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(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 2012**

FINANCIAL HIGHLIGHTS

1. Revenue amounted to RMB10,739.2 million
2. Gross profit amounted to RMB3,306.3 million
3. Net profit attributable to owners of the parent amounted to RMB1,810.5 million
4. Basic earnings per share was RMB0.39
5. Proposed final dividend of RMB0.15 per share for the year

(I) AUDITED FINANCIAL STATEMENTS**Consolidated income statement***Year ended 31 December 2012*

	<i>Notes</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Revenue	4	10,739,211	9,756,314
Cost of sales		(7,432,872)	(6,488,688)
Gross profit		3,306,339	3,267,626
Other income and gains	4	121,069	127,861
Selling and distribution expenses		(218,101)	(169,381)
Administrative expenses		(432,778)	(418,259)
Other expenses		(32,784)	(32,057)
Finance income		15,621	15,966
Finance costs	5	(12,534)	(18,005)
Exchange (losses)/gains, net		(7,489)	2,327
Share of profits of associates		86	62
Impairment of property, plant and equipment		(131,694)	—
Profit before tax	6	2,607,735	2,776,140
Income tax expense	7	(624,115)	(556,398)
Profit for the year		1,983,620	2,219,742
Attributable to:			
Owners of the parent		1,810,463	1,985,777
Non-controlling interests		173,157	233,965
		1,983,620	2,219,742
Earnings per share attributable to ordinary equity holders of the parent			
— Basic for the year (<i>RMB</i>)	8	0.39	0.43
— Diluted for the year (<i>RMB</i>)	8	0.39	0.43

Consolidated statement of comprehensive income
Year ended 31 December 2012

	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	<u>1,983,620</u>	<u>2,219,742</u>
Other comprehensive income for the year, net of tax	<u>—</u>	<u>—</u>
Total comprehensive income for the year	<u>1,983,620</u>	<u>2,219,742</u>
Attributable to:		
Owners of the parent	1,810,463	1,985,777
Non-controlling interests	<u>173,157</u>	<u>233,965</u>
	<u>1,983,620</u>	<u>2,219,742</u>

Consolidated statement of financial position

As at 31 December 2012

	31 December	31 December
	2012	2011
<i>Note</i>	RMB'000	RMB'000
Assets		
Non-current assets		
Property, plant and equipment	10,031,001	9,347,634
Mining rights	481,304	482,868
Prepaid land lease payments	514,211	472,695
Intangible assets	124,905	129,685
Investments in associates	654,433	654,347
Available-for-sale investments	600	600
Deferred tax assets	139,319	110,198
	11,945,773	11,198,027
Current assets		
Inventories	1,672,210	1,473,422
Trade receivables	97,830	147,272
Bills receivable	83,890	81,196
Prepayments, deposits and other receivables	723,822	730,989
Available-for-sale investments	11,610	—
Pledged bank deposits	3,995	1,711
Time deposits	13,500	32,850
Cash and cash equivalents	2,578,880	2,803,266
	5,185,737	5,270,706
Total assets	17,131,510	16,468,733

Consolidated statement of financial position (continued)
As at 31 December 2012

	<i>Notes</i>	31 December 2012 RMB'000	31 December 2011 RMB'000
Equity and liabilities			
Equity attributable to owners of the parent			
Issued capital		4,610,000	4,610,000
Reserves		7,907,868	6,789,415
Proposed dividends	10	691,500	737,600
		<u>13,209,368</u>	<u>12,137,015</u>
Non-controlling interests		<u>1,417,305</u>	<u>1,430,653</u>
Total equity		<u>14,626,673</u>	<u>13,567,668</u>
Non-current liabilities			
Benefit liability		48,590	53,411
Interest-bearing bank borrowings		—	425,000
Other long-term liabilities		153,598	129,802
Deferred tax liabilities		72,870	71,796
		<u>275,058</u>	<u>680,009</u>
Current liabilities			
Trade payables	11	405,282	318,689
Bills payable	11	23,100	8,550
Other payables and accruals		1,654,907	1,765,424
Income tax payable		146,490	128,393
		<u>2,229,779</u>	<u>2,221,056</u>
Total liabilities		<u>2,504,837</u>	<u>2,901,065</u>
Total equity and liabilities		<u>17,131,510</u>	<u>16,468,733</u>
Net current assets		<u>2,955,958</u>	<u>3,049,650</u>
Total assets less current liabilities		<u>14,901,731</u>	<u>14,247,677</u>
Net assets		<u>14,626,673</u>	<u>13,567,668</u>

(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, methanol, phosphorus fertilisers which include mono-ammonium phosphate (“MAP”) and di-ammonium phosphate (“DAP”) fertilisers, and polyoxymethylene (“POM”).

The ultimate holding company of the Company is China National Offshore Oil Corporation (“CNOOC”), a state-owned enterprise established in the PRC.

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 2012. 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 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.

Total comprehensive income within a subsidiary is attributed to the owners of the parent and to the non-controlling interest even if it 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 investments in its jointly-controlled entities are accounted for by proportionate consolidation from the dates on which joint control over the jointly-controlled entities are established, which involve recognising in the consolidated financial statements a proportionate share of the jointly-controlled entities’ 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 revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i>
IAS 12 Amendments	Amendments to IAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL STANDARDS

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 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards — Government Loans</i> ²
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> ²
IFRS 9	<i>Financial Instruments</i> ⁴
IFRS 10	<i>Consolidated Financial Statements</i> ²
IFRS 11	<i>Joint Arrangements</i> ²
IFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — <i>Transition Guidance</i> ²
IFRS 10, IFRS 12 and IAS 27 (Revised)	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — <i>Investment Entities</i> ³
IFRS 13	<i>Fair Value Measurement</i> ²
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> ¹
IAS 19 Amendments	<i>Employee Benefits</i> ²
IAS 27 (Revised)	<i>Separate Financial Statements</i> ²
IAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i> ²
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ³
IFRIC Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ²
Annual Improvements 2009–2011 Cycle	Amendments to a number of IFRSs issued in May 2012 ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

Further information about those IFRSs that are expected to be applicable to 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 October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to 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. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the 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 and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and (SIC) — Int 12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in (SIC) — Int 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and (SIC) — Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or (SIC) — Int 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 Amendments includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 Amendments from 1 January 2013.

The IAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The Annual Improvements to IFRSs 2009–2011 Cycle issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. 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) IAS 1 Presentation of Financial Statements: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- (b) IAS 32 Financial Instruments: Presentation: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

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 manufacture and sale of BB fertiliser, POM and woven plastic bags, trading of fertilisers and chemicals, port operations and provision of transportation services.

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

Management monitors the operating results of the Group’s operating segments 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 determined on an arm’s length basis in a manner similar to transactions with third parties.

Business segments

	Urea <i>RMB’000</i>	Phosphorus fertiliser <i>RMB’000</i>	Methanol <i>RMB’000</i>	Others <i>RMB’000</i>	Elimination <i>RMB’000</i>	Total <i>RMB’000</i>
Year ended 31 December 2012						
Segment revenue:						
Sales to external customers	4,080,231	1,759,922	3,462,605	1,436,453	—	10,739,211
Inter-segment sales	81,628	—	27,358	166,303	(275,289)	—
Total	4,161,859	1,759,922	3,489,963	1,602,756	¹(275,289)	10,739,211
Segment results	1,536,846	66,965	1,260,310	(261,563)	(75,167)	2,527,391
Share of profits of associates	—	—	—	86	—	86
Gain on disposal of unlisted investments	72,252	—	7,226	780	—	80,258
Segment profit before tax	<u>1,609,098</u>	<u>66,965</u>	<u>1,267,536</u>	<u>(260,697)</u>	<u>²(75,167)</u>	<u>2,607,735</u>
As at 31 December 2012						
Operating assets	4,349,397	3,642,581	3,321,623	3,402,069	³ 2,415,840	17,131,510
Operating liabilities	874,240	2,173,633	409,173	1,506,459	⁴ (2,458,668)	2,504,837
Other segment information:						
Depreciation and amortisation	330,664	118,399	216,803	120,128	—	785,994
Investments in associates	653,230	—	—	1,203	—	654,433
Capital expenditure*	700,071	581,271	2,486	324,262	—	1,608,090

* Capital expenditure consists of additions to property, plant and equipment, intangible assets, and prepaid land lease payments.

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include unallocated administrative expenses (RMB80,506,000), finance income (RMB15,621,000), exchange losses on translation of foreign operations (RMB7,489,000), finance costs (RMB12,534,000), bank charges (RMB10,705,000), other income and gains (RMB21,763,000), other expenses (RMB22,078,000) and other unallocated revenues (RMB20,761,000).
3. Segment assets do not include deferred tax assets (RMB139,319,000), available-for-sale financial assets (RMB12,210,000), cash and bank balances (RMB1,504,285,000), assets of centralised cost centre (RMB839,343,000), interest receivables (RMB179,000), and inter-segment balances (RMB79,496,000).
4. Segment liabilities do not include deferred tax liabilities (RMB72,870,000), liabilities of centralised cost centre (RMB897,000) and inter-segment balances (RMB2,532,435,000).

Business segments (continued)

	Phosphorus					
	Urea	fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011						
Segment revenue:						
Sales to external customers	4,047,080	1,349,761	3,345,907	1,013,566	—	9,756,314
Inter-segment sales	57,337	1,887	31,436	166,563	(257,223)	—
Total	4,104,417	1,351,648	3,377,343	1,180,129	¹(257,223)	9,756,314
Segment results	1,335,809	159,502	1,264,355	6,070	(83,114)	2,682,622
Share of profits of associates	—	—	—	62	—	62
Gain on disposal of unlisted investments	85,693	802	6,257	704	—	93,456
Segment profit before tax	1,421,502	160,304	1,270,612	6,836	²(83,114)	2,776,140
As at 31 December 2011						
Operating assets	4,155,204	2,869,481	3,537,757	3,320,704	³ 2,585,587	16,468,733
Operating liabilities	876,554	1,434,069	371,339	1,624,000	⁴ (1,404,897)	2,901,065
Other segment information:						
Depreciation and amortisation	493,664	66,504	228,073	75,238	—	863,479
Investments in associates	653,230	—	—	1,117	—	654,347
Capital expenditure*	503,235	1,016,542	2,239	256,197	—	1,778,213

* Capital expenditure consists of additions to property, plant and equipment, intangible assets, mining rights and prepaid land lease payments.

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include unallocated administrative expenses (RMB96,339,000), finance income (RMB15,966,000), exchange gains on translation of foreign operations (RMB2,327,000), finance costs (RMB18,005,000), bank charges (RMB2,078,000), other income and gains (RMB28,412,000), other expenses (RMB29,979,000) and other unallocated revenues (RMB16,582,000).
3. Segment assets do not include deferred tax assets (RMB110,198,000), available-for-sale financial assets (RMB600,000), cash and bank balances (RMB1,688,306,000), assets of centralised cost centre (RMB850,473,000) and inter-segment balances (RMB63,990,000).

4. Segment liabilities do not include interest payables (RMB452,000), deferred tax liabilities (RMB71,796,000), liabilities of centralised cost centre (RMB897,000) and inter-segment balances (RMB1,478,042,000).

Geographic information

(a) Revenue from external customers

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Sales to external customers:		
— PRC	9,634,630	8,910,479
— Others	1,104,581	845,835
	<u>10,739,211</u>	<u>9,756,314</u>

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

All of the non-current assets are located in the PRC.

4 REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value 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:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Revenue		
Sale of goods	10,335,368	9,395,412
Rendering of services	403,843	360,902
	<u>10,739,211</u>	<u>9,756,314</u>
Other income and gains		
Gain on disposal of unlisted investments	80,258	93,456
Income from the sale of other materials	14,327	8,563
Income from the rendering of other services	7,124	6,181
Gain on disposal of items of property, plant and equipment	376	186
Gross rental income	2,302	1,548
Indemnities received	285	912
Government grant	16,397	17,015
	<u>121,069</u>	<u>127,861</u>

5 FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Total interest expense on bank loans	21,141	26,789
Less: Interest capitalised	(8,607)	(8,784)
	<u>12,534</u>	<u>18,005</u>

6 PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of inventories sold	6,880,383	5,858,462
Cost of services provided	338,573	299,744
Depreciation	760,998	841,077
Amortisation of mining rights	1,564	1,385
Amortisation of prepaid land lease payments	12,243	12,176
Amortisation of intangible assets	11,189	8,841
Auditors' remuneration	3,900	3,900
Employee benefit expense (including directors' and supervisors' remuneration):		
Wages and salaries	494,848	446,644
Defined contribution pension scheme	69,640	58,989
Early retirement benefits and post-employment allowances	(295)	(428)
Medical benefit costs	33,519	28,712
Cash-settled share option expense	—	1,003
Housing fund	31,922	27,069
	<u>629,634</u>	<u>561,989</u>
Write-back of provision for bad and doubtful debts of other receivables*	(2)	(31)
Loss on disposal of items of property, plant and equipment*	3,152	3,461
Provision of inventories to net realisable value	33,759	46,001
Impairment of property, plant and equipment	131,694	—
	<u>131,694</u>	<u>—</u>

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

7 INCOME TAX EXPENSE

Major components of income tax expense for the years ended 31 December 2012 and 2011 are as follows:

	2012 RMB'000	2011 RMB'000
Current — PRC		
Charge for the year	652,162	589,942
Deferred	(28,047)	(33,544)
	<u>624,115</u>	<u>556,398</u>
Total tax charge for the year	<u>624,115</u>	<u>556,398</u>

(a) Corporate income tax (“CIT”)

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for profits tax in Hong Kong as it does not have assessable profits currently sourced from Hong Kong. The New Corporate Income Tax Law effective from 1 January 2008 introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

CNOOC Fudao Limited (“CNOOC Fudao”), a subsidiary of the Company, is entitled to a preferential tax rate of 15% for the three years ending 31 December 2013 after being assessed as a high-tech enterprise.

CNOOC Tianye Chemical Limited (“CNOOC Tianye”), a subsidiary of the Company, is entitled to a preferential tax rate of 15% for the three years ending 31 December 2014 after being assessed as a high-tech enterprise.

Hubei Dayukou Chemical Co., Ltd. (“DYK Chemical”), a subsidiary of the Company, is entitled to a preferential CIT rate of 15% for the year 2012 after being assessed as a high-tech enterprise.

Hainan Basuo Port Limited (“Basuo Port”), a subsidiary of the Company, 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 ending 31 December 2014 as the company is engaged in infrastructure development and operation.

CNOOC (Hainan) E&P Gas Limited (“CNOOC E&P”), a subsidiary of the Company, 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. The year of 2008 is the first tax profitable year. The year of 2012 is the third year for CNOOC E&P to enjoy the 50% reduction in the applicable CIT rate of 25%.

(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 2012 and 2011.

8 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit for the year attributable to equity holders of the parent	<u>1,810,463</u>	<u>1,985,777</u>
	Number of shares	
	<i>'000</i>	<i>'000</i>
Shares		
Number of shares in issue during the year	<u>4,610,000</u>	<u>4,610,000</u>

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

9 TRADE RECEIVABLES

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

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

An ageing analysis of the trade receivables of the Group as at the end of the reporting period, based on invoice dates and net of impairment, is as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within six months	87,573	141,316
Over six months but within one year	8,040	3,434
Over one year but within two years	2,123	2,498
Over two years but within three years	94	24
	97,830	147,272

As at 31 December 2012, the amount due from CNOOC group companies included in the above trade receivable balances was RMB13,806,000 (2011: RMB14,183,000). The amount due is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

10 DIVIDENDS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Proposed final dividend — RMB0.15 (2011: RMB0.16) per ordinary share	691,500	737,600

The proposed 2011 final dividend was approved at the annual general meeting on 5 June 2012. The proposed 2012 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2012 annual general meeting.

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

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] No. 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

11 TRADE AND BILLS PAYABLES

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within six months	403,328	313,276
Over six months but within one year	13,753	4,861
Over one year but within two years	3,944	3,577
Over two years but within three years	2,733	90
Over three years	4,624	5,435
	428,382	327,239

As at 31 December 2012, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances totalled RMB225,407,000 (2011: RMB174,884,000). The amounts due to ultimate holding company included in the above trade payable and bills payable balances totalled RMB50,000 (2011: nil).

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Sector Review

Fertiliser Industry

In 2012, the PRC government continued to encourage the stable increase in grain production nationwide by taking solid actions. Policy support and technological input for increasing grain production was further enhanced, with actual funds committed to the agricultural sector, rural areas and farmers during the year amounted to RMB1,228.7 billion, a significant increase of approximately 18% over 2011. Driven by the PRC government's policy to enhance, enrich and assist the agricultural sector, cultivated area across the nation increased steadily in 2012 and total grain production for the year increased by 3.2% to 589,570,000 tonnes, realising a consecutive growth for nine years. In line with the stable development of China's agricultural sector, domestic demand for chemical fertilisers has also increased.

In 2012, the low-season export windows, tariff rates and export benchmark prices for domestic urea and phosphate fertilisers remained unchanged from 2011, except that tariffs were excluded from the export benchmark prices for 2012, effectively lowering export costs for domestic urea and phosphate fertilizers manufacturers.

(1) Urea

Domestic urea production volume in 2012 was approximately 67.19 million tonnes (in kind), an increase of approximately 14.7% over 2011. Export volume of urea increased significantly by around 95% to 6.95 million tonnes (in kind) compared with 2011. In 2012, domestic apparent consumption of urea was approximately 60 million tonnes, an increase of approximately 9.1% over 2011.

Urea prices in the domestic market remained stable in early 2012 until late February when prices started to rise driven by the significant increase in international urea prices and robust domestic demand for the product. By early to mid-May, domestic urea prices had peaked at a level exceeding RMB2,650 per tonne. Thereafter, the domestic market price of urea started to decline until reaching the yearly low of approximately RMB2,050 per tonne in November. Since the start of December, domestic urea prices had steadily rebounded on the commencement of low-season reserve stocking for domestic chemical fertilisers and centralised procurement by manufacturers of compound fertilisers. As at the end of December, the domestic market price of urea was approximately RMB2,250 per tonne.

(2) Phosphate fertilisers

In 2012, domestic production volume of ammonium phosphate exceeded 25 million tonnes (in kind), an increase of approximately 10% over 2011. Export volume of ammonium phosphate amounted to 4.53 million tonnes (in kind), a decrease of 7% compared with 2011. Domestic apparent consumption of ammonium phosphate was approximately 20 million tonnes, an increase of approximately 8% over 2011.

In 2012, domestic prices of ammonium phosphate developed stably during the first three quarters, with the market price of DAP fluctuating between RMB3,200 and RMB3,400 per tonne. Ammonium phosphate prices started to decline gradually in the fourth quarter as inventory began to increase as a result of the close of the export window and the onset of the low season for domestic demand, and international prices for phosphate fertilizers also declined. As at the end of the year, the market price of DAP was approximately RMB3,050 per tonne.

Chemical Industry

In 2012, while the demand for methanol from traditional downstream sectors was affected by the slowdown of the domestic economic growth, the demand for methanol in the PRC market was driven by the rapid development of methanol as an alternative energy and methanol-to-olefin.

In 2012, the demand for POM in the domestic market was sluggish amid volatile international economic developments and the slowdown in domestic economic growth. The continuous growth in domestic production of mid-to-low end POM has also resulted in serious imbalance of supply over demand in the domestic market for mid-to-low end POM.

(1) Methanol

In 2012, domestic methanol production volume exceeded 26 million tonnes, an increase of approximately 32% over 2011. Methanol import volume amounted to approximately 5 million tonnes, a decrease of approximately 12% compared with 2011. Domestic apparent consumption of methanol was approximately 31 million tonnes, an increase of approximately 24% over 2011.

The major domestic markets for methanol remained stable during the first five months of 2012 with the prices fluctuating in the range of RMB2,900 to RMB3,200 per tonne. Since the beginning of June, however, methanol prices had started to decline due to the significant drop in international energy prices, reaching a yearly low of approximately RMB2,650 per tonne by early July. Thereafter, the domestic market price of methanol fluctuates in the narrow range of RMB2,700 to RMB2,900 per tonne, in line with changes in international energy prices.

(2) POM

In 2012, domestic POM production volume was approximately 260,000 tonnes, an increase of 13% over 2011. POM import and export volume amounted to approximately 200,000 tonnes and 50,000 tonnes, respectively. Domestic apparent consumption of POM was approximately 410,000 tonnes, an increase of approximately 9.6% over 2011.

Since October 2011, the prices for mid-to-low end POM in the domestic market had been declining, until reaching around RMB8,000 per tonne in June 2012. As at the end of December 2012, the market price remained at around RMB8,000 per tonne.

2. Business Review

Production Management

During the reporting period, the Company ensured the safe and stable operation at all its major plants through enhancing HSE management and the refined production management. Hainan Fudao Phase II Urea Plant and CNOOC Tianye's urea plant in Inner Mongolia have all broken their respective records for long-period operation.

The utilisation rate of DAP phase II plant of DYK Chemical had been increasing month by month after the plant went into commercial operation, as a result of ongoing optimisation of its production processes and timely rectification of any problems existing in the equipment performance and production process flow. The utilisation rates of the Company's urea and methanol plants were affected by scheduled overhauls at three principal production plants in Hainan during the first half of the year, and the undersupply of natural gas during the first quarter for CNOOC Tianye's urea and methanol plants in Inner Mongolia.

Details of production of the Group's plants during the reporting period are set out as follows:

	Year Ended 31 December			
	2012		2011	
	Production	Utilisation	Production	Utilisation
	(tonnes)	rate (%)	(tonnes)	rate (%)
Chemical fertilisers				
Urea				
Fudao Phase I	525,481	101.1	552,689	106.3
Fudao Phase II	766,063	95.8	904,914	113.1
CNOOC Tianye	566,117	108.9	450,094	86.6
Group total	<u>1,857,661</u>	<u>101.0</u>	<u>1,907,697</u>	<u>103.7</u>
Phosphate Fertilisers				
DYK MAP	52,917	35.3	39,950	26.6
DYK DAP Phase I	400,724	114.5	395,352	113.0
DYK DAP Phase II (Note 1)	176,915	84.9	—	—
Group total	<u>630,556</u>	<u>89.0</u>	<u>435,302</u>	<u>87.1</u>
Chemical Products				
Methanol				
Hainan Phase I	651,100	108.5	652,226	108.7
Hainan Phase II	774,818	96.9	776,325	97.0
CNOOC Tianye	166,001	83.0	141,790	70.9
Group total	<u>1,591,919</u>	<u>99.5</u>	<u>1,570,341</u>	<u>98.1</u>
POM				
CNOOC Tianye POM (Note 2)	28,831	48.1	10,104	67.4
Group total	<u>28,831</u>	<u>48.1</u>	<u>10,104</u>	<u>67.4</u>

Note 1: The DYK DAP Phase II Plant went into commercial operation on 1 August 2012. Its production volume in 2012 was included from the date of the commencement of commercial operation;

Note 2: CNOOC Tianye POM Plant went into commercial operation on 1 October 2011. Its production volume in 2011 was included from the date of the commencement of commercial operation.

Sales Management

The Company ensured the sales of its principal products during the reporting period, in spite of the complexities and uncertainties in the market, by strengthening its work in market analysis and prospective judgement and adopting different pricing models based on product characteristics as well as differentiated logistics support measures based on the logistics conditions of target markets.

Urea

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

Sales Region	Year Ended 31 December			
	2012		2011	
	Volume	Percentage	Volume	Percentage
	<i>(tonnes)</i>	<i>(%)</i>	<i>(tonnes)</i>	<i>(%)</i>
North-eastern China	139,324	7.4	125,079	6.7
Northern China	495,332	26.4	479,470	25.7
Eastern China	116,488	6.2	148,938	8.0
South-eastern China	88,697	4.7	85,484	4.6
Southern China	592,330	31.5	601,627	32.2
Hainan	178,763	9.5	196,639	10.5
International	269,784	14.3	230,183	12.3
Total	1,880,718	100.0	1,867,420	100.0

Phosphate Fertilisers

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

Sales Region	Year Ended 31 December			
	2012		2011	
	Volume	Percentage	Volume	Percentage
	<i>(tonnes)</i>	<i>(%)</i>	<i>(tonnes)</i>	<i>(%)</i>
North-eastern China	223,185	39.5	217,486	50.6
Northern China	164,080	29.0	98,234	22.8
Eastern China	53,194	9.4	56,013	13.0
South-eastern China	17,808	3.2	17,139	4.0
Southern China	19,523	3.5	19,439	4.5
International	86,889	15.4	21,722	5.1
Total	564,679	100.0	430,033	100.0

Methanol

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

Sales Region	Year Ended 31 December			
	2012		2011	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
North-eastern China	56,226	3.6	43,306	2.9
Northern China	61,462	3.9	41,548	2.8
Eastern China	176,317	11.2	193,477	13.0
South-eastern China	211,081	13.5	193,387	13.0
Southern China	981,965	62.6	947,163	63.4
Hainan	81,516	5.2	74,055	4.9
Total	1,568,567	100.0	1,492,936	100.0

POM

In 2012, the Group produced a total of 28,831 tonnes of POM with a sales volume of 33,308 tonnes.

BB fertilisers

In 2012, the Group produced a total of 76,561 tonnes of BB fertilisers with a sales volume of 76,564 tonnes.

Sea-land logistics services

In 2012, Basuo Port completed a record-high volume of freight throughput of 8.23 million tonnes.

3. Financial Review

Revenue

During the reporting period, the Group's revenue was RMB10,739.2 million, an increase of RMB982.9 million or 10.1% from RMB9,756.3 million in 2011.

During the reporting period, the Group's external revenue from urea was RMB4,080.2 million, an increase of RMB33.1 million or 0.8% from RMB4,047.1 million in 2011. The increase was primarily attributable to: (1) the increase in the selling price of urea by RMB2.3 per tonne, contributing to an increase of RMB4.3 million in revenue, (2) the increase in sales volume of urea by 13,298 tonnes compared with 2011, contributing to an increase of RMB28.8 million in revenue.

During the reporting period, the Group's external revenue from phosphate fertilisers was RMB1,759.9 million, an increase of RMB410.1 million or 30.4% from RMB1,349.8 million in 2011. The increase was primarily attributable to (1) the commencement of commercial operation of DYK Chemical Phase II in Hubei in August 2012 which contributed to an increase in the sales volume of and revenue from phosphate fertilisers by 134,646 tonnes and RMB408.6 million, respectively; (2) an increase in revenue by RMB34.1 million over

2011 due to an increase in the export volume of phosphate fertilisers by 65,167 tonnes which were partly offset by (3) a decrease in the selling price of phosphate fertilisers by RMB75.5 per tonne, contributing to a decrease in revenue by RMB32.6 million.

During the reporting period, the Group's external revenue from the methanol segment was RMB3,462.6 million, an increase of RMB116.7 million or 3.5% from RMB3,345.9 million in 2011. The increase was primarily attributable to: (1) an increase in sales volume of methanol by 75,631 tonnes, contributing to an increase of RMB167.0 million in revenue; which was partially offset by (2) a decline in the selling price of methanol by RMB33.7 per tonne, contributing to a decrease in revenue by RMB50.3 million.

During the reporting period, the Group's revenue from other segments (primarily comprising manufacture and sales of BB fertilisers, POM and woven plastic bags, trading in fertilisers and chemicals, port operations and provision of transportation services) increased by RMB423.0 million, which was primarily attributable to: (1) an increase in revenue of POM by RMB182.7 million mainly due to an increase in sales volume of 26,817 tonnes, contributing to an increase of RMB194.9 million in revenue; however, such increase was partially offset by a RMB12.2 million decrease in revenue caused by a decline in selling price by RMB1,877.1 per tonne; (2) an increase in revenue of RMB197.4 million from BB fertilisers and trading in fertilisers and chemicals; and (3) the increase in throughput and transportation volumes by Basuo Port, contributing to an increase in revenue by RMB42.9 million.

Cost of sales

During the reporting period, the Group's cost of sales was RMB7,432.9 million, an increase of RMB944.2 million or 14.6% from RMB6,488.7 million in 2011.

During the reporting period, the Group's cost of sales for urea was RMB2,293.8 million, a decrease by RMB174.5 million or 7.1% from RMB2,468.3 million in 2011. The decrease was primarily attributable to: (1) the completion of the full provision for depreciation of equipment built during the initial investment in Hainan Fudao Phase I Urea Plant and CNOOC Tianye Urea Plant in Inner Mongolia resulting in a decrease in cost by RMB165.9 million; (2) the decrease in export tariff for urea by RMB131.9 million; which were partially offset by (3) the increase in sales volume of urea by 13,298 tonnes over 2011 and the increase in cost by RMB123.3 million owing to the overhaul of two urea plants in Hainan.

The Group's cost of sales for phosphate fertilisers for the reporting period was RMB1,604.3 million, an increase of RMB479.4 million or 42.6% from RMB1,124.9 million in 2011. The increase was primarily attributable to: (1) an increase in cost of sales by RMB374.7 million in line with the increase in the Group's sales volume of phosphate fertilisers by 134,646 tonnes; (2) an increase in cost by RMB84.3 million owing to rising prices for externally sourced phosphoric ores coupled with the gradual increase in the utilization rate of the Phase II Phosphate Fertiliser Plant after the commencement of commercial operation; and (3) the increase in export tariff for phosphate fertilisers and miscellaneous freight costs by RMB20.4 million over 2011.

The Group's cost of sales for methanol for the reporting period was RMB2,068.9 million, an increase of RMB117.2 million or 6.0% from RMB1,951.7 million in 2011. The increase was primarily attributable to: (1) an RMB99.8 million increase in cost in line with the increase in the Group's methanol sales volume by 75,631 tonnes; and (2) the increase in cost by RMB17.4 million owing to the overhaul of Hainan Phase II Methanol Plant and the suspension, during the first quarter, of CNOOC Tianye Methanol Plant.

The Group's cost of sales from other segments for the reporting period increased by RMB522.1 million over 2011. The increase was primarily attributable to: (1) an RMB296.9 million increase in cost in line with the increase in the Group's POM sales volume by 26,817 tonnes; (2) an increase of RMB185.5 million in the cost for BB fertilisers, and trading in chemical fertilisers and chemicals; and (3) the increase in the throughput and transportation volumes of Basuo Port, contributing to an increase in cost of RMB39.7 million.

Gross profit

The Group's gross profit for the reporting period was RMB3,306.3 million, an increase of RMB38.7 million or 1.2% from RMB3,267.6 million in 2011. The increase was primarily attributable to: (1) the increase in gross profit for urea by RMB207.6 million as a result of the increase in the selling prices coupled with the decrease in costs; (2) the decrease in gross profit for phosphate fertilisers by RMB69.3 million, caused by the decrease in the selling prices coupled with the increase in the costs owing to rising prices for externally sourced phosphoric ores; (3) largely stable gross profit for methanol as the effect of the increase in sales volume was largely offset by the declined prices and increased costs; and (4) the decrease in gross profit for other segments by RMB99.1 million mainly caused by a decrease in the gross profit for POM by RMB114.2 million.

Other income and gains

The Group's other gains for the reporting period amounted to RMB121.1 million, a decrease by RMB6.8 million or 5.3% from other gains of RMB127.9 million in 2011. The decrease was primarily attributable to: (1) a decrease in gains from entrusted funds by RMB13.2 million; (2) an increase in income from sales of materials by RMB6.4 million.

Selling and distribution costs

The Group's selling and distribution costs for the reporting period amounted to RMB218.1 million, an increase of RMB48.7 million or 28.7% from RMB169.4 million in 2011. The increase was primarily attributable to the increase in transportation, loading and unloading, miscellaneous port costs, etc in line with the increase in the sales volume of POM and phosphate fertilisers as well as the export volume of urea and phosphate fertilisers during the year.

Administrative expenses

The Group's administrative expenses for the reporting period amounted to RMB432.8 million, an increase of RMB14.5 million or 3.5% from RMB418.3 million in 2011. The increase was primarily attributable to the increase in the technological research expenses of CNOOC Fudao as a hi-tech enterprise.

Other expenses

The Group's other expenses for the reporting period amounted to RMB32.8 million, an increase of RMB0.7 million or 2.2% from RMB32.1 million in 2011.

Finance income and finance costs

The Group's finance income for the reporting period was RMB15.6 million, a decrease by RMB0.4 million or 2.5% from RMB16.0 million in 2011.

The Group's finance costs for the reporting period amounted to RMB12.5 million, a decrease by RMB5.5 million or 30.6% from RMB18.0 million in 2011. The decrease was primarily attributable to the Group's repayments of bank loans in connection with the CNOOC Tianye POM project and the DYK Chemical expansion and upgrade project before their respective maturity dates, in the amounts of RMB200.0 million and RMB225.0 million, respectively, during the reporting period.

Asset impairment losses

During the reporting period, CNOOC Tianye incurred losses from its POM business, due to the serious imbalance of supply over demand, and low prices in the market for mid-to-low end POM and the increased production costs owing to the low utilization rate of the plant. In accordance with IAS36, where there are indications of asset impairment, an estimate should be made in respect of its recoverable amount. The Company appointed Liuhetai Asset Appraisal Company Limited (六合泰資產評估事務所有限公司) to conduct an appraisal of the recoverable amount of CNOOC Tianye's POM Plant as at the benchmark date (31 December 2012) using the discounted future cash flow method. The conclusion of the appraisal is as follows: as at the benchmark date, namely 31 December 2012, the recoverable amount of CNOOC Tianye's POM Plant was RMB1,491.6 million, representing a shortfall of RMB131.7 million from its book value. Hence the Group has made a provision for asset impairment loss in the amount of RMB131.7 million.

Exchange losses, net

During the reporting period, the Group recorded exchange losses of RMB7.5 million, compared with exchange gains of RMB2.3 million for 2011, which was primarily attributable to the increase in export volume of urea and phosphate fertilisers and changes in the US dollar exchange rate.

Share of profit of an associate

Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal"), in which the Company holds a 49% equity interest, was unable to resume production since its suspension in March 2010. Pursuant to the requirements of IAS 28 and IAS36, where an indication of asset impairment exists, the asset's recoverable amount shall be estimated. Zhonglian Asset Appraisal Group Limited was appointed by the Company to conduct an appraisal of the recoverable amount of Yangpoquan Coal as at the benchmark date (31 December 2012) using the discounted future cash flows method, which concluded that the estimated recoverable amount of Yangpoquan Coal as at 31 December 2012 was RMB1,345.2 million. Accordingly, the recoverable amount of the long-term equity investment, calculated by the management on a pro rata basis, was higher than its carrying value of RMB653.2 million.

Income tax expense

The Group's income tax expense for the reporting period was RMB624.1 million, an increase of RMB67.7 million or 12.2% from RMB556.4 million in 2011. The increase was primarily attributable to: (1) the increase in income tax expense by RMB101.4 million due to the upward adjustment of the applicable tax rate for the Group during the reporting period; which was partially offset by (2) the decrease in enterprise income tax expense by RMB33.7 million due to the decrease in the Group's profit before taxation for the reporting period.

Net profit for the year

The Group's net profit for the reporting period was RMB1,983.6 million, a decrease by RMB236.1 million or 10.6% from RMB2,219.7 million in 2011.

The decrease in net profit was mainly attributable to: (1) the increase in loss incurred from the POM business by RMB136.2 million and the provision of asset impairment loss of RMB131.7 million for the POM Plant; (2) the decrease in profit for phosphate fertilisers by RMB93.3 million, as a result of the declined selling prices coupled with increased costs owing to rising prices for externally sourced phosphoric ores; (3) the increase in profit by RMB187.6 million due to the increased selling prices coupled with reduced costs for the Group's urea products; and (4) the increase in the Group's income tax expenses by RMB67.7 million.

Dividends

The Board of Directors (the "Board") recommended the payment of a final dividend of RMB0.15 per share for 2012, aggregating RMB691.5 million.

The proposed final dividend for 2012 will be subject to the approval of the shareholders of the Company at the 2012 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 RMB1,608.1 million. Capital expenditure primarily included: (1) RMB502.6 million for the DYK Chemical DAP Expansion Project; (2) RMB638.6 million for the Huahe 520,000 tonnes/year Urea Project; (3) RMB267.3 million for expansion and improvement of Basuo Port; and (4) RMB199.6 million for upgrades and equipment purchases for production plants as well as other projects.

Pledge of assets

During the reporting period, the Group did not pledge any assets.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to safeguard its normal production and operations in order to maximise shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. The gearing ratio of the Group as at 31 December 2012 (calculated as interest-bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 0, a decrease by 3.04% compared with 3.04% as at 31 December 2011, which was primarily attributable to the prepayment of the loan of RMB200.0 million for the Tianye POM and the loan of RMB225.0 million for the production expansion and renovation project of DYK Chemical during the reporting period.

Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB2,803.3 million. The net cash inflow from operating activities was RMB2,594.6 million, net cash outflow from investing activities was RMB1,481.1 million, and net cash outflow from financing activities was RMB1,337.9 million for the reporting period. As at 31 December 2012, the Group's cash and cash equivalents were RMB2,578.9 million. The Group has sufficient working capital to meet the funds required for its day-to-day operation and future development.

Human resources and training

As at 31 December 2012, the Group had 5,935 employees. The aggregate of employees' wages and allowances for 2012 was approximately RMB494.8 million. The Group has an effective remuneration package policy and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 3,143 training courses, with a total of 99,870 enrolments and 680,134 training hours according to its annual training program.

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. During the reporting period, the Renminbi to US dollar exchange rate ranged between 6.2670 and 6.3495. RMB to USD exchange fluctuation may affect import of our equipment and raw materials as well as export of our products.

As at 31 December 2012, the Group had no debts which were denominated in currencies other than RMB.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.6% during the reporting period, which did not have a significant effect on the Group's operating results for the year.

Liquidity risk

The Group monitors its risk exposure to a shortage of funds. The Group also considers the liquidity of both of its financial investments and financial assets (for example, trade receivables and other financial assets) and projected cash flows from operating activities. The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of various funding options, including bank loans and bonds. As at 31 December 2012, none of the Group's debts would mature in less than one year based on the carrying values of the borrowings in the financial statements.

Post balance sheet events and contingent liabilities

After the reporting period and up to the date of this announcement, the Group had no material post balance sheet events or material contingent liabilities.

Material litigation and arbitration

As at 31 December 2012, the Group had no material litigation or arbitration.

Major acquisition and disposition of the Company's subsidiaries and associates

As at 31 December 2012, the Group had no major acquisition or disposition.

4. Sector Outlook

Looking forward to 2013, international grain prices will be supported by low grain stock levels around the world coupled with better global economy. To ensure food supply security in China, the PRC government will continue to drive the increase in grain production. Thus, the global demand for chemical fertilizers will grow steadily.

Pursuant to the 2013 tariff policy announced by the PRC government in December 2012, low-season export tariffs for urea and ammonium phosphate have been lowered while export benchmark prices have been raised. The low-season export window for ammonium phosphate has been also extended for one month. The policy will promote the export of urea and phosphate fertiliser during low seasons.

In 2013, China's economy is expected to grow steadily. Domestic development of methanol as an alternative energy and methanol-to-olefin will increase the demand for methanol; while domestic oversupply of mid-to-low end POM is expected to be alleviated.

5. Our Key Tasks in 2013

In 2013, the Company will focus its efforts on the following tasks:

1. To continue to strengthen the refined production management, in order to ensure safe, stable and efficient operation of the Company's major urea, phosphate fertiliser and methanol plants;
2. To continue to enhance internal management, optimise allocation of resources at our production bases, and stringently implement cost and expense control;
3. To fully leverage on favourable export policies regarding urea and phosphate fertilisers in 2013 and properly arrange sales of urea and phosphate fertiliser;
4. To continue to optimise the production techniques of the POM plant in Inner Mongolia, in order to stabilize and improve the quality of products;
5. To vigorously advance the construction of the coal-based urea project in Hegang, Heilongjiang, striving to commence trial production in the fourth quarter of 2014;
6. To launch the project in CNOOC Tianye, Inner Mongolia to convert its production from natural gas-based to coal-based;
7. To resolve as soon as possible the dispute with the joint venture partner of the Yangpoquan coal mine in Hualu, Shanxi; and
8. To continue to look out for merger and acquisition opportunities in China and overseas that fit the Company's development strategy.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed, with the management, 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 2012 have been audited by Ernst & Young in accordance with Auditing Standard 700 (Engagement for the auditing of financial statements) issued by Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the financial report for the year ended 31 December 2012.

Compliance With Corporate Governance Code

During the reporting period, the Company had complied with all code provisions of the Code on Corporate Governance Practices (amended and renamed Corporate Governance Code with effect from 1 April 2012) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from 1 January 2012 to 31 March 2012, and all the code provisions of the Corporate Governance Code from 1 April 2012 to the end of the reporting period.

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

The Board confirms that, having made specific enquiries with all directors and supervisors, during the reporting period ended 31 December 2012, all members of the Board and all supervisors have complied with the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Listing Rules.

Closure of the Register of Members in Respect of the Annual General Meeting

The register of members of the Company will be closed from 2 May 2013 to 31 May 2013 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for attendance at the annual general meeting, all instruments of transfer, accompanied by the relevant H share certificates, must be lodged with the Hong Kong share registrar for H Shares, 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 30 April 2013.

Proposed Final Dividend and Closure of the Register of Members

The Board has recommended the payment of a final dividend of RMB0.15 (pre-tax) per share for the year ended 31 December 2012 to shareholders of the Company whose names appear on the register of members of the Company on the proposed record date, 10 June 2013.

The proposed final dividend for 2012 will be subject to the approval of the shareholders of the Company at the 2012 annual general meeting. For the holders of domestic shares, dividends will be paid in RMB. For the holders of H Shares, dividends will be paid in Hong Kong dollars.

The register of members of the Company will be closed from 6 June 2013 to 10 June 2013 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all instruments of transfer, accompanied by the relevant H share certificates, must be lodged with the Hong Kong share registrar for H Shares, 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 5 June 2013.

Withholding of Enterprise Income Tax and Individual Income Tax in respect of Dividend Payment

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and its Implementation Regulations, which became effective on 1 January 2008, the Company shall have the obligation to withhold enterprise income tax at the rate of 10% when distributing dividends to non-resident enterprises whose names appeared on the register of members of H Shares. Any H Shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, its nominees or agents, other organisation and bodies, shall be deemed to be shares held by non-resident enterprise shareholders, and accordingly, dividends payable to them shall be subject to withholding of enterprise income tax. As the Company is a foreign investment enterprise, the Company is not required to withhold non-resident individual income tax for non-resident individual holders of H Shares.

The Company shall not be responsible for any claims arising from the untimely or inaccurate determination of the capacity of the shareholders of the Company or any disputes in respect of the withholding mechanism.

Should there be any changes to the withholding for payment requirements applicable prior to the payment of the dividends, the Company shall make an announcement timely on such changes.

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

During 2012, 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

This results announcement is published on the HKExnews website (<http://www.hkexnews.hk>) and on the Company's website (<http://www.chinabluechem.com.cn/>). The 2012 Annual Report will be available on the HKExnews and the Company's website in due course.

By Order of the Board
China BlueChemical Ltd.*
Li Hui
Chairman

Hong Kong, the People's Republic of China, 21 March 2013

As at the date of this announcement, the executive Director is Mr. Yang Yexin; the non-executive Directors are Mr. Li Hui, Mr. Yang Shubo and Mr. Zhu Lei; the independent non-executive Directors are Mr. Gu Zongqin, Ms. Lee Kit Ying and Mr. Lee Kwan Hung.

* *for identification purpose only*