash equivalents	4,519	4,519
	126,035	121,423
Trade payables	(4,921)	(4,921)
Other payables and accruals	(51,002)	(51,002)
Interest-bearing bank and other borrowings	(39,200)	(39,200)
Non-controlling interests	(1)	(1)
	(95,124)	(95,124)
Net assets	30,911	26,299
Non-controlling interests (49%)	(15,147)	
Total net assets acquired	15,764	
Consideration	15,764	
Analysis of cash flow on acquisition		
Cash acquired	4,519	
Consideration, settled in cash	(6,918)	
Net cash outflow on acquisition	(2,399)	

Guangxi Fudao AMP contributed RMB166,386,000 to the Group's turnover and a loss of RMB700,000 to the consolidated profit from the acquisition date to 31 December 2010.

Had the acquisition taken place at the beginning of the year, Guangxi Fudao AMP would have contributed the revenue and the loss to the Group for the year ended 31 December 2010 by RMB491,892,000 and RMB4,385,000 respectively.

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

Production Management

During the reporting period, with eradicating inherent production risks and strengthening safety management, the Group ensured its major production plants in safe and stable operational condition. Fudao Phase I and Fudao Phase II urea plants fulfilled two continuous operation cycles in excess of 100 days, respectively. Hainan Phase I (CNOOC Jiantao) methanol plant set a historical record of continuous operation cycle of 290 days.

Production information of the Group's various plants in 2010 are set out below:

	Year Ended 31 December			
	2010		2009	
Fertilisers	**Production volume (tonnes)**	**Utilisation rate (%)**	Production volume (tonnes)	Utilisation Rate (%)
Urea				
Fudao Phase I	**570,135**	**109.6**	529,566	101.8
Fudao Phase II	**875,070**	**109.4**	760,339	95.0
CNOOC Tianye	**565,131**	**108.7**	610,262	117.4
Group total	**2,010,336**	**109.3**	1,900,167	103.3
Phosphate Fertilisers				
DYK Chemical MAP	**53,854**	**35.9**	40,518	27.0
DYK Chemical DAP	**401,353**	**114.7**	401,330	114.7
Group total	**455,207**	**91.0**	441,848	88.4
Chemical Products				
Methanol				
Hainan Phase I (CNOOC Jiantao)	**633,703**	**105.6**	606,134	101.0
Hainan Phase II *(note)*	**74,762**	**112.1**	—	—
CNOOC Tianye	**158,616**	**79.3**	203,343	101.7
Group total	**867,081**	**100.0**	809,477	101.2

Note: Hainan Phase II Methanol Plant, the Company's newly constructed Hainan 800,000 t/a methanol plant, went into commercial operation on 1 December 2010. Its production volume in 2010 was included from the date of the commercial operation only.

Sales Management

With the centralised sales management, the Company had overcome the impact of demand decline in domestic fertiliser market in the first half year of 2010, which was caused by drought and abnormal weather in the PRC. In additional, during low export tariff period in the second half of the year, the Company recorded exports of 641,595 tonnes of urea and 55,939 tonnes of DAP. Furthermore, with proactive sales efforts, the Company secured sales of methanol from Hainan Phase II methanol plant after its trial run in October.

Urea

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

	Year Ended 31 December			
	2010		2009	
	Volume (tonnes)	**Percentage (%)**	Volume (tonnes)	Percentage (%)
Sales Regions				
North-eastern China	**130,039**	**6.6**	210,163	10.7
Northern China	**322,612**	**16.3**	410,094	20.9
Eastern China	**143,037**	**7.2**	186,861	9.5
South-eastern China	**73,814**	**3.7**	73,960	3.8
Southern China	**515,174**	**26.0**	415,999	21.3
Hainan	**157,773**	**8.0**	177,887	9.1
International	**641,595**	**32.2**	483,029	24.7
Total	**1,984,044**	**100.0**	1,957,993	100.0

Phosphate fertilisers

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

	Year Ended 31 December			
	2010		2009	
	Volume (tonnes)	**Percentage (%)**	Volume (tonnes)	Percentage (%)
Sales Regions				
North-eastern China	**270,149**	**56.3**	108,974	27.1
Northern China	**93,405**	**19.5**	215,148	53.6
Eastern China	**54,884**	**11.4**	44,668	11.1
South-eastern China	**586**	**0.1**	3,461	0.9
Southern China	**4,593**	**1.0**	9,779	2.4
Hainan	**—**	**—**	—	—
International	**55,939**	**11.7**	19,460	4.9
Total	**479,556**	**100.0**	401,490	100.0

Methanol

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

	Year Ended 31 December			
	2010		2009	
	Volume (tonnes)	**Percentage (%)**	Volume (tonnes)	Percentage (%)
Sales Regions				
North-eastern China	**48,081**	**5.5**	86,323	10.8
Northern China	**77,338**	**8.9**	80,143	10.0
Eastern China	**92,983**	**10.7**	84,416	10.5
South-eastern China	**40,284**	**4.6**	19,724	2.5
Southern China	**540,257**	**62.3**	467,078	58.2
Hainan	**67,916**	**8.0**	63,892	8.0
International	**—**	**—**	—	—
Total	**866,859**	**100.0**	801,576	100.0

BB fertilisers

In 2010, the Group produced a total of 30,935 tonnes of BB fertilisers with a sales volume of 31,472 tonnes.

Woven plastic bags

In 2010, the Group produced a total of 28.04 million woven plastic bags with a sales volume of 29.08 million bags.

Sea-land logistics services

In 2010, the volume of freight handled by Hainan Basuo Port was 7.19 million tonnes.

2. Financial Review

Revenue

During the reporting period, the Group's revenue was RMB6,867.3 million, an increase of RMB1,072.7 million or 18.5%, from RMB5,794.6 million in 2009.

During the reporting period, the Group's revenue of urea was RMB3,514.8 million, an increase of RMB194.7 million or 5.9%, from RMB3,320.1 million in 2009. The increase was primarily attributable to: (1) the sales volume of urea increased by 26,051 tonnes over 2009, contributing to an increase of RMB46.3 million in revenue; and (2) the increase in selling price of urea by RMB75.8 per tonne, contributing to an increase of RMB148.4 million in revenue.

During the reporting period, the Group's revenue from phosphate fertilisers was RMB1,234.1 million, an increase of RMB242.5 million or 24.5%, from RMB991.6 million in 2009. The increase was primarily attributable to: (1) the sales volume of phosphate fertilisers increased by 78,066 tonnes over last year, contributing to an increase of RMB200.9 million in revenue; (2) the increase in selling prices of phosphate fertilisers by RMB266.2 per tonne, contributing to an increase of RMB106.9 million in revenue; which were partly offset by (3) the decrease in revenue from the sales of phosphoric ore by RMB65.3 million over last year.

During the reporting period, the Group's revenue from methanol was RMB1,690.9 million, an increase of RMB470.4 million or 38.5%, from RMB1,220.5 million in 2009. The increase was primarily attributable to: (1) the sales volume of methanol increased by 65,283 tonnes, contributing to an increase of RMB127.3 million in revenue; and (2) the selling prices of methanol increased by RMB428.0 per tonne over last year, contributing to an increase of RMB343.1 million in revenue. During the reporting period, Hainan Phase II Methanol Plant was completed and went into commercial operation on 1 December, with a sales volume of 64,457 tonnes and a revenue of RMB140.6 million.

During the reporting period, the revenue from the Group's other segments (mainly comprising port operations, provision of transportation services, manufacture and sales of BB fertilisers and woven plastic bags, and trading of chemical fertilisers) increased by RMB165.1 million, which was primarily attributable to: (1) the sales of urea purchased externally by Shanghai Qionghua Trading Co., Ltd. ("Shanghai Qionghua"), a subsidiary of the Group, contributing to an increase of RMB53.3 million in revenue; (2) an increase in revenue of RMB45.6 million by acquiring the controlling interest in Guangxi Fudao AMP; and (3) the corresponding increase in revenue from the increase of 669,330 tonnes in loading and unloading volumes over last year by Basuo Port.

Cost of sales

During the reporting period, the Group's cost of sales was RMB4,678.5 million, an increase of RMB603.2 million or 14.8%, from RMB4,075.3 million in 2009.

During the reporting period, the Group's cost of sales of urea was RMB2,209.2 million, an increase of RMB72.3 million or 3.4%, from RMB2,136.9 million in 2009. The increase was primarily attributable to an increase in sales volume of urea by 26,051 tonnes over 2009 and an increase in costs of natural gas for urea production.

During the reporting period, the Group's cost of sales of phosphate fertilisers was RMB998.2 million, an increase of RMB182.4 million or 22.4%, from RMB815.8 million in 2009. The increase was primarily attributable to: (1) an increase in sales volume of phosphate fertilisers by 78,066 tonnes over last year, contributing to an increase of RMB162.5 million in cost of sales; (2) an increase in costs of production of phosphate fertilisers by RMB101.7 per tonne, contributing to an increase of RMB40.8 million in cost of sales; which were partly offset by (3) a decrease in sales volume of phosphoric ore, contributing to a decrease in cost of sales by RMB20.9 million.

During the reporting period, the Group's cost of sales of methanol was RMB1,100.6 million, an increase of RMB191.8 million or 21.1%, from RMB908.8 million in 2009. The increase was primarily attributable to the increase in sales volume of methanol by 65,283 tonnes over 2009, contributing to a RMB83.0 million increase in cost of sales, and the increase in plant overhauls and natural gas prices.

During the reporting period, the cost of sales from the Group's other segments (mainly comprising the port operations, provision of transportation services, manufacture and sales of BB fertilisers and woven plastic bags, and trading of chemical fertilisers) increased by RMB156.7 million over 2009. The increase was primarily attributable to: (1) the increase in sales volume of urea purchased externally by Shanghai Qionghua, a subsidiary of the Group, contributing to an increase in cost of sales of RMB53.1 million; (2) an increase in cost of sales of RMB43.4 million by acquiring the controlling interest in Guangxi Fudao AMP; and (3) the corresponding increase in cost of sales from the increase of 669,330 tonnes in loading and unloading volumes over last year by Basuo Port.

Gross profit

During the reporting period, the Group's gross profit was RMB2,188.7 million, an increase of RMB469.4 million or 27.3%, over RMB1,719.3 million in 2009. The increase was primarily attributable to: (1) the increases in sales volumes and selling prices of urea, phosphate fertilisers and methanol, after offsetting the factors of increased costs, contributing to increases of RMB122.4 million, RMB60.1 million and RMB278.6 million, respectively in gross profit; and (2) an increase in gross profit of other segments of RMB8.3 million.

Other income and gains

During the reporting period, the Group's other income and gains were RMB67.3 million, a decrease of RMB2.0 million or 2.9%, over RMB69.3 million in 2009. The decrease was primarily attributable to: (1) a decrease of RMB29.5 million in value-added tax refunds; and (2) an increase of RMB27.5 million in gains from the sale of materials, water and utilities, and fixed assets and subsidies from building up buffer fertiliser inventory during winter season.

Selling and distribution costs

During the reporting period, the Group's selling and distribution costs were RMB147.8 million, an increase of RMB15.0 million or 11.3%, over RMB132.8 million in 2009. The increase was primarily attributable to: (1) selling and distribution costs of RMB6.4 million from the newly acquired Guangxi Fudao AMP; and (2) a corresponding increase of RMB8.6 million in port handling charges and agency fees due to increases in direct exports and sales volume of urea and phosphate fertilisers.

Administrative expenses

During the reporting period, the Group's administrative expenses were RMB382.6 million, an increase of RMB33.2 million or 9.5%, from RMB349.4 million in 2009. The increase was primarily attributable to: (1) the leasing expenses of RMB10.5 million for the Company's new office in Beijing; (2) an increase of RMB17.4 million in expenses of technical research, health, safety and environmental protection and transportation; and (3) the administrative expenses of RMB5.3 million from the newly acquired Guangxi Fudao AMP and Huahe Chemical.

Other expenses

During the reporting period, the Group's other expenses were RMB34.8 million, an increase of RMB11.2 million or 47.5%, from RMB23.6 million in 2009. The increase was primarily attributable to increases of expenses in logistics and property services of the Group.

Finance income and finance costs

During the reporting period, the Group's finance income was RMB11.3 million, a decrease of RMB21.1 million or 65.1%, from RMB32.4 million in 2009. The decrease was primarily attributable to the corresponding decrease in interest income arising from the decrease in fixed deposits of the Group during the reporting period. During the reporting period, the Group's finance costs were RMB11.9 million, a decrease of RMB2.6 million or 17.9%, from RMB14.5 million in 2009.

Exchange losses, net

During the reporting period, the Group incurred net exchange losses of RMB4.2 million, an increase of RMB1.1 million or 35.5% from RMB3.1 million in 2009. The increase in net exchange losses was primarily attributable to the exchange losses arising from the settlements of US dollar-denominated exports of urea, which were mainly exported in the second half of the year, as RMB appreciated against US dollar in the second half of 2010.

Income tax expense

During the reporting period, the Group's income tax expense was RMB316.0 million, an increase of RMB118.3 million or 59.8%, from RMB197.7 million in 2009. The increase was primarily attributable to: (1) an increase of income tax expense of RMB48.3 million due to the increase in tax rate applicable to the Group during the reporting period; and (2) an increase in income tax expense of RMB70.0 million due to our higher profit before tax during the reporting period.

Profit for the year

During the reporting period, the Group's net profit was RMB1,369.7 million, an increase of RMB255.0 million or 22.9%, from RMB1,114.7 million in 2009.

The increase in net profit was primarily attributable to the increases in sales volumes and selling prices of urea, phosphate fertilisers and methanol during the reporting period.

Dividends

The board of directors of the Company (the "Board") recommended the payment of a final dividend of RMB0.09 per share for 2010, aggregating RMB414.9 million.

The proposed final dividend for 2010 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 RMB2,133.1 million. Capital expenditure primarily included: (1) RMB1,018.1 million for Hainan Phase II Methanol Project; (2) RMB603.6 million for the Inner Mongolia

POM Project; (3) RMB204.6 million for DYK Chemical Phase II Expansion Project; (4) RMB218.1 million for plant upgrades and equipment purchases; (5) RMB81.8 million for the acquisition of 80% interest in Huahe Chemical; and (6) RMB6.9 million for acquisition of 21% interest in Guangxi Fudao AMP.

Pledge of assets

During the reporting period, the Group had no pledge of assets.

Major investment

On 16 July 2010, the Company entered into an equity transfer agreement with CNCEC, pursuant to which, the Company agreed to acquire the 80% equity interest in Huahe Chemical held by CNCEC at a total consideration of RMB81,810,000 (the actual consideration being RMB81,808,000). Subsequent to completion of the equity transfer, the Company is directly interested in 80% of the equity interest in Huahe Chemical. The equity transfer has been approved by the State-owned Assets Supervision and Administration Commission of the State Council.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to safeguard its normal production and operations and maximise shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debts or issue new shares. The gearing ratio of the Group as at 31 December 2010 (calculated as interest-bearing liabilities divided by total capitalisation plus interest-bearing liabilities) was 2.74%, an increase of 2.73% from 0.01% as at 31 December 2009, primarily attributable to the drawdown of loans of RMB334.7 million for Hainan Phase II Methanol Project and the 60,000 t/a POM Project during the reporting period.

Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB1,944.7 million. The net cash inflow from operating activities for the period was RMB1,955.0 million, net cash outflow from investing activities was RMB1,378.2 million, and net cash outflow from financing activities was RMB134.4 million. As at 31 December 2010, the Group's cash and cash equivalents were RMB2,387.1 million. The Group has sufficient cash flow to meet the capital demand for its daily operation and future development.

Human resources and training

As of 31 December 2010, the Group had 5,870 employees. The aggregate of employees' wages and allowances for 2010 was approximately RMB426.5 million. The Group has an effective remuneration package policy and a systematic welfare plan as well as an effective performance evaluation system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 1,818 training courses in strict accordance with its annual training plans, with a total of 45,991 enrolments and the aggregate training hours amounted to 323,912 hours.

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. During the reporting period, the Renminbi to US dollar exchange rate ranged from 6.6227–6.8284. 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 import prices for equipment and raw materials may also have been reduced.

As at 31 December 2010, save for RMB, the Group did not have any debt denominated in other currency.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 3.3% during the reporting period, which did not have a significant effect on the Group's operating results during the year.

Liquidity risk

The Group monitors its risk to a shortage of funds. The Group also considers the maturity of both its financial investments and financial assets (for example, trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans and bonds. As at 31 December 2010, none the Group's debts would mature in less than one year based on the carrying values of the borrowings as reflected in the financial statements.

Post balance sheet events and contingent liabilities

As at 31 December 2010, the Group had no material post balance sheet events and contingent liabilities.

Material litigation and arbitration

As at 31 December 2010, the Group was not involved in any material litigation and arbitration.

Major acquisition and disposition of the Company's subsidiaries and associated companies

On 11 July 2010, CNOOC Fudao, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Zhejiang AMP, a minority promoter of the Company, in respect of the acquisition of the 21% equity interest in Guangxi Fudao AMP held by Zhejiang AMP at a consideration of RMB7,019,500 (actual consideration paid was RMB6,918,000 after adjustments) by CNOOC Fudao. Prior to the acquisition agreement, the equity interests of Guangxi Fudao AMP, which was an associated company of the Company, were held as to 30% by CNOOC Fudao and as to 70% by Zhejiang AMP. Subsequent to completion of the acquisition, the equity interests of Guangxi Fudao AMP, which became a company controlled by the Company, were held as to 51% by CNOOC Fudao and as to 49% by Zhejiang AMP.

Save for the aforesaid acquisition of Guangxi Fudao AMP, the Group did not acquire or dispose of any associated companies or subsidiaries in 2010.

3. Sector Review and Outlook

Fertiliser sector

In 2010, the PRC was successful in achieving the seventh year of consecutive raises in grain production to an aggregate of 546 million tonnes under the PRC government's strong support policy of agriculture, in spite of the adverse effects of abnormal climates on the PRC agricultural industry, such as the serious droughts in the five south-western provinces and the cold weather in the northern area.

In 2010, as a result of the abnormal climates in major grain producing countries, the global grain inventory dipped. Accordingly, global grain supplies became tight and grain prices continued to rise. According to the Food and Agriculture Organisation of the United Nations, global food price index in December has surmounted its height since 1990. During 2010, domestic grain prices rose steadily due to the effects inherited from international grain price and the backing of the national grain purchase policy.

Effective as from 1 January 2010, the PRC government lowered the low-season export tariffs of urea and phosphate fertilisers to 7% and extended the applicable period for low-season export tariff by half-a-month. The demands for fertilisers in the international market increased as international grain prices went up in the second half of 2010, which led to prices increases of fertilisers in the international market. Due to higher fertiliser prices in the international market and extension of low export tariff period, domestic supplies of urea and phosphate fertilisers tightened with the significant surges in exports and followed by the substantial depletion in its inventory. To secure the supply of domestic fertilisers, the PRC took immediate actions in realigning the export tariff policy of urea and phosphate fertilisers by adjusting the month of December from the period of low export tariff to a period of high export tariff.

(1) Urea

With the increase of ex-terminal price of domestic-landed natural gas from 1 June 2010, the price of natural gas used by domestic urea producers increased by RMB0.23 per m^3.

In 2010, affected by factors such as the increases of international energy prices and the robust domestic demands, domestic coal prices raised steadily.

Commencing from July 2010, as the PRC enhanced its implementation efforts in energy-saving and emission-reduction, the production of small to medium-sized ammonia and urea fertiliser enterprises, which have been classified under the "high energy consumption, high pollution and resources-based" sector and became the focus of limited production in some areas, were affected seriously. In winter, the substantial increases of civil usage of natural gas resulted in the limited supply to natural gas-based urea producers.

Despite the fall in domestic urea production in 2010 as a result of the above factors, some of the large-scale urea production enterprises with reliable resources supply, advanced technology, low energy consumption and higher environmental protection standards than the State's requirements could still manage to operate at full capacity.

In 2010, domestic urea production exceeded 57 million tonnes (in real terms), a slight decrease of approximately 7% over 2009. Domestic urea exports were in excess of 7 million tonnes (in real terms).

Urea prices in the domestic market were stable in early 2010. Mainly affected by the country's drought and abnormal climate, demand for urea declined, and domestic urea prices began to slip in the second half of March and remained at low levels. Aided by robust domestic urea exports and the falling utilisation rates, consequently, domestic urea supply became tightened, and domestic urea market prices continued to rise since August. As at the end of November, domestic urea market price reached RMB2,000 per tonne, and it still hovered at the RMB1,900 per tonne due to high production costs despite the adjustments of export tariffs for the period of December.

(2) Phosphate Fertilisers

In 2010, domestic ammonium phosphate production exceeded 20 million tonnes (in real terms), an increase of approximately 11% over 2009. Domestic ammonium phosphate exports amounted to approximately 4.9 million tonnes (in real terms), a significant increase of approximately 91% over 2009.

Domestic ammonium phosphate prices were stable during the first quarter of 2010, but fell slightly from mid-April onwards due to slack demands caused by the abnormal climate. However, in the second half of 2010, domestic ammonium phosphate exports surged significantly, coupled with the increases in ammonium phosphate production costs inflicted by continuous rises in sulphur and ammonia (which were the raw materials for the production of ammonium phosphate), domestic market prices of ammonium phosphate started to raise steadily. Till the year end, domestic market prices of ammonium phosphate remained stable due to depleted inventory and high costs despite the adjustments of export tariffs for the period of December.

Looking ahead, depleted inventory and increasing demand of grain worldwide as well as bio-energy development will push up demands in the international fertiliser market. The PRC government's continuous policies of strengthening and favouring the agricultural industry and the domestic grain market prices will further improve the initiative of the farmers in planting, which will result in an increasing demand for fertiliser. Although the domestic fertiliser market was pressurised by shortened period of low export tariff of urea and ammonium phosphate in 2011, increases of production costs will support the domestic fertiliser prices.

Methanol sector

As the PRC economy sustained its steady growth in 2010, the annual growth rate of GDP was 10.3% according to the National Bureau of Statistics of China. Benefitted from the economic growth, demands for methanol from domestic downstream industries and as an alternative source of energy rose steadily.

Domestic apparent consumption of methanol exceeded 20 million tonnes in 2010, a growth of approximately 25% over 2009. Domestic methanol production exceeded 15 million tonnes, a substantial increase of approximately 30% over 2009. Methanol imports were approximately 5.19 million tonnes, a decrease of approximately 3.4% over 2009.

With the increase of the ex-terminal price of domestic-landed natural gas from 1 June 2010, the price of natural gas used by domestic methanol production enterprises increased by RMB0.23 per m^3.

In 2010, affected by rises in international energy prices and robust domestic demands, domestic coal prices kept on going higher.

In the second half of 2010, the PRC government enhanced its implementation efforts in energy-saving and emission-reduction by launching strict restrictions over electricity supply to the high energy consumption sector of chemicals. In winter, the substantial increases in civil usage of natural gas resulted in the tightening of supply to the gas-based methanol producers, which led to reductions and even suspensions of methanol production in some areas.

In October 2010, the PRC government announced its initial findings in respect of the anti-dumping investigation, relating to methanol imports produced by Saudi Arabia, Malaysia, Indonesia and New Zealand, which affected the methanol imports from Malaysia, Indonesia and New Zealand and, to a certain extent, limited foreign methanol imports.

Due to the robust demands of methanol as an alternative source of energy in the PRC in the first quarter of 2010, market prices of methanol maintained within the range of RMB2,600–2,800 per tonne. However, methanol prices started to fall from April onwards as the effects of the rationalisation of the dimethylether sector. In the second half of 2010, due to the sustained rises of international crude oil prices and tightened supply in the international market, international methanol prices surged significantly. Domestic methanol prices began to rise since August as effects of the expanded implementation efforts of domestic energy-saving and emission-reduction which led to tightened supply in the domestic methanol market. Subsequent to the release of the initial findings of the anti-dumping investigation by the PRC government in October, domestic methanol prices surged to RMB3,900 per tonne in mid-November and fell back later. However, backed up by high production costs, it still fluctuated between the range of RMB2,500-3,000 per tonne till the end of December.

Looking forward to the year of 2011, methanol downstream demands will be driven by the PRC economy, being on track for its reasonable growth. Continual promotions of alternative source of energy in the PRC will also fuel the demands for methanol. Robust domestic demands of methanol, international energy prices and production costs pressures will elevate the range of price fluctuations of methanol in the PRC.

Outlook

In 2011, the Company will focus on the following tasks:

1. Ensure safe and stable operation of existing production plants and achieve annual production and operational targets;

2. Ensure the success on its trial production of "C" production line of the Inner Mongolia POM Plant and the commercial operation of the plant in the middle of the year;

3. Actively move forward the construction of the phosphate fertilisers production expansion and renovation project of DYK Chemical in Hubei and complete the project at the end of the year;

4. Proactively move forward the construction of the coal-based urea projects in Hegang, Heilongjiang and Hequ, Shanxi according to schedule;

5. Capitalise on the competitive advantages of synergy among resources and networks in enhancing sales of the Company's fertiliser and chemical products;

6. Proactively fulfil our corporate social responsibilities and continue to improve HSE management level and enhance energy-saving and emission-reduction task; and

7. Continue to seek mergers and acquisitions opportunities that match the development strategy both in China and overseas.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed the accounting principles and standards adopted by the Group, and discussed the internal control and financial reporting matters. The annual results for the year ended 31 December 2010 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 2010.

Compliance with the Code on Corporate Governance Practices

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited for the year ended 31 December 2010.

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

The Board confirms, having made specific enquiries with all directors and supervisors, that during the year ended 31 December 2010, 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 Issuers as set out in Appendix 10 of the Listing Rules.

Closure of the register of members

The register of members will be closed from 4 May 2011 to 3 June 2011 (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 instruments of transfer, 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 3 May 2011.

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

During 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Disclosure on the Website of the Stock Exchange

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, 27 March 2011

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. GU Zongqin

* *for identification only*