Annual Report 2009

HKSE CODE：3983

中海石油化學股份有限公司
China BlueChemical Ltd.

CONTENTS

COMPANY PROFILE

China BlueChemical Ltd. ("China BlueChem" or the "Company", together with its subsidiaries, the "Group", stock code: 3983) is a large-scale and modernized enterprise engaging in the development, production and sales of mineral fertilisers and chemical products. Headquartered in Dongfang City of Hainan Province, the People's Republic of China (the "PRC"), China BlueChem's production facilities are located in Hainan Province, the Inner Mongolian Autonomous Region and Hubei Province. Its total designed annual production capacity amounts to 1,840,000 tonnes of urea, 500,000 tonnes of phosphate fertilisers and 800,000 tonnes of methanol. On 29 September 2006, China BlueChem was listed on The Stock Exchange of Hong Kong Limited (the "HKEx").

As a listed company with the largest production volume of urea and methanol in China, China BlueChem is a subsidiary that engages in production of mineral fertilisers, methanol and related chemicals under the parent company, China National Offshore Oil Corporation (CNOOC), which is the third largest energy company in China. The Company is well positioned and has a solid foundation for the rapid development of mineral fertilisers and related chemical products.

Financial Highlights

Selected Consolidated Income Statement Data

For the year ended 31 December, RMB'million

	2005	2006	2007	2008 (As previously reported)	2008 Restated (Note)	**2009**
Revenue	2,371.0	3,465.8	4,340.4	5,518.2	6,811.8	**5,794.6**
Cost of sales	(1,293.1)	(2,164.2)	(2,552.1)	(3,250.0)	(4,505.4)	**(4,075.3)**
Gross profit	1,077.9	1,301.6	1,788.3	2,268.2	2,306.4	**1,719.3**
Other income and gains	1.7	125.6	74.0	127.8	138.3	**69.3**
Excess over the cost of a business combination	–	577.6	–	–	–	**–**
Selling and distribution costs	(15.4)	(33.9)	(70.2)	(82.5)	(101.5)	**(132.8)**
Administrative expenses	(130.7)	(199.5)	(223.8)	(280.8)	(380.3)	**(349.4)**
Other expenses	(103.1)	(34.5)	(51.2)	(28.7)	(32.5)	**(23.6)**
Finance income	24.4	119.8	29.3	25.5	26.5	**32.4**
Finance costs	(15.5)	(61.7)	(18.3)	(12.1)	(22.9)	**(14.5)**
Exchange (losses)/gains, net	189.5	(1.5)	14.4	14.9	14.7	**(3.1)**
Share of profits of associates	1.9	1.8	4.0	4.7	4.7	**14.8**
Profit before tax	1,030.7	1,795.3	1,546.5	2,037.0	1,953.4	**1,312.4**
Income tax expense	(47.5)	(120.1)	(67.1)	(176.1)	(131.8)	**(197.7)**
Profit for the year	983.2	1,675.2	1,479.4	1,860.9	1,821.6	**1,114.7**
Profit attributable to equity holders of the parent	943.8	1,645.8	1,448.3	1,635.3	1,608.5	**984.7**
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	0.31	0.48	0.31	0.35	0.35	**0.21**

Selected Consolidated Statement of Financial Position Data

As at 31 December, RMB'million

	2005	2006	2007	2008 (As previously reported)	2008 Restated (Note)	**2009**
Assets						
Non-current assets	3,617.5	6,331.1	5,986.0	6,668.8	7,696.9	**9,042.3**
Current assets	2,535.5	2,779.8	3,711.5	5,030.8	5,494.2	**3,604.1**
Total assets	6,153.0	9,110.9	9,697.5	11,699.6	13,191.1	**12,646.4**
Equity and liabilities						
Total equity	4,077.6	7,048.9	8,482.5	10,326.8	11,333.1	**10,944.2**
Non-current liabilities	1,052.8	563.8	352.4	410.0	473.4	**249.8**
Current liabilities	1,022.6	1,498.2	862.6	962.7	1,384.6	**1,452.4**
Total equity and liabilities	6,153.0	9,110.9	9,697.5	11,699.6	13,191.1	**12,646.4**

Note: On 28 February 2009, the Company acquired 83.17% and 100% equity interest of Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") and ZHJ Mining Company Limited ("ZHJ Mining") respectively with an aggregate cash consideration of RMB1,161,018,000. As the three parities are all ultimately controlled by CNOOC before and after the acquisition, the Company chose to refer to the principles set out in Accounting Guideline when preparing the consolidated financial statements as if the acquisition had occurred from the date when the combining entities first came under the control of CNOOC, and the consideration was regarded as the deemed distribution to CNOOC, thus restated the 2008 consolidated financial statements.

Operational Highlights

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

	Year Ended 31 December					
	Production volume (tonnes)			Utilisation Rate (%)		
	2009	2008	Change (%)	**2009**	2008	Change
Fertilisers						
Urea						
Fudao Phase I	**529,566**	564,755	(6.2)	**101.8**	108.6	(6.8)
Fudao Phase II	**760,339**	870,765	(12.7)	**95.0**	108.8	(13.8)
CNOOC Tianye	**610,262**	513,603	18.8	**117.4**	98.8	18.6
Group total	**1,900,167**	1,949,123	(2.5)	**103.3**	105.9	(2.6)
Phosphate Fertilisers						
DYK Chemical MAP	**40,518**	43,424	(6.7)	**27.0**	28.9	(1.9)
DYK Chemical DAP	**401,330**	357,153	12.4	**114.7**	102.0	12.7
Group total	**441,848**	400,577	10.3	**88.4**	80.1	8.3
Chemical Products						
Methanol						
CNOOC Jiantao (note)	**606,134**	516,037	17.5	**101.0**	100.1	0.9
CNOOC Tianye	**203,343**	170,647	19.2	**101.7**	85.3	16.4
Group total	**809,477**	686,684	17.9	**101.2**	96.4	4.8

Sales volume of the Group's various plants

Unit: tonne

	For the year ended 31 December 2009	For the year ended 31 December 2008	Change (%)
Fertilisers			
Urea			
Fudao Phase I	**538,693**	555,565	(3.0)
Fudao Phase II	**802,859**	816,951	(1.7)
CNOOC Tianye	**616,441**	509,114	21.1
Group Total	**1,957,993**	1,881,630	4.1
Phosphate Fertilisers			
DYK Chemical MAP	**48,252**	35,131	37.3
DYK Chemical DAP	**353,238**	321,694	9.8
Group Total	**401,490**	356,825	12.5
Chemical Products			
Methanol			
CNOOC Jiantao (note)	**594,657**	505,918	17.5
CNOOC Tianye	**206,919**	169,159	22.3
Group Total	**801,576**	675,077	18.7

Note: CNOOC Jiantao's results from January to April 2008 were consolidated into the Group's results on a 60% shareholding basis, while the results from May to December were consolidated on a 100% shareholding basis, its production volume and sales volume of methanol were 600,527 tonnes and 586,192 tonnes respectively in 2008 for CNOOC Jiantao. The results in 2009 were consolidated on a 100% shareholding basis.

Chairman's Statement

Dear Shareholders,

I am gratified to report that, in 2009, having overcome the serious impact of economic recession both domestically and globally, your Company took lead among its domestic peers in reporting good performance and delivered fruitful returns to our shareholders. We captured the sound development opportunities occurred in the crisis by acquiring resources in phosphoric ore and coal, which strengthened our natural resources foundation for the Company's development strategy.

On 12 June 2009, a new session of the board of directors (the "Board") was elected at the 2008 annual general meeting. With the trust and support of our shareholders and directors, I was honoured to be re-elected as chairman of your Company.

In 2009, committed to the principles of integrity, diligence and accountability, the new session of the Board strove to enhance the comprehensive risk management system of the Company, in particular, focusing on identifying and monitoring the risks associated with the Company's development. The Board reviewed and enhanced the Articles of the Association ("Articles") and continued to tighten the management over connected transactions. Persisting in the principles of openness, fairness and transparency for information disclosures, the Board maintained good communications with our shareholders, thus ensuring that our shareholders received relevant information timely in respect of mergers and acquisition in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

In 2010, safety of grains supply and the issues of agricultural sector, rural villages and the farmers remain to be the top priorities of the PRC government's agenda. It is expected that our government will retain the preferential policy for as well as promote the structural adjustment of the chemical fertiliser sector in order to safeguard agricultural production and satisfy the requirements of energy saving and pollutants discharge reduction. Recovery of domestic and overseas economies will also drive demands for chemical products. Our 800,000-ton methanol project and 60,000-ton POM project, to be operational in the year, will bring good return to our shareholders.

In 2009, I was impressed by your trust and support, our Board members' dedication and our management and all employees' efforts. The Board and the Company's excellent team will strive to create values for our shareholders in 2010.

WU Mengfei

Chairman

CEO's Report

Dear Shareholders,

In 2009, the Company has faithfully and consistently carried out the development strategy formulated by the Board responded steadily to the international financial crisis against the Company, we prevented various kinds of risks effectively and accomplished the leading operating results among our industry peers. Leveraging on our strong financial position, we capitalised on development opportunities brought by the crisis, which has laid a solid foundation for the robust development of the Company.

Industry leader in profitability

In 2009, we recorded revenue of RMB5, 794.6 million and the net profit attributable to owners of the parent of RMB984.7 million.

Despite the unfavourable impact on our urea, phosphate fertiliser and methanol sectors caused by the global financial crisis encroaching on the economy, our profitability sustained its leadership among our industry peers through optimising refined production management, stringent controls over all costs and expenses and thorough utilisation of the Group's competitive advantages in its centralised sales management.

Efficient operations of our major production facilities

With our relentless effort towards refined production management, the major production plants achieved safe and stable operation in 2009. Production capacity utilisation rates of the urea and methanol plants in CNOOC Tianye, the DYK Chemical DAP plant and the CNOOC Jiantao methanol plant achieved new highest records in their history respectively since the commencement of their operations. The urea plant of Fudao Phase II was operating steadily after the major overhaul earlier in the year and the urea plant of Fudao Phase I underwent a major overhaul at the end of 2009, which has laid a solid foundation for its safe and stable operation in 2010.

The production costs were effectively reduced thanks to the safe and stable operation of our major production facilities.

Integrated sales and distribution networks initiated our centralised sales management

In 2009, we initiated to build our centralised sales management by means of integrating the sales and distribution networks of our subsidiaries and to establish the Group's regulated and standardised sales and distribution network system, encompassing transportation, warehousing and retailing. Such system enhanced our control efforts over the market in capitalising our competitive advantages in resources complement and information sharing among the Company's regional sales networks effectively. In the meantime, by leveraging fully on the logistic and geographicl advantages in urea exports through our Hainan base, our urea exports in 2009 took premier position among the domestic chemical fertiliser sector.

Prudent capital management achieved substantial advances in mergers and acquisition and resource availability

In 2009, the Company has been implementing its development strategy of securing natural resources and strengthening cost competitiveness, and the Company succeeded in its access into the phosphate fertiliser production sector and achieved breakthroughs in securing available coal resources by making full use of the opportunities available during the economic slowdown of the industry and our prudent capital management.

We successfully extended into the phosphate fertiliser production by acquiring the phosphorus deposit and phosphate fertiliser assets of DYK Chemical and ZHJ Mining and the absorption of ZHJ Mining into DYK Chemical formed a production model of the integration of upstream phosphoric ore mining and downstream phosphate fertiliser production, which further enhanced the cost advantages of our phosphate fertiliser products. In addition, we acquired 45% equity interests of Guizhou Jinlin Chemical Co., Ltd. through capital increases, which laid the foundation for an integrated production base of phosphoric ore mining and phosphate fertiliser production in Guizhou.

We secured positive advances in our development strategy of building a large-scale urea production base, which is based on coal resources, through our successful equity participation in Shanxi Hualu Yangpoquan Mining Co., Ltd. and equity control in Shanxi Hualu Coal Chemical Ltd.

Smooth progress of major projects

The Hainan 800,000-ton methanol per annum project and the Inner Mongolia 60,000-ton POM per annum project are progressing smoothly according to schedule in their active preparation stage for production, both of which are expected to be operational in the fourth quarter of 2010.

The DYK Chemical phosphate fertiliser expansion and modification project received government approval and commenced construction, which is expected to be on stream at the end of 2011.

Having completed the feasibility study of Phase I of the Shanxi Hequ urea project, the project is expected to be completed and operational in early 2012.

Effective upgrade in operation management standard

In 2009, we have further amended and perfected the Core System Manual and the Business Authority Manual of Operations Management, optimised business flows through practices and regulated the Company's internal management effectively. At the same time, in view of the major risks faced by the Company during its current development stage, we have re-designed the overall management control system of the Company and continually optimised the internal control mechanism and overall risk management in ensuring the healthy development of the Company in terms of systems.

Active fulfillment of corporate social responsibility

In 2009, the Company continued to make donations of RMB10 million to Sichuan earthquake disaster area in support of their local reconstruction. All production bases continued to undertake poor relief work in their vicinity.

The Company continued to put up more efforts in environmental protection through introduction of advanced technology, large volumes of research work in the water and electricity savings, de-sulphurisation and integrated application of carbon dioxide. A series of key energy saving projects were approved and applied to the actual production. In 2009, the Company overfulfilled its annual energy-saving and emission targets. The integrated energy consumption of the Company's products was in competitive position among its industry peers.

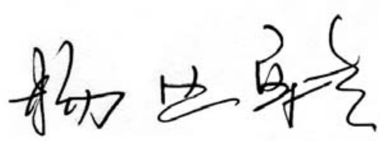
Outlook for 2010

The global economy is expected to recover gradually in 2010 with a simultaneous warming-up of the PRC economy. However, the operation of domestic and international economies is still subject to uncertainty. In response to new challenges and opportunities, adhering to strategy through organic growth and acquisition expansion, our major efforts will be focused on the following work: to ensure the safe and stable operation of the existing production plants and to endeavour completion of the current year's production targets; to push forward the construction of both the Hainan methanol project and the Inner Mongolia POM project and to ensure that they are being operational by the fourth quarter; to continue to drive the centralised sales management of our products and our market expansion of new products; to promote construction of ability of self-directed innovation; and to further enhance energy saving and pollutants discharge reduction.

Last but not least, on behalf of the management, I would like to express my sincere gratitude to our shareholders and the Board for their trust and support, and extend my sincere appreciation to all fellow colleagues for their hard work and diligence. As 2010 will be a crucial year of our development, the management and employees of the Company will continue in their joint endeavour to create higher value and better return to our shareholders.

YANG Yexin

CEO & President



Management Discussion and Analysis

Sector Review and Outlook

Fertiliser sector

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

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

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

(I) Urea

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

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

(II) Phosphate fertilisers

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

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

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

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

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

Methanol sector

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

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

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

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

Business Review

Production Management

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

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

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

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

Sales Management

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

Urea

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

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

Phosphate fertiliser

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

	Year ended 31 December			
	2009		2008	
Sales Region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**108,974**	**27.1**	200,224	56.1
Northern China	**215,148**	**53.6**	106,422	29.8
Eastern China	**44,668**	**11.1**	22,053	6.1
South-eastern China	**3,461**	**0.9**	8,025	2.3
Southern China	**9,779**	**2.4**	14,151	4.1
Hainan	**—**	**—**	—	—
International	**19,460**	**4.9**	5,950	1.7
Total	**401,490**	**100.0**	356,825	100.0

Methanol

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

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

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

BB fertilisers

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

Woven plastic bags

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

Sea-land logistics services

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

Financial Review

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

Revenue

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

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

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

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

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

Cost of sales

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

During the reporting period, the Group's cost of sales attributable to the newly acquired phosphate fertiliser assets of DYK Chemical and ZHJ Mining (which are engaged in the production and sale of MAP and DAP) was RMB 815.8 million.

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

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

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance income and finance costs

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

Exchange gains/(losses), net

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

Income tax expense

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

Net profit for the year

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

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

Dividends

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

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

Capital expenditure

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

Pledge of assets

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

Capital management

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

Cash and cash equivalents

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

Human resources and training

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

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

Market risk

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

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

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

Inflation and currency risk

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

Liquidity risk

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

Post balance sheet events and contingent liabilities

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

Material litigation and arbitration

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

Outlook

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

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

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

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

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

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

Quality, Health, Safety and Environmental Protection

In 2009, the Company continued to adhere to the safety management philosophy of "safety first, focus on prevention" through fortifying quality control and further improving management of health, safety and environmental protection systems. As a result, the HSE management standards of the Company have been continually enhanced and ensured that shareholders' value, customers' interests, employees' health and social responsibility are highly coherent.

Quality control

The Company ensures that its quality standards are attained by implementing its quality control management system in a strict and consistent manner.

During the year, the Company's urea products attained a quality superior rate of 99.77% with a 100% pass rate on net weight of single packets and a 96% customer satisfaction rate. The "Fudao" brand of granular urea was awarded the "National Inspection-Free Product" title for the third consecutive time and the "Fudao" brand was also honoured as the "China's Famous Brand" by the State Administration for Industry and Commerce of the PRC. The quality of methanol products fully met and even exceeded the respective national quality and American "AA" standards and reached international first-rate standards.

Health, Safety and Environmental Protection (HSE)

The Company strives to drive the establishment, enhancement and effective operation of the HSE system by means of management measures, such as supervision, inspection and appraisal, and technical measures, such as internal and external audits, management reviews and training. Subsequent to our acquisition, DYK Chemical also actively pushed for the establishment of its HSE management system, the drafting of which was completed in May 2009 and implementation commenced thereafter.

By incorporating breaches of general safety checks into subcontractors' records, the Company has further tightened up its system of access for subcontractors and enhanced their records. As a result, the self-management of subcontractors was encouraged in tandem with the progress of the Company, and the safety management of the Company was gradually fulfilled.

The "Clean Product Audit" was carried out on the two urea production plants in Hainan Province. An assessment meeting of the clean product audit report was held in April 2009, during which the audit report was amended in accordance with the experts' opinions. A draft copy of the audit report has been submitted to the Department of Land Environment and Resources of Hainan Province and is awaiting approval.

The Company further promoted the work on production safety, prevention and eradication of hidden hazards on the basis of the work done in 2008 by incorporating them into the general safety management of the Company to ensure the timely discovery and eradication of hidden hazards and warrant the continual operations of safety production.

The technical renovation of the waste fluid retrieval trench in Hainan was successful and became operational. The Company achieved a new important breakthrough in energy savings and pollutants discharge reduction as zero emission was accomplished during the vehicle stoppage of the device.

In 2009, the Company achieved excellent results in HSE management. No major accident or incident involving occupational hazards occurred during the reporting period. The OSHA index of recordable incident was 0.1.

Human Resources

Adhering to the personnel objective and philosophy of "Staff-Oriented, Caring for Employees" and the goals of fully capitalising the initiative and creativity of all types of talents, the Company strives to advance the development of production, scientific research and management team through the improvement of its talent team building mechanism. In 2009, through optimisation of work and distribution system, the Company offers a strong organisation and available talents for its development.

Remuneration and Welfare

Taking into account the basis of market competition and internal fairness, the Company provides every employee with a sophisticated and highly competitive remuneration and welfare system. Staff remunerations are determined according to their positions, performances and capabilities.

In 2009, the Company optimised and enhanced its work and distribution system by standardising various employee welfare plans and planning promotion channels for 3 different teams, namely, operation management, professional expertise and technical operation, and established the wage distribution mechanism that supported and warranted the operational strategies and goals of the Company.

Performance Appraisal

In order to ensure fully that the Company and its employees are developing jointly, the Company established a scientific performance appraisal scheme and an effective incentive and binding mechanism. In 2009, the Company further enhanced its performance appraisal management system to strengthen control over and upgrade management standards of all its units by introducing the "Performance Appraisal Management Methods of China BlueChemical Ltd." and the "Interim Measures of Fixed Target Appraisals for all units of China BlueChemical Ltd.", which became the performance appraisal system, based on ROE as the core, of all its units.

Training Management

In 2009, the Company enhanced the on-the-job capability of its employees by strengthening the on-the-job learning and internal training of staff through various activities, like case analysis, exchanges of technical dissertations and technical competitions. Welders and electricians of the Company obtained bronze prize at the Third Skill Competition of CNOOC. Technicians in chemical control, analysis and devices were awarded second, seventh and eighth in group events and fourth, fifth and sixth in individual events at the Second Oil and Chemical Industry Competition. The Company also held training courses for senior and middle management and regional projects management personnel of all its subsidiaries to update their understanding in project management standardisation and application and to further strengthen group management.

As at the end of 2009, the Company held 1,726 training courses with the participation of 42,248 staff, with total training hours amounted to 246,174 hours.

Corporate Governance Report

During the reporting period, the Company strove to improve standard of corporate governance practices to ensure transparency and safeguard shareholders' best interests. Save as disclosed below, for the year ended 31 December 2009, the Company strictly complied with the relevant provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Code provision E.1.2 of the Corporate Governance Code provides that the Chairman of the Board should attend annual general meetings of the Company. Due to other business commitments, Mr. Wu Mengfei, the Chairman of the board directors of the Company (the "Board"), was unable to attend the 2008 annual general meeting of the Company held on 12 June 2009 (the "AGM") and delegated Mr. Fang Yong, an executive director and executive vice president of the Company, to preside over the meeting. Mr. Wu Mengfei was contactable at all times during the AGM to answer questions, where necessary.

The Company has established a modern and balanced corporate governance structure which comprises a number of independently operated bodies including general meetings, the Board, the Supervisory Committee and senior management in accordance with laws and regulations, such as the Company Law of the People's Republic of China (the "PRC Company Law"), rules and guidelines issued by domestic and overseas regulatory bodies, the Listing Rules and the provisions of the Corporate Governance Code.

Subordinate to the Board are the Nomination Committee, the Remuneration Committee, the Audit Committee and the Investment Review Committee, whose main responsibilities are to provide assistance to the Board in decision-making.

So as to safeguard interests of the shareholders and bring into full play of the roles of the Board in decision-making and of Supervisory Committee in supervision, the Company attaches great importance to standardized, efficient corporate governance. During the financial year 2009, the Company further improved its corporate governance structure through amending the Articles of Association of the Company (the "Articles"), the rules of procedures of the Nomination Committee of the Board, the rules of procedures of the Remuneration Committee of the Board, the rules of procedures of the Audit Committee of the Board and the rules of procedures of the Investment Review Committee of the Board.

The corporate governance practices of the Company are summarised as follows:

1 Board of Directors

The Board comprises all directors of the Company, and is the decision-making body within the Company's corporate governance structure. The Board is accountable to shareholders and is responsible for leading and supervising the Company, jointly formulating business strategies and overseeing the affairs of the Company.

Duties of the Board

The Board is jointly responsible for formulating business strategies and policies, business plans and investment proposals, establishing management objectives, reviewing its own performance, evaluating the effectiveness of management strategies, formulating the Company's proposals for profit distribution and recovery of losses, deciding on the establishment of the Company's internal management structure, formulating the Company's basic management systems, and exercising proprietary powers. It delegates powers and responsibilities to management for the purposes of implementing business strategies and managing daily business operations of the Group, inter alia:

- Formulating long-term objectives and strategies;
- Approving strategic, operational and financial plans;
- Approving publication of financial reports and announcements;
- Formulating dividend policies; and

- Conducting significant acquisitions and disposals, establishing joint-venture entities and conducting capital transactions.

In addition, the responsibilities and powers of the Board are set out in the Articles of the Company.

Directors

The profiles of the directors of the Company (the "Directors") are set out on page 26 to page 29 of this Annual Report. No relationship (including financial, business, family or other significant or relevant relationship) exists between the members of the Board. The structure of the Board is balanced with each Director having the appropriate level of knowledge, experience and expertise in connection with the business operation and development of the Group. All Directors are fully aware of their joint and several accountability to shareholders.

The Board consists of seven directors as of 31 December 2009, including three executive Directors, one non-executive Director, and three independent non-executive Directors .

The Board complied with the Listing Rules by having at least three independent non-executive Directors, and the qualifications of the three independent non-executive Directors of the Company were in compliance with Listing Rules 3.10(1) and (2). In addition, the Company has received annual confirmations from each of its independent non-executive Directors acknowledging full compliance with the relevant requirements in respect of their independence. The Board has assessed the independence of each independent non-executive Director and therefore considers all independent non-executive Directors to be independent within the meaning of the Listing Rules. The independent non-executive Directors of the Company have no business or financial interests in either the Company or its subsidiaries, nor do they hold administrative posts in the Company. Independent non-executive Directors owe a fiduciary duty to the Company and its shareholders, and in particular, are entrusted with the duty to safeguard the interests of minority shareholders. They are a vital balancing function in the decision-making process of the Board and play a key role in corporate governance practices. At board meetings, in 2009, the independent non-executive Directors expressed their views on matters concerning the interests of shareholders and of the Company as a whole.

Each non-executive Director and each independent non-executive Director entered into a service contract with the Company for a term of three years, effective as of 12 June 2009. In accordance with the service contract, their term of office start on 12 June 2009 and expire when new non-executive directors and independent non-executive directors are elected at the general meeting held in the year when their term of office expire. If, however, non-executive directors and independent non-executive directors are not re-elected promptly when their terms of office expire, the existing non-executive Directors and independent non-executive Directors shall, in accordance with the provisions of the laws, regulations, and the Articles perform their duties as non-executive directors and independent non-executive directors prior to the general meeting held in the year when their term of office expire.

As of the date of this report, the members of the current session of the Board are as follows:

Board member	Position	Date of Appointment
WU Mengfei	Chairman and Non-executive Director	12 June 2009
YANG Yexin	Executive Director	12 June 2009
FANG Yong	Executive Director	12 June 2009
CHEN Kai	Executive Director	12 June 2009
ZHANG Xinzhi	Independent Non-executive Director	12 June 2009
TSUI Yiu Wa, Alec	Independent Non-executive Director	12 June 2009
LI Yongwu	Independent Non-executive Director	12 June 2009

Note: The service contract for each Director is for a term of three years. Each Director is eligible for re-election at a general meeting when his term of office expires.

Meetings

During the reporting period, the Board held four regular meetings, which were held in compliance with relevant laws and regulations and the Articles of the Company. The agenda were set after consultation with members of the Board. The Directors must declare their direct and indirect interests (if any) in relation to the issues discussed at board meetings. The Directors having such interests must abstain from voting at such meetings and shall not be counted in the quorum. The minutes of board meetings are kept by the Board Secretary.

Where necessary, directors can seek independent professional opinions at the Company's expense.

Attendance of Board members at Board meetings for the year ended 31 December 2009:

Director	Attendance/Number of meetings	Attendance rate (%)
WU Mengfei	4/4	100
YANG Yexin	4/4	100
FANG Yong	4/4	100
CHEN Kai	4/4	100
ZHANG Xinzhi	4/4	100
TSUI Yiu Wa, Alec	4/4	100
LI Yongwu(Note)	3/3	100

Note: Mr. LI Yongwu was appointed as independent non-executive Director of the Company on 12 June 2009. Three board meetings were held in total from 12 June 2009 to 31 December 2009.

2 Committees under the Board

The Board has four committees, including the Audit Committee, Remuneration Committee, Nomination Committee and Investment Review Committee. Each committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Each committee has adequate resources to perform its duties, reports to the Board regularly, presents major issues and findings, and provides valuable recommendations to assist the Board in making decisions.

Audit Committee

Mr. Li Yongwu was appointed as member of the Audit Committee to fill the position previously occupied by Mr. Wang Wenshan after his retirement on 12 June 2009. Currently, the Audit Committee consists of three independent non-executive directors, namely TSUI Yiu Wa, Alec, ZHANG Xinzhi and LI Yongwu. Mr. TSUI Yiu Wa, Alec is the Chairman.

Information on the current terms of reference of the Audit Committee is published on the website of the Company. The primary duty of the Audit Committee is to review and supervise the integrity and preparation procedure of the financial report of the Group and review the annual production operation and financial budget proposals. The Audit Committee is also responsible for the review of the independence and objectivity of the external auditors of the Company and the validity of audit procedures, the review of the appointment, remuneration, terms of engagement of auditors and any issues in connection with the appointment and dismissal of auditors. In addition, the Audit Committee is also responsible for reviewing the effectiveness of the internal control system of the Company to ensure efficiency of business operation and fulfilment of the Company's corporate objectives and strategies. The Audit Committee also examines internal audit work planning of the Company and submits relevant reports, deliberations and recommendations to the Board.

The Audit Committee held three meetings in 2009 where their work performed were summarised as follows:

- To review the 2008 financial statements and the 2009 interim financial statements, in particular, focusing on the compliance with accounting standards, the Listing Rules and other regulations, and providing recommendations to the Board;
- To review the 2010 operating and financial budgets;
- To review the statutory audit plan of external auditors and the nature and scope of their audit prior to the commencement of the audit;
- To have meetings and further discuss the internal financial audit with external auditors;
- To review the internal audit findings and recommendations for 2009 and approve the internal audit plan for 2010;
- To review the effectiveness of the internal control system of the Company;
- To approve the audit fees and the terms of engagement of external auditors; and
- To confirm the independence of external auditors and provide recommendations to the Board on reappointment of the external auditor.

Attendance of meetings by members of Audit Committee in 2009

Audit Committee member	Attendance/Number of meetings	Attendance rate (%)
TSUI Yiu Wa, Alec	3/3	100
ZHANG Xinzhi	3/3	100
WANG Wenshan (Note 1)	1/1	100
LI Yongwu (Note 2)	1/2	50

Notes:

(1) One meeting of the Audit Committee was held in total during the period from 1 January 2009 to 12 June 2009 when Mr. WANG Wenshan was a member of the Audit Committee.

(2) Two meetings of the Audit Committee were held in total during the period from 15 June 2009 to 31 December 2009 when Mr. LI Yongwu was a member of the Audit Committee.

Remuneration Committee

The Remuneration Committee has adopted the terms of reference recommended by the Corporate Governance Code. The current terms of reference of the Remuneration Committee are published on the website of the Company.

The Remuneration Committee is primarily responsible for studying, reviewing and formulating the remuneration policies and proposals, including the major proposals and systems of performance appraisal standards, procedures and major appraisal system, rewards and penalties, of the Directors, Supervisors and senior management of the Company and making recommendations thereon to the Board. It is also responsible for monitoring the implementation of the Company's remuneration system.

In discharging its functions, the Remuneration Committee may consult the Chairman, the Chief Executive Officer and other executive directors of the Company.

Remuneration policy for executive directors: the remuneration package policy for executive directors is designed to link executive directors' remuneration and their performance with the Company's corporate objectives and operating results, while taking into account market conditions, providing performance incentives and encouraging re-election.

Remuneration policy for non-executive directors: remuneration of non-executive directors (including independent non-executive directors) is subject to approval by the Company's general meeting. The remuneration of non-executive directors (including independent non-executive directors) is mainly determined after taking into consideration their duties and the complexity of the matters to be handled by them. Pursuant to the service contract entered into between the non-executive directors (including independent non-executive directors) and the Company, the out-of-pocket expenses incurred in the performance of their duties (including attendance at meetings of the Company) by non-executive directors are reimbursable by the Company.

The Remuneration Committee consists of three members, two of whom are independent non-executive Directors, namely ZHANG Xinzhi and TSUI Yiu Wa, Alec and one of whom is a non-executive Director, WU Mengfei. Mr. ZHANG Xinzhi is the Chairman.

One meeting of the Remuneration Committee was held in 2009, during which the remunerations of executive directors, supervisors and senior management were determined and appraisal results of the 2007 and 2008 share appreciation rights plans of the Company were reviewed with the authority delegated by the Board.

Attendance of meetings by members of Remuneration Committee in 2009

Remuneration Committee member	Attendance/Number of meetings	Attendance rate (%)
ZHANG Xinzhi (Chairman)	1/1	100
TSUI Yiu Wa, Alec	1/1	100
WU Mengfei	1/1	100

The directors are not entitled to determine and approve their own remuneration. The remuneration of each director for the year ended 31 December 2009 is set out in the Note 9 to the financial statements.

Nomination Committee

The Nomination Committee has adopted the terms of reference recommended in the Corporate Governance Code. The current terms of reference of the Nomination Committee are published on the website of the Company.

The Nomination Committee is primarily responsible to the Board of the Company for making recommendations in respect of appointments, re-appointments and succession plans of directors and senior management of the Company and relevant personnel appointed pursuant to the requirements of the Listing Rules, assessing and reviewing the structure, size and composition (including skills, knowledge and experience) of the Board and making recommendations in respect of the changes, re-elections and successions based on certain standards adopted by the Committee, such guidance shall include their suitability of having appropriate professional skills, knowledge and experience, personal integrity, honesty and skills and the amount of time available for serving the business of the Board. The Nomination Committee also assesses the independence of each independent non-executive director.

The Nomination Committee consists of three members, including two independent non-executive Directors, namely, LI Yongwu and ZHANG Xinzhi and an executive Director, YANG Yexin and. Mr. LI Yongwu is the Chairman.

Two meetings of the Nomination Committee were held in 2009, at which the Committee reviewed the situation relating to the candidates for the second session of the Board of the Company, discussed the nomination of the Company's independent non-executive Director Mr. LI Yongwu, examined the retirement of the Company's independent non-executive Director Mr. WANG Wenshan and provided relevant opinions to the Board of the Company. The Nomination Committee has also submitted recommendations in respect of the appointments of senior management and the relevant personnel pursuant to the requirements of the Listing Rules.

Attendance of meetings by members of the Nomination Committee in 2009

Nomination Committee member	Attendance/Number of meetings	Attendance rate (%)
LI Yongwu (Chairman) (note 1)	1/1	100
ZHANG Xinzhi	2/2	100
YANG Yexin	2/2	100
WANG Wenshan (note 2)	1/1	100

Notes:

(1) One meeting of the Nomination Committee was held in total during the period from 15 June 2009 to 31 December 2009 when Mr. LI Yongwu was a member of the Nomination Committee.

(2) One meeting of the Nomination Committee was held in total during the period from 1 January 2009 to 12 June 2009 when Mr. WANG Wenshan was a member of the Nomination Committee.

Investment Review Committee

The Investment Review Committee is primarily responsible for reviewing the investment projects beyond a certain threshold delegated by the Board for the decision-making authority of senior management and making the relevant recommendations to the Board. The Investment Review Committee consists of four members, including two independent non-executive Directors, namely, ZHANG Xinzhi and TSUI Yiu Wa, Alec, one non-executive Director, WU Mengfei and one executive Director YANG Yexin. Mr. ZHANG Xinzhi is the Chairman.

Five meetings were held by the Investment Review Committee in 2009, at which the major investment projects of the Company in 2009 were reviewed and their opinions were reported to the Board.

Attendance of meetings by members of the Investment Review Committee in 2009

Investment review Committee member	Attendance/Number of meetings	Attendance rate (%)
ZHANG Xinzhi (Chairman)	5/5	100
TSUI Yiu Wa, Alec	5/5	100
WU Mengfei	5/5	100
YANG Yexin	5/5	100

3 Supervisory Committee

The Supervisory Committee is accountable to the general meeting and performs the following duties in accordance with applicable laws:

- To review the financial matters of the company;
- To oversee the performance of directors and senior management when discharging their duties for the Company and make recommendations of dismissal in cases of breaches of laws, administrative regulations and the Articles;
- To correct improper behaviour of the directors, the president and other senior management that would damage the interests of the company;
- To examine financial information such as financial reports, business reports and profit distribution proposals submitted by the Board to the general meeting, and to authorise a certified public accountant and an auditor for re-examination in the name of the Company in case of doubt;
- To propose the holding of extraordinary general meetings, and to organise and chair the general meeting when the Board fails to fulfil its responsibility to do so;
- To make proposals to the general meeting of shareholders;
- To lodge lawsuits against directors, the president and other senior management of the Company in accordance with the PRC Company Law; and
- To perform other powers prescribed in the Articles.

The Supervisory Committee consists of three members at present, two of whom are external supervisors (one member is a shareholder's representative and another member is an independent supervisor) and one of whom is elected by the employees of the Company.

For the work performed by the Supervisory Committee, please refer to the report of the Supervisory Committee of this annual report.

4 Senior Management

The senior management consists of the Chief Executive Officer, President, Executive President, the Chief Financial Officer (Financial Controller), the Vice President and the Board Secretary. The Chief Executive Officer (President) reports to the Board, while all functional departments and other senior management report to the Chief Executive Officer (President). The Chief Executive Officer (President) has the authority to organise and carry out operational and managerial activities in accordance with laws and regulations and the Articles and powers authorised by the Board, and exercises the following major responsibilities:

- To preside over production and operation management, and carry out resolutions of the Board;
- To organise the implementation of operation plans for the year and investment proposals;
- To formulate the structure of internal management organisation plan;
- To formulate fundamental management system;
- To formulate basic rules and guidelines;
- To recommend appointment or dismissal of the Executive President, the Chief Financial Officer (Financial Controller) or Vice President;
- To appoint or dismiss personnel other than those required to be appointed or dismissed by the Board; and
- To perform other powers prescribed in the Articles and delegated by the board.

5 Securities Transactions by Directors and Supervisors

The Company adopts the Model Code set out in Appendix 10 to the Listing Rules as the model code (the "Model Code") for securities transactions by directors and supervisors. After specific inquiries to the directors and the supervisors of the Company, all Directors and Supervisors have confirmed that during the reporting period, they strictly complied with the requirements of the Model Code.

The Board will examine the corporate governance practices and operation of the Company from time to time so as to ensure compliance with the relevant provisions of the Listing Rules and to safeguard shareholders' interests.

6 Chairman and President

In accordance with Article A.2.1 of the Corporate Governance Code, the roles of Chairman and President should be separated and should not be held by the same individual.

In order to ensure a balance of power and authority, the Chairman and the President have different duties. Mr. WU Mengfei and Mr. YANG Yexin act as the Chairman and the President of the Company respectively. The Chairman is responsible for ensuring effective management of the Board, while the President is responsible for the daily business operations of the Group. Their responsibilities are clearly defined.

7 Communications with Investors

The Board recognizes the importance of good and effective communication with shareholders as a whole. In addition to publication of materials, announcements and circulars, the Company also dedicates a section titled "Investors Relations" on its website www.chinabluechem.com.cn for shareholders to obtain relevant information.

Pursuant to the provisions and requirements of regulatory bodies, the Company is proactive in maintaining a good relationship with investors and making proper information disclosure. Further, the Company endeavours to maintain continuous communication with shareholders, in particular, by encouraging shareholders to attend annual general meetings and other general meetings.

The secretary office of the Board is responsible for communication of the Company with shareholders and other investors, including notifying shareholders of voting procedures regularly, and ensuring the voting procedures conform to the provisions of the Listing Rules and the Articles.

8 Internal Control

The Company is committed to establish and maintain a reliable internal control and risk management system which takes into account the practical circumstances of the Company and is in strict compliance with the Corporate Governance Code. On the basis of the existing internal control systems, we continued to the work of management standards by issuing 23 new management standards in the year. After a few months of trial, the Business Authority Handbook of China Bluechemical Ltd. was amended and refined so that the coordination and management of all production bases were strengthened and further upgrade in work efficiency. During the year, the Company also actively drove forward the Overall Risk Management Project, and through its implementation, a risk management concept and corporate risk management culture within the Company were established. This led to a more standardised and professional approach in internal control and risk management of the Company. Subsequent to the acquisition of DYK Chemical and ZHJ Mining, the Company commenced the Overall Risk Management Project to promote their consolidation into the management systems and corporate cultures of the Company.

Through the Audit Committee's review of the internal control system of the Company, every year the Company conducts an annual comprehensive review of the effectiveness and benefits of the internal control system of the Company and its subsidiaries as well as associated companies, covering important controls over all financial, operational and compliance control and aspects of risk management functions. The Board has confirmed the effectiveness of the system of internal control of the Group. The Company ensured that the staff engaged in accounting and financial preparation and reporting functions have adequate qualifications and experience, and arranged adequate budget to ensure that the staff receive relevant training courses.

9 Auditor and Fees

Ernst & Young is the external auditor of the Company. The audit fee for the year ended 31 December 2009 was RMB3,500,000, which has been approved by the Audit Committee.

For the year ended 31 December 2009, there was no fee for non-audit service.

The Company's external auditor's responsibility statements on the consolidated financial statements are found on page 45 of this annual report.

10 2009 Annual Review on Non-Competition Agreement

On 7 September 2006, the Company and China National Offshore Oil Corporation ("CNOOC") entered into a non-competition agreement, pursuant to which CNOOC (a) agreed that it will not, and will procure its subsidiaries not to, directly or indirectly engage in businesses that compete or are likely to compete with the Company's core business in China or abroad; and (b) granted the Company the first transaction right, first option and pre-emptive right to acquire any competing businesses.

On 27 March 2010, the Company and CNOOC held the 2009 annual review on non-competition.

At the meeting, there was a review of the investment opportunities obtained in 2009 by CNOOC and its subsidiaries (excluding the Group) which compete or are likely to compete with the Group's core businesses.

CNOOC and its subsidiaries (excluding the Group) have made an annual declaration confirming that they have fully complied with such undertakings. The independent non-executive Directors of the Company have also reviewed whether CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings and they are satisfied that CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings.

11 Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for the Group's financial statements, and assess the Company's financial position, performance, cash flow status and prospects in a balanced, clear and comprehensive manner based on the timely and appropriate data provided by management. The Board undertakes that, save as disclosed in this annual report, there is no major uncertain event or condition which may significantly affect the going-concern capability of the Company.

Directors, Supervisors and Senior Management

Non-Executive Director

WU Mengfei, born in 1955, is a non-executive Director and the Chairman of the Company. Mr. Wu has obtained a master's degree from East China Petroleum Institute as well as a MBA degree from Massachusetts Institute of Technology. From April 2006 till today, he has been the chief accountant of CNOOC, he is the non-executive director of the Company. In April 2006, Mr. Wu was appointed as a non-executive director of China Oilfield Services Limited ("COSL"). He was an executive director of COSL from May 2004 to March 2006. From July 2002 to March 2006 he became the chief financial officer and an executive vice president and of COSL. From September 1999 to June 2002, Mr. Wu was a senior vice president and the chief financial officer of CNOOC Limited. From 1988 to 1999, he joined the CNOOC Group and served as the head of the planning office, a deputy director of the planning and financial department and the director of the planning and treasury department of CNOOC. At present, Mr. Wu is the chairman of Aegon-CNOOC Life Insurance Co., Ltd., CNOOC Insurance Ltd. and CNOOC Investment Co., Ltd.

Executive Directors

YANG Yexin, born in 1956, is an executive Director and also the Chief Executive Officer and President of the Company. Mr. Yang graduated from Wuhan Communication Technology University in 1978 with a major in vessel engineering and obtained a master's degree in management engineering from Beijing University of Petroleum in 2004. He joined the CNOOC Group in 1978 and served as a mechanical officer and the deputy head of the mechanics division of China Off shore Oil Southern Drilling Company before 1992, the deputy general manager of CNOOC Nanhai West CPEC (Shekou) Company from 1992, the chief officer of the equipment division of CNOOC Nanhai West Corporation from 1993, the deputy general manager of China Off shore Oil Southern Drilling Company from 1994 to 1999, the general manager of China Offshore Oil Southern Shipping Company from 1999 to 2001, the general manager of CNOOC Shipping Company Limited from 2001 to 2002, and a director and executive vice president of COSL from August 2002 to September 2003. Mr. Yang joined the Company in August 2003 when he was appointed as a director and the chairman of CNOOC Fudao Co., Limited. He was appointed as a director of CNOOC Chemical in September 2003 and the general manager of CNOOC Chemical in October 2005, and has been the chairman of CNOOC Jiantao and Hainan Basuo since their incorporation. Mr. Yang was appointed as an executive Director of the Company in April 2006.

FANG Yong, born in 1960, is an executive Director and an Executive Vice President of the Company. Mr. Fang graduated from Shandong TV University in 1984 with a major in electronics. In 1998, Mr. Fang completed a graduate professional program in international trade at the Chinese Academy of Social Sciences. He undertook an EMBA program at Raj Soin College of Business of the Ohio State University in the USA from March 2005 to May 2006. He worked for Shandong Shengli Institute of Oilfield Geology from 1976 to 1984, and then joined Henan Zhongyuan Oilfield as the head of the contract management division under the ethylene management office. From 1992, He served as the head of foreign affairs, assistant to general manager and the manager of the sales office of CNOOC Fudao Co., Limited before he was appointed as a deputy general manager of CNOOC Chemical in April 2001 and as a director and the president of CNOOC Fudao Co., Limited in December 2001. He was appointed as a director of CNOOC Chemical in November 2003 and a deputy general manager in October 2005. Mr. Fang was appointed as an executive Director of the Company in April 2006.

CHEN Kai, born in 1957, is an executive Director and an executive vice president of the Company. Mr. Chen graduated from Zhongshan Univeristy in 1982 with a major in philosophy. He joined the CNOOC Group in 1982 and served as the deputy director of the cultural centre, the head of the promotions division, an office director, and the Party secretary of CNOOC Nanhai West Corporation as well as the Party secretary of CNOOC Shipping Limited. From August 2002 to October 2005, he was a vice president of COSL. He joined Tianye Chemical in July 2004 as the general manager. Mr. Chen has been a deputy general manager of CNOOC Chemical since October 2005; he was general manager of Tianye Chemical from February 2006 to January 2009; he has been the chairman of Tianye Chemical since February 2006. Mr. Chen is also general manager of China BlueChemical Baotou Coal Chemical Industry Co., Limited. Mr. Chen was appointed as an executive Director of the Company in April 2006.

Independent Non-Executive Directors

ZHANG Xinzhi, born in 1944, is an independent non-executive Director of the Company. He has more than 35 years of experience in engineering and management in the petrochemical industry and is a senior engineer at professor level. Mr. Zhang obtained a bachelor's degree from University of Science and Technology of China in 1967. From 1967 to 1989, he was with No. 3 Fushun Petroleum Factory where he had served as a technical officer, an engineer and a deputy plant manager. He was a deputy general engineer of Fushun Petroleum Chemical Corporation in 1990, a deputy manager of the Fushun Petroleum and Chemical Company of Sinopec Corporation in 1992, and a manager of Fushun Petroleum Chemical Corporation of Sinopec Corporation in 1995. Mr. Zhang joined PetroChina Corporation in 1999, and served as a director of the refinery and chemical department, the general manager of the chemical and sales branch, a vice president, and a deputy director of the consulting centre. In 2003, he was appointed as honorary director of the sixth session of the China Petroleum Society. From 2003 to 2004, he was engaged as an instructor for part-time doctoral students by the Dalian Institute of Chemical Physics, the Institute of Chemistry and Lanzhou Institute of Chemical Physics with China Academy of Science. In 2009 he was engaged as an instructor for part-time doctoral students by the Qingdao Institute of Bioenergy and Bioprocess Technology with Chinese Academy of Sciences. Mr. Zhang was appointed as an independent non-executive director in April 2006.

TSUI Yiu Wa, Alec, born in 1949, is an independent non-executive Director of the Company. He has more than 30 years of experience in the securities market and financial management. Mr. Tsui graduated from the University of Tennessee with a bachelor of science degree and a master of engineering degree in industrial engineering. He completed the program for senior managers in government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui served at various international companies, including Arthur Andersen & Co and Swire Bottlers Limited, and China Light and Power Company Limited for 12 years in relation to information technology, financial analysis, corporate planning and management. He was the general manager (finance, technology & human resources), an assistant director (licensing) and the general manager (human resources) of the SFC from 1989 to 1993. Mr. Tsui joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became the chief executive in 1997. From 2001 to 2004, he was chairman of Hong Kong Securities Institute. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. At present, he serves as an independent non-executive director in a number of Hong Kong main board listed companies, namely, Industrial and Commercial Bank of China (Asia) Ltd. (from August 2000), China Chengtong Development Group Ltd. (from March 2003), COSCO International Holdings Ltd. (from February 2004), China Power International Development Ltd. (from March 2004), Greentown China Holdings Limited (from June 2006), China Huiyuan Juice Group Limited (from August 2006), Pacific Online Limited, (from November 2007) and China Oilfield Services Limited (from June 2009) as well as an independent non-executive director in companies listed on NASDAQ, including Melco PBL Limited (from December 2006) and ATA Inc. (from January 2008). Mr. Tsui is also a director of Hong Kong Professional Consultant Association. He was appointed as an independent non-executive Director of the Company in April 2006.

LI Yongwu, born in 1944, graduated from Tsinghua University with a major in macromolecular science in 1968. From 1968 to 1991, he served as the head of Tianjin Hangu Factory) and Tianjin Rihua Additives Factory), and the standing member, district warden and secretary of the district committee of the Chinese Communist Party of Hangu District, Tianjin. He was a director of the Chemical Industry Bureau of Tianjin Municipality from June 1991 to July 1993 and director of the Economic Commission of Tianjin Municipality from July 1993 to April 1995. He was a Party Committee member and deputy minister of the Ministry of the Chemical Industry from April 1995 to March 1998 and Party Secretary and Director of the State Bureau of Petroleum and Chemical Industry from March 1998 to April 2001. Mr. Li was the Deputy Director General of the Liaison Office of the Central People's Government in the Macau Special Administrative Region from April 2001 to November 2004. Mr. Li was elected a standing member of the Tenth Session of the National Committee of the Chinese People's Political Consultative Conference in 2003. Mr. Li became an executive vice chairman of the Petroleum and Chemical Industry Association of the PRC from December 2004 to May 2005 and is the Chairman and executive deputy Party Secretary of the China Petroleum and Chemical Industry Association from May 2005. Mr. Li acted as an independent supervisor of PetroChina Company Limited for November 2005 and the Chairman and Party Secretary of the China Petroleum and Chemical Industry Association from March 2006 to present. He is also an independent non-executive director of PetroChina Company Limited from May 2008 to the present. He was appointed as an independent non-executive Director of the Company in June 2009.

Supervisors

YIN Jihong, born in 1949, is the chairman of the supervisory committee. He has more than 20 years' experience in labor relations and human resources matters. Mr. Yin graduated from Beijing College of Economics and Management with a bachelor's degree in labor economics. He served as the head of labor affairs at Chief Internal Distribution House of Beijing Automobile Industry Company from 1982 to 1985. He joined CNOOC in 1985, and served as the head of the wages affairs office and the chief economist in the human resources department. From April 2003 to December 2009, Mr. Yin was the chairman of the supervisory committee of CNOOC. He is also the chairman of the supervisory committees of several other members of the CNOOC Group. Mr. Yin was appointed as a Supervisor of the Company in April 2006.

HUANG Jinggui, born in 1963, is an independent supervisor of the Company. He is a specialist of the State Council's special allowance. Mr. Huang is a university professor and has more than 20 years' experience in teaching. He graduated from Wuhan University with a bachelor's degree in economics in 1986, and pursued post-graduate studies at the school of Economics in Peking University. He obtained a doctorate degree in economics from the University of Moscow in 1994. He previously was the dean of the School of Economics and Management of Hainan University and the head of the university's Master of Business Administration Education Centre. Now he is the dean of Hainan College of Economics and Business, a vice president of the Hainan Federation of Industrial Economics, a vice president of Hainan Consumers Association, a vice president of Hainan Economics Society and an executive director of China Global Economy Society. Mr. Huang was also a part-time professor at Russia State University of Management, China Centre for special economic zone research at Shenzhen University, Institute of Economic Development at Wuhan University as well as Liaoning University. He was appointed as an independent Supervisor of the Company in April 2006.

ZHANG Ping, born in 1973, graduated from Central University of Finance and Economics in 1997 with a major in Management of Investment Economics and obtained a bachelor's degree in Economics. He obtained a master's degree in Finance from University of International Business and Economics in 2003. He is an International Certified Internal Auditor (CIA) and a Certified Information System Auditor (CISA), and holds a mid-level technical position of auditor. He started his career in August 1997. From August 1997 to March 1999, he worked at Finance Department, State Administration for Religious Affairs of PRC. From March 1999 to August 1999, he worked at National Audit Office of the People's Republic of China (secondment). From August 1999 to November 2000, he worked for Foreign Economic Cooperation Department of China Textile Machinery (Group) Co. Ltd., and later served as the head of finance at CNOOC Investment Co., Ltd from November 2000 to May 2003. From May 2003 to January 2008, he was a head responsible for auditing investment projects at Audit & Supervising Department of CNOOC. Since February 2008, he has served as general manager of Audit & Supervising Department of the Company. Mr. Zhang was also the Chairman of the Supervisory Committee of Guizhou Jinlin Chemical Co., Ltd. He was appointed supervisor of the Company in April 2009 and supervisor of Shanxi Hualu Coal Chemical Ltd. in August 2009.

Senior Management

WANG Hui, born in 1964, as a senior economist with a master's degree, he is an executive vice president of the Company. He graduated from Jilin University with a major in international law in July 1987. From September 2002 to July 2004, he studied in the Graduate Class majoring in Business Administration of Tsinghua University. He joined China National Chemical Construction Corporation (CNCCC) as a salesman in the development division in August 1987. From June 1993 to October 1995, he was a salesman in the Representative Office of CNCCC located in Germany. From October 1995 to January 2000, he served as the project manager, deputy general manager and general manager of International Tendering Company of CNCCC. From February 2000 to March 2008, he was the general manager assistant, deputy general manager, general manager and the Party Secretary of CNCCC. In March 2008, he served as the Party Secretary of the Company as well as the general manager and the Party Secretary of CNCCC. He was appointed as the executive vice president of the Company in August 2008. Mr. Wang resigned in September 2009.

ZHOU Fan, Born in 1962, with master's degree, is an Executive Vice President. She graduated from Marine Diesel Major of Guangdong Marine University with bachelor degree of science in August 1983; and in December 2005 graduated from Management Science and Engineering Major of China University of Petroleum at Beijing with postgraduate degree of management; In August 1983, she joined in the CNOOC Nanhai Western Company and was appointed successively as official of personnel department, vice minister of Organization Department of Communist Youth League, vice secretary and secretary of Education Department; From May 1989 to May, 1998, she acted as vice-secretary and secretary of Communist Youth League of the CNOOC Nanhai Western Company; from May, 1999 to September, 2002, as a vice-secretary of Communist Party, secretary of Discipline Committee and chairman of Labor Party of Zhanjiang Branch of CNOOC; and from November, 2004 to August, 2007, she was Vice-general manager of CNOOC Base Group Ltd.; Communist Party secretary and Discipline Committee secretary of the CNOOC Nanhai Western Company; and in August 2007, she was appointed as a Executive Vice President of the Company.

QUAN Changsheng, born in 1966, is a Chief Financial Officer, Vice President and the Board secretary of the Company. Mr. Quan graduated from East China Petroleum Institute (subsequently renamed as "Petroleum University") in 1986 with a major in business management, and then joined the CNOOC Group. He was accountant in different divisions, senior accountant, budget and reporting supervisor of CNOOC Nanhai East Corporation, a finance manager of the CNOOC QHD32-6 Operating Company from 1999 to 2002, and a finance manager of the Tianjin branch of CNOOC Limited from 2002 to 2006. Mr. Quan joined the Company in March 2006 and was appointed as a Chief Financial Officer and Vice President in May 2006. In July 2007, he was appointed as secretary to the Board and the Company. From August 2009 he served as Chairman of Shanxi Hualu Coal Chemical Ltd.

HONG Junlian, born in 1963, is a Vice President of the Company. Mr. Hong graduated from Guangdong Petroleum College (which was subsequently renamed Maoming College) with a major in petroleum geology in 1983. He obtained a junior college diploma by participating in self-study examination in Guangdong Province from 1986 to 1989. From 2005 to 2006, he graduated from Hainan University and obtained the degree of MBA. He obtained a master of business administration degree from a joint program offered by Shanghai Communication University and the open university of Hong Kong in 2003. Mr. Hong started his career in 1983 and in 1986, he joined CNOOC Nanhai West Corporation and served as a deputy head, the head of the secretarial department and a deputy office director. He joined the Company in 1997 and was appointed as the head of the administration office of CNOOC Chemical upon its establishment. Mr. Hong served as an assistant to general manager and office director of CNOOC Chemical, the general manager of the industrial (logistics) department; from July 2002, he was served as a deputy general manager of the Company, Vice President, vice-secretary of Communist Party, secretary of Discipline Committee and Chairman of Labor Party of the Company. Mr. Hong resigned as Vice President of the Company in August 2009.

LIANG Mingchu, born in 1951, is a Vice President of the Company. Mr. Liang graduated from Hunan Chemical Technology School with a major in inorganic chemistry in 1975. He then joined the Sinopec Group's Dongting Nitrogenous Fertiliser Factory (which was subsequently renamed Sinopec (Baling) Corporation) and served as a deputy head of its No. 1 factory, a deputy head of the production office, the head of the engineering management office, and a deputy general engineer. Mr. Liang joined the Company in July 2000. He was an assistant to general manager of the Company and assistant to president of CNOOC Fudao Co., Limited from 2001 to October 2005, and then he was appointed as a deputy general manager of the Company.

MIAO Qian, born in 1963, is a Vice President of the Company. Mr. Miao graduated from Fuzhou University in 1983 with a major in civil construction. He then joined the CNOOC Group and served as a deputy head of the engineering management division of CNOOC Nanhai West Corporation, the head of the engineering management division of CNOOC Nanhai West Real Estate Company and a manager of CNOOC Nanhai West Jian Yuan Company. He joined the Company in May 2002 and served in the methanol project department. Mr. Miao was an assistant to the general manager of the Company. In October 2005 he was appointed as a deputy general manager of the Company.

LEE Tze Leung, Raymond, born in 1962, is the Qualified Accountant employed on a full-time basis and a Joint Company Secretary of the Company. He has more than 16 years of experience in accounting, auditing and finance with accounting firms and companies listed in Hong Kong. Mr. Lee has an honors bachelor degree awarded by the University of East London (formerly, the Polytechnic of East London) and a master's degree awarded by the City University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA) of the United Kingdom. Mr. Lee joined CNOOC Jiantao in 2003 and was previously mainly responsible for fund management and financing arrangements for CNOOC Jiantao Methanol Plant. In April 2006, he was appointed as the Qualified Accountant employed on a full-time basis and a Joint Company Secretary of the Company.

Report of Directors

The Directors are pleased to present the audited financial statements for the year ended 31 December 2009 of the Company and the Group.

Principal Activities

The Company and its subsidiaries and associates are principally engaged in the manufacture and sale of mineral fertilisers (mainly urea) and chemical products (mainly methanol) for prior years. During the reporting period, the Company had a new business in the manufacture and sale of phosphate fertilisers through the acquisitions of the 83.17% equity interests in DYK Chemical and 100% equity interests in ZHJ Mining.

Results

Profit of the Group for the year ended 31 December 2009 and the financial position of the Company and the Group as at that date are set out on pages 46 to 56 of the financial statements.

Dividends

The Board recommended the payment of a final dividend of RMB0.07 per share for 2009, aggregating RMB322.7 million, to all shareholders. The proposed final dividend for 2009 is subject to shareholders' approval at the forthcoming annual general meeting (the "AGM").

Dividends to holders of domestic shares are payable in Renminbi whereas dividends holders of H shares are payable in Hong Kong Dollars. The value of Hong Kong Dollar shall be calculated on the basis of the average exchange rate of Renminbi and Hong Kong Dollar announced on the website of the People's Bank of China (the "PBOC") 7 business days before the date of the declaration of the dividends.

Subsidiaries

Particulars of the subsidiaries of the Company as at 31 December 2009 are set out in Note 21 to the financial statements.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 1. This summary does not form an integral part of the audited financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in Note 16 to the financial statements.

Share Capital

As at 31 December 2009, the total share capital of the Company was RMB4,610,000,000 divided into 4,610,000,000 ordinary shares with a nominal value of RMB 1 per share, of which 2,813,999,878 shares were domestic shares, accounting for approximately 61.04% of the total issued share capital, 25,000,122 shares were unlisted foreign shares, accounting for approximately 0.54% of the total issued share capital, and the remaining 1,771,000,000 shares were H shares, accounting for approximately 38.42% of the total issued share capital.

Details of movements in the share capital of the Company during the year are set out in Note 32 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the Company Law of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2009.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Distributable Reserves

As at 31 December 2009, the reserves available for distribution of the Company was RMB3,635.4 million.

Charitable Donations

During the year, the Group made charitable donations of RMB14.0 million in total.

Major Customers and Suppliers

During the reporting period, sales to the Group's five largest customers accounted for 16% of the total sales for the year. Sales to the largest customer included therein amounted to 6%. Purchases from the Group's five largest suppliers accounted for 55% of the total purchases for the year. Purchases from the largest supplier accounted for 21% of the total purchases for the year.

The Group purchased raw materials and services from certain companies under the same ultimate holding company as the Company, details of which are set forth in the note "Connected Transactions" below. Save as aforesaid, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and five largest suppliers.

Directors and Supervisors

The Directors and Supervisors of the Company during the year were:

Executive Directors:	
YANG Yexin	Re-appointed on 12 June 2009
FANG Yong	Re-appointed on 12 June 2009
CHEN Kai	Re-appointed on 12 June 2009
Non-executive Director:	
WU Mengfei	Re-appointed on 12 June 2009
Independent non-executive Directors:	
ZHANG Xinzhi	Re-appointed on 12 June 2009
TSUI Yiu Wa, Alec	Re-appointed on 12 June 2009
LI Yongwu	Appointed on 12 June 2009
Supervisors:	
YIN Jihong	Re-appointed on 12 June 2009
HUANG Jinggui	Re-appointed on 12 June 2009
ZHANG Ping	Appointed on 17 April 2009 (Note)

Note: The term of office of Mr. Qu Bin expired on 17 April 2009. Please refer to the announcement issued by the Company on 17 April 2009 for more details.

In accordance with the Articles, all directors and supervisors are elected for a term of three years and may serve consecutive terms upon re-election. However, if the directors and supervisors are not re-elected prior to the expiry of their terms of office expire, the existing directors and supervisors shall perform their duties and responsibilities until new directors and supervisors of the Company are elected at a general meeting of the Company to be held in the year in which their term of office expire in accordance with the relevant laws, regulations and the Articles promptly when save that supervisor representing the Company's employees shall be elected by the Company's employee representatives.

The Company has received the annual confirmations of their independence from each independent non-executive Director as at the date of this annual report and considered them to be independent.

Directors, Supervisors and Senior Management

Biographical details of the Directors, Supervisors and senior management of the Company are set out on page 26 to page 29 of this annual report.

Service Contracts of Directors and Supervisors

At the AGM of the Company held on 12 June 2009, a new session of Directors and Supervisors (save for the supervisor representing the Company's employees) has been elected. Each of the Directors and Supervisors entered into a service contract with the Company for a term of office of 3 years from 12 June 2009 until new directors and supervisors (save for the Supervisor representing the Company's employees) are elected at a general meeting of the Company to be held in the year in which the term expires. All Directors and Supervisors may serve consecutive terms upon re-election.

No Director or Supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Remunerations of Directors and Supervisors

Details of the Directors' and Supervisors' remunerations are set out in Note 9 to the financial statements.

Remuneration Policy

The remunerations of the Directors are reviewed from time to time by the Remuneration Committee with reference to their professional qualifications, responsibilities, experience, performance and the Group's operating results.

Interests of Directors and Supervisors in Contracts

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any material contract in relation to the business of the Group to which the Company, its holding Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting at the end of 2009 or subsisted at any time during the year.

H-share Appreciation Rights Scheme

According to the announcement published by the Company on 9 January 2008 and the circular to shareholders issued on 11 January 2008, the H-Share Appreciation Rights Scheme (the "Scheme") was approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") on 3 December 2007, and considered and approved by the extraordinary general meeting of the Company ("EGM") held on 25 February 2008. The Scheme came into effect on 25 February 2008. According to the Scheme, share appreciation rights will be granted to the Directors (excluding independent non-executive Directors) and senior management of the Company.

The purpose of the Scheme is to provide long-term incentive to the senior management of the Company and to promote the success of the business of the Group. The term of the Scheme will be six years (commencing upon shareholders' approval of the Scheme, i.e. 25 February 2008). Under the Scheme, the share appreciation rights are not transferable, nor are there any voting rights attached. The operation of the Scheme does not involve any issue of new shares of the Company, and the exercise of any share appreciation rights will not create any dilution effect on the Company's shareholding structure. Upon the exercise of the share appreciation rights, a grantee will only be entitled to receive cash payments for the appreciation. The Scheme is not a scheme involving the grant of options over new securities of the Company.

Under the Scheme, where the grantees do not exercise their share appreciation rights in the two years following the approval of the Scheme by shareholders, they are not allowed to exercise their share appreciation rights by more than 25% each year in the following four years. In each of the four years where grantees may exercise their rights, he or she is entitled to exercise the same only once during the relevant exercise period. In other words, the 25% cap is an annual cap during the relevant years to the extent that the share appreciation rights may be exercised under the Scheme. Any share appreciation rights not exercised by the end of the sixth year of the exercise period will expire. The cash payments as a result of the exercise of the share appreciation rights shall be deposited into a personal account of the relevant grantee. In any event the total annual payment under the Scheme pursuant to each exercise of the share appreciation rights shall not be more than 50% of the total annual remuneration of the relevant grantee as at the time of the grant of those rights.

Under the Scheme, exercise price is based on the average closing price for the Company's H Shares as traded on the Stock Exchange for the period commencing 30 days after announcement of the Company's results for the financial year prior to the immediate previous financial year, until the end of the immediate prior financial year of the Company.

Pursuant to the Scheme, the effectiveness of the H-Share Appreciation Rights Scheme is subject to the fulfillment of certain conditions precedents relating to the performance of the Company and the grantees, including, among others: (i) the audited average return on equity of the Company is not less than 14% for the financial years 2007 and 2008; (ii) the average year-on-year increase in audited net profit of the Company being not less than 10% for the financial years 2007 and 2008; and (iii) the satisfactory appraisal of the performance of each grantee.

The Board has completed the above assessments under the Scheme and is of the view that:

(1) the audited average return on equity and the average year-on-year increase in audited net profit of the Company for the financial years 2007 and 2008 have met the specified requirements; and

(2) the performance of each grantee for the financial years 2007 and 2008 was satisfactory.

In accordance with the Management Rules and Procedures of the H-Share Appreciation Rights Scheme, the above assessment results have been approved by the Extraordinary General Meeting held on 7 February 2010. Any exercise of the rights granted under the Scheme is also subject to the Company's audited return on equity for the financial year immediately prior to the proposed exercise being not lower than the average or median of the return on equity for the same industry.

As at 31 December 2009, the following Directors, Supervisors and senior management were granted the following share appreciation rights:

Names of directors	Capacity	Number of share appreciation rights granted (shares)	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
WU Mengfei	Chairman and Non-executive Director	1,053,000	0.06	0.02
YANG Yexin	Executive Director, Chief Executive Officer and President	891,000	0.05	0.02
FANG Yong	Executive Director and Executive Vice President	681,000	0.04	0.01
CHEN Kai	Executive Director and Executive Vice President	681,000	0.04	0.01
ZHOU Fan	Executive Vice President	454,000	0.03	0.01
QUAN Changsheng	Chief Financial Officer, Vice President and Board Secretary	616,000	0.03	0.01
HONG Junlian	Vice President	616,000	0.03	0.01
LIANG Mingchu	Vice President	616,000	0.03	0.01
MIAO Qian	Vice President	616,000	0.03	0.01

Interests and Short Positions of Directors, Supervisors and Chief Executives in Shares, Underlying Shares and Debentures

As at 31 December 2009, the interests and short positions of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO); or (ii) which were required to be entered in the register pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code by Directors of Listed Issuers in the Listing Rules, required to be notified to the Company and the Stock Exchange are set out below:

Names of directors	Capacity	Number of share appreciation rights granted (shares)	Class of shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
WU Mengfei	Beneficial owner	1,053,000 (L) (note 1)	H Shares	0.06(L)	0.02(L)
YANG Yexin	Beneficial owner	891,000 (L) (note 2)	H Shares	0.05(L)	0.02(L)
FANG Yong	Beneficial owner	681,000 (L) (note 3)	H Shares	0.04(L)	0.01(L)
CHEN Kai	Beneficial owner	681,000 (L) (note 4)	H Shares	0.04(L)	0.01(L)

Notes: (L) denotes long position.

(1) These shares represent interests in share appreciation rights of the Company, of which 263,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(2) These shares represent interests in share appreciation rights of the Company, of which 222,750 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(3) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(4) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

Save as disclosed above, so far as was known to any Directors, as at 31 December 2009, none of the Directors, Supervisors or chief executives of the Company had any interest or short position in any shares or underlying shares or debentures of the Company or its associated companies (within the meaning of the SFO), (i) pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) which were required to be notified to the Company and the Stock Exchange; (ii) which were required to be entered into the register pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, which were required to be notified to the Company and the Stock Exchange.

Interests of Substantial Shareholders

As at 31 December 2009, the register of substantial shareholders maintained under section 336 of the SFO showed that the Company had been notified of the following interests and short positions of shareholders (excluding Directors, Supervisors and chief executives of the Company or their respective associates), representing 5% or more of the Company's issued share capital:

Name of Substantial Shareholder	Capacity	Number of Shares held	Class of Shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
CNOOC (Note 1)	Beneficial owner; security interests in shares held through a controlled corporation	2,813,999,878 (L) (Note 2)	Domestic Shares	100(L)	61.04(L)
Commonwealth Bank of Australia	Interests in controlled corporation	339,216,000(L) (Note3)	H Shares	19.15(L)	7.36(L)
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	123,980,000 (L) (Note 4)	H Shares	7.00(L)	2.69(L)
JPMorgan Chase & Co.	Beneficial owner Investment manager Custodian/approved lending agent	122,991,660 (L) 0 (S) 83,889,660 (P) (Note 5)	H Shares	6.94(L) 0.00(S) 4.74(P)	2.67(L) 0.00(S) 1.82(L)

Notes: The letter (L) denotes long position, the letter (S) denotes short position and the letter (P) denotes lending pool.

(1) The non-executive Director, Mr. Wu Mengfei, is the Chief Financial Officer of CNOOC. The Chairman of the Supervisory Committee of the Company, Mr. Yin Jihong, is also the Chairman of the Supervisory Committee of CNOOC.

(2) Out of the 2,813,999,878 Domestic Shares, 2,738,999,512 shares are held as beneficial owner and 75,000,366 shares are held as having security interests in shares through a controlled corporation, CNOOC Finance Corporation Limited.

(3) These shares are held by a series of controlled corporations of Commonwealth Bank of Australia. The controlled corporations that directly hold shares of the Company are Colonial First State Investments Limited, First State Investments (Hong Kong) Ltd, First State Investment Management (UK) Limited, First State Investments International Limited and First State Investments (Singapore).

(4) These shares are held by Hang Seng Bank Trustee International Limited, which are also deemed to be interested by each of Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Mr. Cheah Cheng Hye and Ms. To Hau Yin.

(5) These shares are held by a series of controlled corporations of JPMorgan Chase & Co., the controlled corporations that directly hold shares of the Company are J.P. Morgan Overseas Capital Corporation, JPMorgan Asset Management (Asia) Inc and J.P. Morgan Chase International Holdings.

Save as disclosed above, as at 31 December 2009, the Company had not been notified by any person (other than a Director, Supervisor or chief executive of the Company or their respective associate(s)) of any interest and short position in the shares and underlying shares of the Company which were required to be recorded in the register kept under section 336 of the SFO.

Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Connected Transactions

Continuing connected transactions

Details of the continuing connected transactions of the Group in 2009 approved by the independent shareholders were as follows:

Connected Persons

1 CNOOC and its associates

CNOOC is the controlling shareholder of the Company. As such, CNOOC and its associates (other than the Group) are connected persons of the Company pursuant to Rule 14A.11 of the Listing Rules.

CNOOC Investment Co., Ltd. ("CNOOC Investment") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules. It is also a connected person of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

China Oilfield Services Limited ("COSL") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules. COSL is a connected person of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

CNOOC Limited is a subsidiary of CNOOC and CNOOC China Limited ("CNOOC China") is a wholly-owned subsidiary of CNOOC Limited. Both CNOOC Limited and CNOOC China are associates of CNOOC pursuant to Rule 19A.04 of the Listing Rules and, therefore, connected persons of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

CNOOC Finance Corporation Limited ("CNOOC Finance") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules. It is also a connected person of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

2 Hong Kong Kingboard and its Associates

The Company holds 60% of the equity interests in CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") while Kingboard Investment Limited ("Hong Kong Kingboard"), a subsidiary of the Kingboard Chemical Group, holds the remaining 40% equity interests. CNOOC Jiantao was previously a joint-controlled entity of the Company. From 29 April 2008, the Company gained control of CNOOC Jiantao, which became a subsidiary of the Company, with Hong Kong Kingboard as its substantial shareholder. Therefore, pursuant to Listing Rules 1.01 and 14A.11(1), Hong Kong Kingboard and its associates (including the holding company of Hong Kong Kingboard, that is, Kingboard Chemical Group) are also connected persons of the Company.

Continuing Connected Transactions

Details of certain continuing connected transactions existing between the Company and CNOOC and its associates and Hong Kong Kingboard and its associates are set out below:

1 Properties Leasing Agreement

In 2009, the Group continued to lease properties from the CNOOC Group under the terms and conditions of the Properties Leasing Agreement dated 1 September 2006. Accordingly, the Company entered into a supplemental agreement to the Properties Leasing Agreement on 5 November 2008, under which the term of Properties Leasing Agreement commenced on 1 January 2009 and will expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

As the business expansion requires, the Company intends to lease more properties from members of the CNOOC Group for the Group's office use in Beijing.

On 22 September 2008, CNOOC Investment and ZHJ Mining entered into a land use rights lease agreement (the "Land Use Rights Lease Agreement"), pursuant to which CNOOC Investment has agreed to lease the rights to use certain parcels of land in Hubei Province, the PRC to ZHJ Mining for general business and staff quarters uses. The rent under the Land Use Rights Lease Agreement is RMB3,000,000 per annum. The term of the Land Use Rights Lease Agreement commenced on the date of the agreement and will expire on 31 December 2010. Upon expiration of the lease term, the term of the Land Use Rights Lease Agreement will automatically be extended for one year provided that no party will give a three-month prior notice in writing to the other party to terminate the agreement and the requirements of the Listing Rules in relation to connected transactions are complied with. Upon expiration of the extended term, the Land Use Rights Lease Agreement may be renewed upon mutual agreement provided that the requirements of the Listing Rules are complied with. In accordance with the circular issued to shareholders on 31 December 2008 by the Company, the annual amount under the Land Use Rights Lease Agreement has been aggregated with those of the annual amount under the Properties Leasing Agreement (see item A(1) below).

The rent in respect of such properties for the financial year 2009 was RMB5,760,210.

2 COSL Transportation Agreement

In 2009, the Group continued to use the transportation services of COSL under the terms and conditions of the COSL Transportation Agreementdated on 1 September 2006 and, therefore, the Company entered into a supplemental agreement to the COSL Transportation Agreement on 5 November 2008 which was approved and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008, pursuant to which the term of the COSL Transportation Agreement commenced on 1 January 2009 and will expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the COSL Transportation Agreement are being conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the prescribed-price by the PRC Government;

(ii) where there is no government-prescribed price but there is a government guidance price, a price not higher than the guidance price set by the PRC Government;

(iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

Currently, the transportation services covered by the COSL Transportation Agreement are not subject to any PRC Government-prescribed or guidance price, but we consider it prudent to provide pricing principles (i) and (ii) in that agreement.

The aggregate expenses for the transportation services in 2009 was RMB5,360,497.

3 **Natural Gas Sale and Purchase Agreements**

In 2009, the Group continued to purchase natural gas under the three long-term agreements entered into with CNOOC China, which is a wholly-owned subsidiary of CNOOC (the three long-term agreements are collectively referred to as the "Natural Gas Sale and Purchase Agreements"):

(i) Dongfang 1-1 Offshore Gasfields Natural Gas Sale and Purchase Agreement between CNOOC China and the Company dated 28 July 2003, under which CNOOC China has committed to supply natural gas to the Company for Fudao Phase II at prices that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of this agreement commenced on 1 October 2003 and will expire on 30 September 2023;

(ii) Dongfang 1-1 Offshore Gasfields Natural Gas Sale and Purchase Agreement between CNOOC China and CNOOC Jiantao dated 10 March 2005, under which CNOOC China has committed to supply natural gas to CNOOC Jiantao for CNOOC Jiantao Methanol Plant at prices that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of this agreement is of 20 years commencing on 15 October 2006 although the earliest time CNOOC China may provide natural gas to CNOOC Jiantao Methanol Plant is 9 May 2006;

(iii) the Natural Gas Sale and Purchase Framework Agreement between the Company and CNOOC China dated 1 September 2006 which does not include the transactions conducted under the two agreements mentioned above. The framework agreement was intended to cover purchases of natural gas from CNOOC China for the Group's future plants. Under this framework agreement, CNOOC China will sell natural gas to the Group at a price which is determined on a fair and reasonable basis (including by reference to the prices of four major types of crude oil in the international markets) and in accordance with normal commercial customs. The term of the agreement is of 20 years commencing on the date of the agreement.

The four types of crude oil referred to in the Natural Gas Sale and Purchase Agreements are: West Texas Intermediate Crude Oil (西德薩斯中質原油), Tapis Crude Oil (塔皮斯原油), Brent Crude Oil (混合布倫特原油) and Minas Crude Oil (米納斯原油). The reference prices of these four types of crude oil are provided by Platts Crude Oil Marketwire.

The aggregate expenses in 2009 of the Company on purchase of natural gas from CNOOC China was RMB873,840,526.

4 **Comprehensive Services and Product Sales Agreement**

In 2009, the Group continued to enter into transactions with CNOOC Group under the terms and conditions of the Comprehensive Services and Product Sales Agreement. Therefore, the Company entered into a supplemental agreement to the Comprehensive Services and Product Sales Agreement on 5 November 2008, which was approved and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008. Pursuant to the supplemental agreement, the term of the Comprehensive Services and Product Sales Agreement commenced on 1 January 2009 and will expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with, pursuant to which:

(a) certain companies of CNOOC Group may provide services and supplies that the Group may require for the Group's business operation and production (such as telecommunication and computer network services, enterprise resources planning and office automation services, construction of production facilities and related construction project management and supervision, machines and vehicle rental and maintenance, production equipment rental and repair, transportation services, community services including catering, hospital and schooling, and training);

(b) the Group may provide to certain companies of the CNOOC Group services and supplies (such as machines and vehicle rental, transportation services, business management services and catering); and

(c) the Group may sell to certain companies of CNOOC Group products produced by the Group (such as urea and methanol).

The transactions under the Comprehensive Services and Product Sales Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the prescribed-price by the PRC Government;

(ii) where there is no government-prescribed price but there is a government guidance price, a price not higher than the guidance price set by the PRC Government;

(iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

Currently, all services and supplies covered by the Comprehensive Services and Product Sales Agreement are not subject to any PRC Government-prescribed or guidance prices. However, the Company considers it prudent to provide pricing principles (i) and (ii) in the Comprehensive Services and Product Sales Agreement.

DYK Chemical, the subsidiary of the Company, has been selling products such as DAP to CNOOC Group and starting from January 2009, products such as MAP were sold to the CNOOC Group. Such transactions are subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented). Further, the annual revenue generated from such sales will be aggregated with the annual revenue generated from other sales of products under the Comprehensive Services and Product Sales Agreement (as supplemented).The annual caps of the new continuing connected transactions aggregated with the annual figures under Comprehensive Services and Product Sales Agreement (as supplemented) have been considered and passed by the independent shareholders at the Extraordinary General Meeting held on 16 February 2009(see item A(4) (c)below).

DYK Chemical has been purchasing products such as sulphur from CNOOC Group for its business operation. Such transactions are subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented) (see item A(4)(d) below).

Expenses in 2009 of the Company on services and supplies from certain companies of CNOOC Group was RMB167,455,987. Revenue in 2009 from services and supplies provided to certain companies of CNOOC Group was RMB20,283,201. Revenue in 2009 of the Company from the sale of our products to CNOOC and its associates was RMB18,189,564.

5 Financial Services Agreement

In 2009, the Group continued with the financial transactions with CNOOC Finance under the terms and conditions of the Financial Services Agreement. Therefore, the Company entered into a supplemental agreement to the Financial Services Agreement on 3 November 2008, which was approved and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008, pursuant to which CNOOC Finance will provide to the Group a range of financial services that the Group may require, including the following:

(a) provision of loans to the Group, which do not include entrustment loans referred to in Category (c2);

(b) deposit services;

(c1) bank bills discounting services;

(c2) arrangement of entrustment loans between the Company and its subsidiaries; and

(c3) settlement services, which include settlement for transactions between the Company and its subsidiaries and for transactions between the Group and CNOOC Group.

Pursuant to the supplemental agreement, the term of the Financial Services Agreement commenced on 1 January 2009 and will expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The fees and charges payable by the Group to CNOOC Finance under the Financial Services Agreement are determined on the following basis:

(a) provision of loans to the Group: the interest rates for such loans are determined in accordance with the standard rates promulgated by the PBOC from time to time, and may be adjusted where the relevant laws and regulations allow;

(b) deposit services: the interest rates for such deposits are determined in accordance with the standard rates promulgated by the PBOC from time to time;

(c1) bank bills discounting services: the interest rates for discounting services are determined in accordance with the standard rates promulgated by the PBOC from time to time less discounts set out in the specific agreements; and the interest for bank bills discounting is borne by the relevant parties presenting the bills;

(c2) arrangement of entrustment loans between the Company and its subsidiaries: the annual service fee payable by the Group is set at a rate, such that the aggregate amount of service fee and loan interest together will not exceed the interest for securing a loan of the same term directly from independent commercial banks; and

(c3) settlement services: no service fee is charged.

Under the Financial Services Agreement, the Group shall have a unilateral right of set-off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group, the Group will be able to offset the amount due to the Group from CNOOC Finance against the amount outstanding from the Group to CNOOC Finance. CNOOC Finance shall not have any offset right.

In 2009, maximum daily credit balances provided by CNOOC Finance to the Company (including accrued interest) was nil. The maximum daily balance of the Company's deposits placed with CNOOC Finance (including accrued interest) was RMB370,098,324. Actual expenses on category (c1), (c2) and (c3) services was RMB1,558,339.

6 Kingboard Product Sales and Services Agreement

In 2009, the Group continued to enter into transactions with Hong Kong Kingboard and its associates under the terms and conditions of the Kingboard Product Sales and Services Agreement. Therefore, the Company entered into a supplemental agreement to the Kingboard Product Sales and Services Agreement on 5 November 2008, which was approved and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008, pursuant to which the term of the Kingboard Product Sales and Services Agreement commenced on 1 January 2009 and will expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Kingboard Product Sales and Services Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the prescribed-price by the PRC Government;

(ii) where there is no government-prescribed price but there is a government guidance price, a price not higher than the guidance price set by the PRC Government;

(iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on the cost plus a margin of up to 15% of the cost.

Currently, methanol products and related services covered by the Kingboard Product Sales and Services Agreement are not subject to any PRC Government-prescribed or guidance prices, but the Company considers it prudent to provide pricing principles (i) and (ii) in that agreement.

The aggregate revenue of the Company in 2009 from the sale of products and provision of related services to Hong Kong Kingboard and its associates was RMB253,313,494.

The annual cap and the actual amount of each of the continuing connected transactions in 2009 are set out below:

	Annual cap amount for 2009 (RMB)	Actual amount transacted in 2009 (RMB)
A.Continuing connected transactions with CNOOC and its associates		
(1) Acquisition of property leasing services under the Properties Leasing Agreement	16,325,000	5,760,210
(2) Acquisition of transportation services under the COSL Transportation Agreement	50,400,000	5,360,497
(3) Purchase of natural gas under the Natural Gas Sale and Purchase Agreements	1,138,011,000	873,840,526
(4) Comprehensive services and sale of products under the Comprehensive Services and Product Services and Products Sales Agreement		
(a) Acquisition of comprehensive services and supplies from certain companies within CNOOC Group by the Company	285,970,000	167,455,987
(b) Provision of services and supplies to certain companies within CNOOC Group by the Company	114,503,000	20,283,201
(c) Sales of products to certain companies within CNOOC Group by the Group	500,563,000	18,189,564
(d) Purchases of products from CNOOC Group by DYK Chemical	280,000,000	160,085
(5) Financial services under the Financial Services Agreement		
(a) Maximum daily credit balance (including accrued interest) granted by CNOOC Finance to the Company after the listing (Note)	600,000,000	–
(b) Maximum daily balance of deposits (including accrued interest) placed by the Company with CNOOC Finance after the listing (Note)	400,000,000	370,098,324
(c) Category (c1), (c2) and (c3) service accepted by the Company from CNOOC Finance after the listing	–	1,558,339
B. Continuing connected transactions with Hong Kong Kingboard and its associates		
Products and services provided to Hong Kong Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	630,000,000	253,313,494

Note: The actual and annual cap figures refer to the Company's maximum daily balance in the relevant period after listing.

Independent non-executive directors have reviewed the above connected transactions and confirmed as follows:

1. the transactions were conducted in the ordinary and usual course of business of the Group with connected persons or their respective connected persons (if applicable);

2. the transactions were conducted on normal commercial terms or terms which were no less favourable than those offered to or by third parties; and

3. the transactions were conducted in accordance with the relevant governing agreements and all terms were fair and reasonable and were in the best interests of the shareholders.

The Company's auditors have reviewed the above connected transactions and confirmed to the Company in writing that:

1. the above transactions have been approved by the Board;

2. where the above transactions were related to products and services provided by the Company, they were conducted according to the Company's pricing policy;

3. the above transactions were conducted according to the relevant governing agreements; and

4. the above transactions (if applicable) did not exceed the relevant annual cap as disclosed in previous announcements.

One-off Connected Transaction

On 10 November 2009, the Company (as principal), CNOOC Finance Corporation Limited (as the entrusted lender) and Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal") (as the borrower) entered into the Entrusted Loan Agreement, pursuant to which, the Company granted a loan in the principal amount of RMB50,000,000 (equivalent to approximately HK$56,762,064.78) to Yangpoquan Coal through CNOOC Finance. As at the date of the Entrusted Loan Agreement, Yangpoquan Coal is held as to 51% equity interests by Shanxi Hualu Thermoelectricity Co., Ltd. ("Shanxi Hualu Group") and as to 49% equity interests by the Company. The Company held 51% interest in Shanxi Hualu Coal and Chemical Engineering Co., Ltd. ("Shanxi Hualu Chemical'), whose remaining interests are held by Shanxi Hualu Group. Shanxi Hualu Group is, therefore, a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Yangpoquan Coal is an associate of Shanxi Hualu Group and hence is a connected person of the Company under the Listing Rules. The transaction contemplated under the Entrusted Loan Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in the Listing Rules in respect of the Entrusted Loan Agreement represents less than 2.5% but more than 0.1%, the transaction contemplated under the Entrusted Loan Agreement is subject to the reporting and announcement requirements but exempted from the approval of the independent shareholders of the Company under the Listing Rules. An announcement in respect of such connected transaction has been made by the Company on 10 November 2009. (Note)

Note: Yangpoquan Coal made an early repayment of such loan in February 2010.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2009 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

Material Litigation

As at 31 December 2009, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company so far as the Company is aware.

Audit Committee

The 2009 annual results have been reviewed by the Audit Committee of the Board which comprises three Independent Non-executive Directors. The Committee has reviewed the accounting principles and practices adopted by the Company, and also discussed the auditing, internal control and finance reporting matters, including the review of the audited 2009 annual results with the management.

Code on Corporate Governance Practices and Model Code for Securities Transactions

The Company is committed to high standards of corporate governance to enhance transparency and safeguard shareholders' interests. As at 31 December 2009, save as disclosed below, the Company has strictly complied with the provisions in the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. After specific enquiries of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

Auditors

The 2009 financial statements have been audited by Ernst & Young who will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
WU Mengfei
Chairman

Hainan, PRC, 27 March 2010

Report by the Supervisory Committee

In 2009, all the members of the supervisory committee of the Company (the "Supervisory Committee") earnestly performed their supervisory functions to safeguard the rights and interests of the Company and the shareholders in accordance with the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the relevant provisions in the Listing Rules.

1. Meetings of the Supervisory Committee

(1) The 2008 Work Report of the Supervisory Committee of China BlueChemical Limited and the resolution in respect of the candidates as non-employee Supervisors were considered and passed by the 2008 First Meeting of the Supervisory Committee of the Company, which was held in Shenzhen, Guangdong on 25 March 2009.

(2) The resolution in respect of the election of the Chairman of the Supervisory Committee of the Company was considered and passed by the 2009 Second Meeting of the Supervisory Committee of the Company, which was held in Beijing on 15 June 2009.

(3) The 2009 Interim Financial Report of the Company was considered by the 2009 Third Meeting of the Supervisory Committee of the Company, which was held in Shenzhen, Guangdong on 25 august 2009.

2. Principal Inspection and Supervision Work of the Supervisory Committee in 2009

(1) Supervision and inspection of the financial position of the Company and its internal control systems, such as financial management system, including regular inspections of the financial reports and budgets and the irregular reviews of accounting documents and books of the Company which were carried out by members of the Supervisory Committee.

(2) The annual general meeting and one extraordinary general meeting were attended and four board meetings were attended by members of the Supervisory Committee who provided supervision in respect of the lawfulness and compliance of the proceedings of the matters considered by the board meetings.

(3) No objection was made to the reports and motions tabled at the general meetings by the Supervisory Committee, and the Board had faithfully implemented the resolutions passed by the general meetings.

(4) Investigations, researches, inspections and observations of the new projects of the Company under construction were conducted by all members of the Supervisory Committee in July 2009, whose focus in conducting inspections was on the compliance of responsive measures for avoiding investment risk and the proceedings of investment decisions.

3. Independent Opinions Issued by the Supervisory Committee on Relevant Matters

(1) Operation and management of the Company

During the reporting period, despite the serious adverse effect on the Company brought forth by the widespread global financial crisis on the economy, the Company managed to achieve satisfactory results in areas of production and operation, cost control, project construction, capital operation, internal management and market expansion with the annual targets set on production and operations being achieved. The management of the Company further strengthened the various systems of internal controls, and enhanced, in particular, the system of business processes of all departments of the Company with further progress in the level of corporate governance.

The management of the Company fulfilled their duties and functions faithfully as stipulated in the Articles and implemented earnestly the resolutions passed by the Board.

(2) Financial position of the Company

Supervision and inspection of the financial management system and the financial condition of the Company and review and approval of the relevant financial information were conducted by members of the Supervisory Committee, who were of the opinion that the Company had strictly complied with the relevant laws and regulations of finance and economics and the financial regime, and the financial management system was sound and implemented effectively. Its accounting treatment was in line with the consistency principles. The Company's financial reports have objectively and fairly reflected the financial position and operating results of the Company.

The audited reports in respect of the financial position and operating results of the Company for 2009 audited by Ernst & Young Huaming, Certified Public Accountants and Ernst & Young, Certified Public Accountants pursuant to the PRC and International Accounting Standards, respectively, were reviewed by the Supervisory Committee which had no objection to the report.

(3) Uses of proceeds raised

Uses of proceeds raised were consistent with which has been undertaken in the prospectus of the Company.

(4) Connected transactions

The connected transactions between the Company and its subsidiaries and its respective connected persons during the reporting period were examined by the Supervisory Committee, which was of the opinion that the connected transactions complied with the relevant provisions of the Listing Rules, and that the pricing of the connected transactions was reasonable, open and fair and there has not been any matter prejudicial to the interests of the Company or shareholders.

(5) Implementation of the resolutions of general meetings

No objection to the reports and motions tabled at the general meetings for consideration were raised by the Supervisory Committee and that the Board had faithfully implemented the resolutions approved by the general meetings.

In 2010, the Supervisory Committee will continue to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules as it has been, and based on the principle of honesty, will closely monitor the production, operation and management of the Company and pay close attention to any significant development and continue to strengthen the procedural supervisory of the Company's investment projects so as to facilitate the efficient growth of the Company and to faithfully protect the interests of all shareholders and the Company.

By Order of the Supervisory Committee
YIN Jihong
Chairman of the Supervisory Committee

Hainan, the PRC, 26 March 2010

Audited Financial Statements

China BlueChemical Ltd.

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

31 December 2009

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of China BlueChemical Ltd.

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

We have audited the financial statements of China BlueChemical Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 46 to 130, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre,
8 Finance Street,
Central,
Hong Kong
27 March 2010

Consolidated income statement

Year ended 31 December 2009

	Notes	2009	2008 Restated (Note 38)
		RMB'000	RMB'000
Revenue	5	**5,794,611**	6,811,793
Cost of sales		**(4,075,298)**	**(4,505,431)**
Gross profit		**1,719,313**	**2,306,362**
Other income and gains	5	**69,326**	138,264
Selling and distribution costs		**(132,809)**	(101,495)
Administrative expenses		**(349,409)**	(380,254)
Other expenses		**(23,617)**	(32,529)
Finance income	6	**32,400**	26,454
Finance costs	7	**(14,525)**	(22,860)
Exchange gains, net		**(3,091)**	14,691
Share of profits of associates		**14,836**	4,742
Profit before tax	8	**1,312,424**	**1,953,375**
Income tax expense	11	**(197,726)**	**(131,838)**
Profit for the year		**1,114,698**	**1,821,537**
Attributable to:			
Owners of the parent	12	**984,701**	1,608,460
Minority interests		**129,997**	213,077
		1,114,698	**1,821,537**
Earnings per share attributable to ordinary owners of the parent			
- Basic for the year (RMB)	14	**0.21**	0.35

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated statement of comprehensive income

Year ended 31 December 2009

	Notes	2009	2008 Restated (Note 38)
		RMB'000	RMB'000
Profit for the year		**1,114,698**	**1,821,537**
Other comprehensive income for the year, net of tax	15	**-**	-
Total comprehensive income for the year, net of tax		**1,114,698**	**1,821,537**
Attributable to:			
Owners of the parent		**984,701**	1,608,460
Minority interests		**129,997**	213,077
		1,114,698	**1,821,537**

Consolidated statement of financial position

As at 31 December 2009

	Notes	2009	2008 Restated (Note 38)
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**7,394,884**	7,052,332
Mining rights	18	**431,262**	103,449
Prepaid land lease payments	19	**471,513**	422,262
Intangible assets	20	**15,643**	15,707
Investments in associates	23	**664,675**	12,839
Available-for-sale investments	24	**600**	600
Deferred tax assets	25	**63,697**	89,686
		9,042,274	7,696,875
Current assets			
Inventories	26	**798,003**	836,244
Trade receivables	27	**109,249**	59,431
Bills receivable	28	**53,440**	60,685
Prepayments, deposits and other receivables	29	**511,911**	277,297
Loans receivable	30	**50,000**	-
Pledged bank deposits	31	**13,068**	14,246
Time deposits	31	**123,720**	-
Cash and cash equivalents	31	**1,944,674**	4,246,295
		3,604,065	5,494,198
Total assets		**12,646,339**	13,191,073

Consolidated statement of financial position (continued)

As at 31 December 2009

	Notes	2009	2008 Restated (Note 38)
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the parent			
Issued capital	32	**4,610,000**	4,610,000
Reserves		**4,753,411**	5,235,385
Proposed dividends		**322,700**	437,950
		9,686,111	10,283,335
Minority interests		**1,258,099**	1,049,737
Total equity		**10,944,210**	11,333,072
Non-current liabilities			
Benefits liability	33	**61,484**	66,413
Interest-bearing bank and other borrowings	34	**1,000**	212,009
Other long-term liabilities		**110,316**	112,740
Deferred tax liabilities	25	**76,955**	82,258
		249,755	473,420
Current liabilities			
Trade payables	35	**148,385**	131,597
Other payables and accruals	36	**1,279,993**	1,084,329
Interest-bearing bank and other borrowings	34	**-**	147,775
Income tax payable		**23,996**	20,880
		1,452,374	1,384,581
Total liabilities		**1,702,129**	1,858,001
Total equity and liabilities		**12,646,339**	13,191,073

YANG Yexin
Director

FANG Yong
Director

Consolidated statement of changes in equity

Year ended 31 December 2009

		Attributable to owners of the parent		
	Notes	Issued capital	Capital reserve	Statutory surplus Reserve
		RMB'000	RMB'000	RMB'000
As at 1 January 2009		**4,610,000**	**2,064,485**	**293,932**
(Restated, note 38)				
Profit for the year		-	-	-
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	-	-
Deemed distribution to the ultimate holding company	38	-	**(1,161,018)**	-
Acquisition of a subsidiary	38	-	-	-
Grant from the ultimate holding company		-	**5,776**	-
Capital contributions by minority interests		-	**11,267**	-
Transfer from retained profits		-	**62,445**	**107,587**
Proposed 2009 final dividend		-	-	-
Dividend paid to minority interests		-	-	-
Final 2008 dividend declared		-	-	-
As at 31 December 2009		**4,610,000**	**982,955***	**401,519***

*These reserve accounts comprise the consolidated reserves of RMB 4,753,411,000 (2008: RMB 5,235,385,000) in the consolidated statement of financial position.

Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
2,876,968	**437,950**	**10,283,335**	**1,049,737**	**11,333,072**
984,701	**-**	**984,701**	**129,997**	**1,114,698**
-	**-**	**-**	**-**	**-**
984,701	**-**	**984,701**	**129,997**	**1,114,698**
-	**-**	**(1,161,018)**	**-**	**(1,161,018)**
-	**-**	**-**	**39,000**	**39,000**
-	**-**	**5,776**	**4,183**	**9,959**
-	**-**	**11,267**	**143,066**	**154,333**
(170,032)	**-**	**-**	**-**	**-**
(322,700)	**322,700**	**-**	**-**	**-**
-	**-**	**-**	**(107,884)**	**(107,884)**
-	**(437,950)**	**(437,950)**	**-**	**(437,950)**
3,368,937*	**322,700**	**9,686,111**	**1,258,099**	**10,944,210**

Consolidated statement of changes in equity (continued)

Year ended 31 December 2009

	Attributable to owners of the parent		
	Issued Capital	Capital reserve	Statutory surplus Reserve
	RMB'000	RMB'000	RMB'000
As at 1 January 2008	4,610,000	1,991,850	181,738
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	-	-
Dividends paid to minority interests	-	-	-
Capital contribution by minority interests	-	-	-
Capital reduction by a minority interests	-	-	-
2007 final dividend declared	-	-	-
Proposed 2008 final dividend	-	-	-
Acquisition of a subsidiary	-	72,635	-
Transfer from retained profits to statutory reserve	-	-	112,194
As at 31 December 2008 (Restated, note 38)	4,610,000	2,064,485*	293,932*

*These reserve accounts comprise the consolidated reserves of RMB5,235,385,000 in the consolidated statement of financial position.

Retained Profits RMB'000	Proposed Dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
1,818,652	368,800	8,971,040	557,076	9,528,116
1,608,460	-	1,608,460	213,077	1,821,537
-	-	-	-	-
1,608,460	-	1,608,460	213,077	1,821,537
-	-	-	(178,509)	(178,509)
-	-	-	50,048	50,048
-	-	-	(4,323)	(4,323)
-	(368,800)	(368,800)	-	(368,800)
(437,950)	437,950	-	-	-
-	-	72,635	412,368	485,003
(112,194)	-	-	-	-
2,876,968*	437,950	10,283,335	1,049,737	11,333,072

Consolidated statement of cash flows

Year ended 31 December 2009

	Notes	2009	2008
			Restated
		RMB'000	RMB'000
Cash flows from operating activities			
Profit before tax		**1,312,424**	1,953,375
Adjustments for:			
Finance costs	7	**14,525**	22,860
Exchange gains, net		**3,091**	(14,691)
Share of profits of associates		**(14,836)**	(4,742)
Finance income	6	**(32,400)**	(26,454)
Gain on disposal of unlisted investments	5	**(25,912)**	(105,915)
Loss on disposal of items of property, plant and equipment	8	**2,031**	4,295
Depreciation	8	**709,846**	683,953
Amortisation of mining rights	8	**1,310**	587
Amortisation of intangible assets	8	**5,592**	4,783
Amortisation of prepaid land lease payments	8	**12,299**	9,928
Impairment of items of property, plant and equipment	8	**1,188**	114
Changes in fair value of derivative financial instruments	5	**-**	(6,136)
Provision/(Write-back of provision) for bad and doubtful receivables	8	**88**	(257)
Write-back of provision for defined benefit plans	8	**(400)**	(1,735)
Write-down of inventories to net realisable value	8	**2,413**	54,095
		1,991,259	2,574,060
Decrease/(Increase) in inventories		**35,868**	(212,651)
(Increase) /Decreasein trade and bills receivables, prepayments, deposits and other receivables		**(84,218)**	65,430
Increase in trade payables, other payables and accruals and other long-term liabilities		**28,519**	94,536
Cash generated form operations		**1,971,428**	2,521,375
Defined benefits paid	32	**(4,529)**	(4,278)
Income tax paid		**(176,924)**	(176,313)
Net cash flows from operating activities		**1,789,975**	**2,340,784**

Consolidated statement of cash flows (continued)

Year ended 31 December 2009

	Notes	2009	2008
			Restated
		RMB'000	RMB'000
Cash flows from investing activities			
Interest received		**32,400**	26,454
Dividends received		**-**	3,840
Purchases of items of property, plant and equipment		**(1,258,560)**	(752,299)
Proceeds from disposal of items of property, plant and equipment		**1,540**	1,763
Additions to prepaid land lease payments		**-**	(2,601)
Acquisitions of intangible assets		**(5,528)**	(7,603)
Proceeds from disposal of intangible assets		**-**	2,088
Acquisition of mining rights		**(20,000)**	(123,002)
Investment in an associate		**(637,000)**	-
Purchase of unlisted investments		**(10,244,876)**	(15,391,054)
Disposal of unlisted investments		**10,270,788**	15,825,157
Net cash inflow from acquisition of a subsidiary	38(2)	**202**	126,064
Business combination under common control	38(1)	**(1,161,018)**	-
Increase of loan receivables		**(50,000)**	-
Decrease / (Increase) in pledged bank deposits		**1,178**	(7,750)
Increase in non-pledged time deposits with original maturity of three months or more when acquired		**(123,720)**	-
Net cash flows used in investing activities		**(3,194,594)**	(298,943)
Cash flows from financing activities			
Capital contributions by minority interests		**25,350**	50,048
New bank and other borrowings		**1,000**	70,000
Repayment of bank and other borrowings		**(359,102)**	(113,837)
Repayment of finance lease obligations		**-**	(511)
Interest paid		**(18,416)**	(22,860)
Dividends paid		**(437,950)**	(368,800)
Dividends paid to minority shareholders		**(107,884)**	(178,509)
Dividends paid to the shareholder of a previously jointly-controlled entity		**-**	(136,485)
Net cash flows used in financing activities		**(897,002)**	(700,954)
Net Decrease/(Increase) in cash and cash equivalents		**(2,301,621)**	1,340,887
Cash and cash equivalents at 1 January		**4,246,295**	2,905,408
Cash and cash equivalents at 31 December		**1,944,674**	4,246,295

Statement of financial position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**1,709,821**	1,640,122
Investment properties	17	**15,456**	16,239
Prepaid land lease payments	19	**38,087**	39,311
Intangible assets	20	**5,746**	4,142
Interests in subsidiaries	21	**4,657,311**	2,993,354
Investment in a jointly-controlled entity	22	**105,882**	-
Investment in an associate		**637,000**	-
Deferred tax assets	25	**7,238**	5,603
		7,176,541	4,698,771
Current assets			
Inventories	26	**159,269**	182,245
Trade receivables	27	**27,771**	1,238
Bills receivable	28	**9,510**	8,519
Prepayments, deposits and other receivables	29	**408,546**	75,043
Loans receivable	30	**157,000**	266,000
Cash and cash equivalents	31	**911,384**	2,880,997
		1,673,480	3,414,042
Total assets		**8,850,021**	8,112,813
Equity and liabilities			
Equity			
Paid-up capital	32	**4,610,000**	4,610,000
Reserves		**3,635,441**	2,751,366
Proposed dividends		**322,700**	437,950
Total equity		**8,568,141**	7,799,316
Non-current liabilities			
Interest-bearing bank and other borrowings	34	**1,000**	-
Other long-term liabilities		**20,295**	17,641
		21,295	17,641
Current liabilities			
Trade payables	35	**27,565**	32,694
Other payables and accruals	36	**193,458**	250,794
Income tax payable		**39,562**	12,368
		260,585	295,856
Total liabilities		**281,880**	313,497
Total equity and liabilities		**8,850,021**	8,112,813

YANG Yexin
Director

FANG Yong
Director

Notes to the financial statements

1 Corporate information

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

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

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

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

2.1 Basis of preparation

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

Basis of consolidation

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

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

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

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

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

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

2.2 Changes in accounting policy and disclosures

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

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

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

IFRS 8 *Operating Segments*

IFRS 8 replaced IAS 14 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 4 to the financial statements, including the related revised comparative information.

IAS 1 *Presentation of Financial Statements*

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

2.3 Issued but not yet effective IFRS

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

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

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

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

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

Notes to the financial statements (continued)

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in its jointly-controlled entity is accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated statement of financial position on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

The result of the jointly-controlled entity is included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a jointly-controlled entity is treated as a non-current asset and is stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of the associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in an associate is treated as a non-current asset and is stated at cost less any impairment losses.

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation /amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Notes to the financial statements (continued)

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.80% to 7.14%
Plant and machinery	5.00% to 20.00%
Motor vehicles	6.00% to 20.00%
Computer and electronic equipment	18.00% to 20.00%
Office and other equipment	18.00% to 50.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant, machinery and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including transaction costs, less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of the retirement or disposal.

2.4 Summary of significant accounting policies (continued)

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on the units of production method utilising only proved and probable coal reserve in the depletion base.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of ten years.

Trademark

Trademark is stated at cost and is amortised on the straight-line basis over the registered term of usage of seven years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lesser are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to the financial statements (continued)

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables, and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, and available-for-sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or cost that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. After initial recognition, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the consolidated income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the consolidated income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, these securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to the financial statements (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from other comprehensive and recognised in the consolidated income statement. In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Notes to the financial statements (continued)

2.4 Summary of significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	Purchase cost on the weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and an appropriate proportion of overheads

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

2.4 Summary of significant accounting policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates that have been enacted or subsequently enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has became probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 Summary of significant accounting policies (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the provision of services is started and completed within the same financial year, revenue is recognised at the time of completion. When the provision of services is started and completed in different accounting years and the outcome of the transaction can be estimated reliably, revenue is recognised at the end of the reporting period on the percentage of completion basis; when the outcome of a transaction cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are expected to be recoverable;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted (note 37). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date with changes in fair value recognised in the consolidated income statement.

2.4 Summary of significant accounting policies (continued)

Employee benefits

Retirement benefits

The Group, its jointly-controlled entity and associates participate in a government–regulated defined contribution pension scheme, under which the Group, its jointly-controlled entity and associates make contributions into the government–regulated pension scheme at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred.

In addition to the benefits under the government-regulated defined contribution pension scheme above, CNOOC Tianye Chemical Limited ("CNOOC Tianye"), the Group's 90%-owned subsidiary also paid supplementary pensions to early retirees in accordance with an internal retirement plan and allowances to retired employees in accordance with the local labour regulations. As detailed in note 33 to the financial statements, these supplementary pensions and post employment allowances payable as at the end of the reporting period were assessed using the projected unit credit method; the cost of providing these pensions and allowances to the qualifying employees, including the active employees, is charged to the consolidated income statement as shown in the actuarial reports which contained full valuations of the obligations for the relevant accounting periods. These obligations are measured at the present value of the estimated future cash outflows using interest rates of the government securities which have terms to maturity similar to the terms of the related liability. To the extent that any cumulative unrecognised actuarial gains or losses exceed ten percent of the present value of the obligation at a disclosure date, that portion is recognised in the consolidated income statement over the expected average remaining working lives of the active employees. Otherwise, the actuarial gains or losses are not recognised and deferred.

Details of the government-regulated pension scheme and the supplementary pension benefits are set out in note 8 to the financial statements.

Medical benefit costs

The Group, its jointly-controlled entity and associates participate in government–organised defined contribution medical benefit plans, under which the Group, its jointly-controlled entity and associates make contributions into a government–organised medical benefit plan at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred. Details of the medical benefit plan are set out in note 8 to the financial statements.

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. Details of the housing fund plans are set out in note 8 to the financial statements.

2.4 Summary of significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The financial records of the Group, its jointly-controlled entity and associates are maintained and these financial statements are stated in Renminbi ("RMB"), which is the functional and presentation currency of the Group, its jointly-controlled entity and associates.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3 Significant accounting estimates

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

(b) Write-down of inventories to net realisable value

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the inventories and the write-down charge/write-back in the period in which these estimates have been changed.

(c) Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of doubtful receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the receivables and doubtful debt expenses/write-back in the period in which these estimates have been changed.

(d) Impairment of items of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of note 2.4 to the financial statements. The recoverable amount of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculation of which involves the use of estimates.

(e) Depreciation of property, plant and equipment

The cost of items of property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of plant and machinery to be 5 to 18 years, and other assets ranging from 2 to 50 years.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore depreciation charges might be revised in future.

Notes to the financial statements (continued)

4 Operating segment information

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

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

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

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

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

4 Operating segment information (continued)

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 (RMB 117,246,000), finance income (RMB 32,400,000), exchange losses on translation of foreign operations (RMB 3,091,000), finance costs (RMB 14,525,000), bank charges (RMB 1,492,000), other income and gains (RMB 37,589,000), other expenses (RMB 17,827,000), other unallocated expenses (RMB 2,927,000), and other unallocated revenues (RMB 53,669,000).

3. Segment assets do not include interest receivables (RMB 1,700,000), loans receivable (RMB 50,000,000), deferred tax assets (RMB 63,697,000), available-for-sale financial assets (RMB 600,000), cash and bank (RMB 54,334,000), assets of centralised cost centre (RMB 1,198,665,000), and inter-segment balances (RMB 54,878,000).

4. Segment liabilities do not include interest payables (RMB 69,000), long-term borrowings (RMB 1,000,000), deferred tax liabilities (RMB 76,955,000), liabilities of centralised cost centre (RMB 70,521,000), and inter-segment balances (RMB 584,887,000).

Notes to the financial statements (continued)

4 Operating segment information (continued)

Business segments (continued)

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

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include interest and dividend income and unallocated gains (RMB 39,074,000), corporate and other unallocated expenses (RMB 205,021,000), finance cost (RMB 22,860,000), net exchange gain (RMB 14,691,000).
3. Segment assets do not include corporate and other unallocated assets (RMB 1,846,657,000), and inter-segment balances (RMB 37,644,000).
4. Segment liabilities do not include corporate and other unallocated liabilities (RMB 225,464,000), and inter -segment balances (RMB 381,314,000).

4 Operating segment information (continued)

Geographic information

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

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

5 Revenue, other income and gains

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

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

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

6 Finance income

Finance income represents interest income earned for the years ended 31 December 2009 and 2008.

7 Finance costs

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

8 Profit before tax

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

	2009 RMB'000	2008 Restated RMB'000
Cost of inventories sold	**3,882,243**	4,315,176
Cost of services provided	**193,055**	190,255
Depreciation	**709,846**	683,953
Amortisation of mining rights	**1,310**	587
Amortisation of intangible assets	**5,592**	4,783
Amortisation of prepaid land lease payments	**12,299**	9,928
Auditors' remuneration	**3,500**	4,280
Employee benefits expense (including directors' and supervisors' remuneration – note 9):		
Wages and salaries	**355,947**	368,535
Defined contribution pension scheme(note (i))	**53,384**	45,440
Early retirement benefits and post-employment allowances (note (ii))	**(400)**	(1,735)
Medical benefit costs (note (iii))	**16,964**	14,946
Cash-settled share option expense(note 37)	**446**	884
Housing fund (note (iv))	**11,430**	15,680
	437,771	443,750
Provision for bad and doubtful debts of trade receivables *	**-**	64
Write-back of provision for bad and doubtful debts of trade receivables*	**(15)**	(493)
Provision for bad and doubtful debts of other receivables *	**103**	172
Write-down of inventories to net realisable value	**2,413**	54,095
Impairment of items of property, plant and equipment *	**1,188**	114
Loss on disposal of items of property, plant and equipment *	**2,031**	4,295

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

8 Profit before tax (continued)

Notes:

(i) Defined contribution pension scheme

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

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

(ii) Early retirement benefits and post-employment allowances

CNOOC Tianye, 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. Details of the early retirement benefits are set out in note 33 to the financial statements.

(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.

9 Directors' and supervisors' remuneration

Details of the directors' and supervisors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors	
	2009	2008
	RMB'000	RMB'000
Fees	**-**	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**1,114**	1,076
Discretionary bonuses	**832**	861
Cash-settled share option expense	**237**	471
Pension scheme contributions	**95**	91
	2,278	2,499

	Supervisors	
	2009	2008
	RMB'000	RMB'000
Fees	**-**	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**165**	169
Discretionary bonuses	**128**	155
Pension scheme contributions	**19**	16
	312	340

9 Directors' and supervisors' remuneration (continued)

The remuneration of each of the directors and supervisors of the Company for the year ended 31 December 2009 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Cash -settled share option benefits	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Non-executive director					
Wu Mengfei	36	-	75	-	111
Executive directors					
Yang Yexin	234	304	64	37	639
Fang Yong	171	248	49	23	491
Chen Kai	218	280	49	35	582
	623	832	162	95	1,712
Independent non-executive directors					
Zhang Xinzhi	140	-	-	-	140
Li Yongwu	9	-	-	-	9
Tsui Yiu Wa, Alec	264	-	-	-	264
Wang Wenshan*	42	-	-	-	42
	455	-	-	-	455
	1,114	832	237	95	2,278
Supervisors					
Yin Jihong	19	-	-	-	19
Qu Bin **	24	17	-	4	45
Zhang Ping**	58	111	-	15	184
Huang Jinggui	64	-	-	-	64
	165	128	-	19	312

* Resigned on 12 June 2009.

** Qu Bin resigned on 17 April 2009, and Zhang Ping took over as supervisor.

9 Directors' and supervisors' remuneration (continued)

The remuneration of the directors and supervisors of the Company for the year ended 31 December 2008 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Cash -settled share option benefits	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Non-executive director					
Wu Mengfei	35	-	150	-	185
Executive directors					
Yang Yexin	228	315	127	35	705
Fang Yong	160	257	97	23	537
Chen Kai	210	289	97	33	629
	598	861	321	91	1,871
Independent non-executive directors					
Zhang Xinzhi	113	-	-	-	113
Wu Xiaohua*	60	-	-	-	60
Tsui Yiu Wa, Alec	195	-	-	-	195
Wang Wenshan	75	-	-	-	75
	443	-	-	-	443
	1,076	861	471	91	2,499
Supervisors					
Yin Jihong	16	-	-	-	16
Qu Bin	112	155	-	16	283
Huang Jinggui	41	-	-	-	41
	169	155	-	16	340

*Resigned on 5 December 2008.

10 Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2009 and 2008 are analysed as follows:

	2009	2008
Directors and supervisors	**3**	3
Non-director and non-supervisor employees	**2**	2
	5	5

Details of the remuneration of the above non-director and non-supervisor, highest paid employees during the years ended 31 December 2009 and 2008 are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**363**	351
Discretionary bonuses	**509**	530
Cash-settled share option expense	**77**	152
Pension scheme contributions	**55**	54
	1,004	1,087

The remuneration of all of these non-director and non-supervisor, highest paid employees fell within the band from nil to HKD1,000,000 for the years ended 31 December 2009 and 2008.

During the year, certain directors were granted share options in respect of their services to the Group, further details of which are included in the disclosures in note 37 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and highest paid employees' remuneration disclosures.

11 Income tax expense

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

	2009	2008 Restated
	RMB'000	RMB'000
Current – PRC		
Charge for the year	**180,040**	136,910
Deferred (note 25)	**17,686**	(5,072)
Total tax charge for the year	**197,726**	131,838

(a) *Corporate income tax ("CIT")*

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

According to the document Finance Taxes [2008] No. 21 issued by the Ministry of Finance and the State Administration of Taxation on 20 February 2008, the Company, its subsidiaries and its associates registered in Hainan Province or Pudong New Area, Shanghai, 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 Plactic") are entitled to a transitional CIT rate of 20% for the current year.

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

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

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

CNOOC Tianye, registered in Inner Mongolia, is entitled to a preferential tax rate of 15% for the three-year ended 31 December 2011 affer 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 electer to benefit form the tax holiday starting form the year ended 31 December 2008. This is the second year for CNOOC E&P to be entitled to the exemption from CIT.

11 Income tax (continued)

(b) Hong Kong profits tax

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

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

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

12 Profit for the year attributable to owners of the parent

The consolidated profit for the year attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB1,086,975,000 (2008: RMB1,362,623,000) dealt with in the financial statements of the Company.

13 Dividends

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

The proposed 2008 final dividend was approved at the annual general meeting on 25 March 2009. The proposed 2009 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2009 annual general meeting.

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

14 Earnings per share attributable to ordinary owners of the parent

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

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

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

Notes to the financial statements (continued)

Notes to the financial statements (continued)

15 Components of other comprehensive income

	2009	2008 Restated
	RMB'000	RMB'000
Available-for-sale investments:		
Gains arising during the year	**25,912**	105,915
Less: Reclassification adjustments for gains included in the consolidated income statement	**(25,912)**	(105,915)
	-	-

16 Property, plant and equipment

Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2009 (Restated):							
Cost	3,112,572	7,663,631	139,633	451,459	76,737	795,859	12,239,891
Accumulated depreciation and impairment	(1,150,450)	(3,585,284)	(71,881)	(341,165)	(38,779)	-	(5,187,559)
Net carrying amount	1,962,122	4,078,347	67,752	110,294	37,958	795,859	7,052,332
Cost as at 1 January 2009, net of accumulated depreciation and impairment (Restated)	1,962,122	4,078,347	67,752	110,294	37,958	795,859	7,052,332
Additions	12,792	10,067	1,785	5,253	5,308	1,003,552	1,038,757
Acquisition of a subsidiary (note 38)	-	-	1,108	64	7	16,034	17,213
Disposals	(1,131)	(1,995)	(145)	(50)	(251)	-	(3,572)
Transfers	68,059	68,660	810	19,905	35,357	(192,791)	-
Depreciation for the year	(129,709)	(522,851)	(13,804)	(36,925)	(6,557)	-	(709,846)
Cost as at 31 **December 2009, net of accumulated depreciation and impairment**	1,912,133	3,632,228	57,506	98,541	71,822	1,622,654	7,394,884
As at 31 December 2009:							
Cost	3,151,273	7,624,271	142,871	471,845	117,072	1,622,654	13,129,986
Accumulated depreciation and impairment	(1,239,140)	(3,992,043)	(85,365)	(373,304)	(45,250)	-	(5,735,102)
Net carrying amount	1,912,133	3,632,228	57,506	98,541	71,822	1,622,654	7,394,884

16 Property, plant and equipment (continued)

Group (continued)

	Buildings	Plant and machinery	Motor vehicles	Computer and electronic equipment	Office and other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2008(Restated):							
Cost	3,059,917	6,974,745	108,303	424,820	87,929	169,954	10,825,668
Accumulated depreciation and impairment	(1,019,149)	(3,003,805)	(60,181)	(311,729)	(54,013)	-	(4,448,877)
Net carrying amount	2,040,768	3,970,940	48,122	113,091	33,916	169,954	6,376,791
Cost as at 1 January 2008, net of accumulated depreciation and impairment(Restated)	2,040,768	3,970,940	48,122	113,091	33,916	169,954	6,376,791
Additions	4,677	33,185	7,012	10,202	3,327	778,203	836,606
Disposals	(799)	(6,060)	(61)	(117)	(32)	-	(7,069)
Transfers	48,007	57,273	25,939	15,980	5,099	(152,298)	-
Acquisition of a subsidiary	8,983	520,167	247	557	3	-	529,957
Depreciation for the year	(139,514)	(497,158)	(13,507)	(29,419)	(4,355)	-	(683,953)
Cost as at 31 December 2008, net of accumulated epreciation and (Restated)	1,962,122	4,078,347	67,752	110,294	37,958	795,859	7,052,332
As at 31 December 2008(Restated)							
Cost	3,112,572	7,663,631	139,633	451,459	76,737	795,859	12,239,891
Accumulated depreciation and impairment	(1,150,450)	(3,585,284)	(71,881)	(341,165)	(38,779)	-	(5,187,559)
Net carrying amount	1,962,122	4,078,347	67,752	110,294	37,958	795,859	7,052,332

As at 31 December 2009, the net book value of the Group's property, plant and equipment held under finance leases amounted to RMB Nil (2008: RMB2,339,000).

As at 31 December 2009, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB44,661,000(2008: RMB45,351,000).

16 Property, plant and equipment (continued)

Company

	Buildings	Plant and machinery	Motor vehicles	Computer and electronic equipment	Office and other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2009:							
Cost	494,562	1,656,628	20,199	24,186	1,793	211,283	2,408,651
Accumulated depreciation	(163,201)	(572,574)	(15,521)	(15,512)	(1,721)	-	(768,529)
Net carrying amount	331,361	1,084,054	4,678	8,674	72	211,283	1,640,122
Cost as at 1 January 2009, net of accumulated depreciation	331,361	1,084,054	4,678	8,674	72	211,283	1,640,122
Additions	34,861	14,239	202	4,815	-	159,474	213,591
Depreciation for the year	(28,431)	(111,485)	(687)	(3,256)	(33)	-	(143,892)
Cost as at 31 December 2009, net of accumulated depreciation	337,791	986,808	4,193	10,233	39	370,757	1,709,821
As at 31 December 2009:							
Cost	529,423	1,670,868	20,401	29,001	1,793	370,757	2,622,243
Accumulated depreciation	(191,632)	(684,060)	(16,208)	(18,768)	(1,754)	-	(912,422)
Net carrying amount	337,791	986,808	4,193	10,233	39	370,757	1,709,821
As at 1 January 2008:							
Cost	494,152	1,653,703	17,670	20,938	1,793	28,451	2,216,707
Accumulated depreciation	(134,772)	(461,656)	(13,582)	(10,906)	(1,683)	-	(622,599)
Net carrying amount	359,380	1,192,047	4,088	10,032	110	28,451	1,594,108
Cost as at 1 January 2008, net of accumulated depreciation	359,380	1,192,047	4,088	10,032	110	28,451	1,594,108
Additions	-	246	2,529	1,302	-	190,169	194,246
Disposals	-	(1,763)	-	(33)	-	-	(1,796)
Transfers	410	4,442	-	1,979	-	(7,337)	(506)
Depreciation for the year	(28,429)	(110,918)	(1,939)	(4,606)	(38)	-	(145,930)
Cost as at 31 December 2008,net of accumulated depreciation	331,361	1,084,054	4,678	8,674	72	211,283	1,640,122
As at 31 December 2008:							
Cost	494,562	1,656,628	20,199	24,186	1,793	211,283	2,408,651
Accumulated depreciation	(163,201)	(572,574)	(15,521)	(15,512)	(1,721)	-	(768,529)
Net carrying amount	331,361	1,084,054	4,678	8,674	72	211,283	1,640,122

Notes to the financial statements (continued)

17 Investment properties

Company

	2009 RMB'000	2008 RMB'000
Carrying amount at 31 December	**15,456**	16,239

Included in the Company's investment properties are buildings situated in the PRC, which are leased to its subsidiaries and CNOOC group ampanies under operating leases.

In the opinion of the management, the carrying amounts of the Company's investment properties approximate to their fair values.

18 Mining rights

Group

	Mining rights RMB'000
Cost as at 1 January 2009, net of accumulated amortisation (Restated)	103,449
Additions	329,123
Amortisation for the year	(1,310)
Cost as at 31 December 2009, net of accumulated amortisation	431,262
As at 31 December 2009:	
Cost	435,841
Accumulated amortisation	(4,579)
Net carrying amount	431,262
Cost as at 1 January 2008, net of accumulated amortisation (Restated)	95,946
Additions	9,160
Disposal	(1,070)
Amortisation for the year	(587)
Cost as at 31 December 2008, net of accumulated amortisation	103,449
As at 31 December 2008 (Restated):	
Cost	106,720
Accumulated amortisation	(3,271)
Net carrying amount	103,449

19 Prepaid land lease payments

Group

	2009 RMB'000	2008 Restated RMB'000
Carrying amount as at 1 January	**432,190**	439,515
Additions	**7,420**	2,603
Acquisition of a subsidiary (note 38)	**55,705**	-
Amortisation for the year	**(12,299)**	(9,928)
Carrying amount as at 31 December	**483,016**	432,190
Current portion included in prepayments, deposits and other receivables	**(11,503)**	(9,928)
Non-current portion	**471,513**	422,262

The Group's leasehold land is situated in Mainland China and is held under the following lease terms:

	2009 RMB'000
Long-term leases	**39,176**
Medium-term leases	**443,840**
	483,016

Company

	2009 RMB'000	2008 RMB'000
Carrying amount as at 1 January	**40,535**	41,759
Amortisation for the year	**(1,224)**	(1,224)
Carrying amount as at 31 December	**39,311**	40,535
Current portion included in prepayments, deposits and other receivables	**(1,224)**	(1,224)
Non-current portion	**38,087**	39,311

The Company's leasehold land is situated in Mainland China and is held under the following lease terms:

	2009 RMB'000
Long-term leases	**8,205**
Medium-term leases	**31,106**
	39,311

Notes to the financial statements (continued)

20 Intangible assets

Group

	Computer software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Total RMB'000
Cost as at 1 January 2009,net of accumulated amortisation and impairment (Restated)	15,294	413	-	15,707
Additions	5,528	-	-	5,528
Amortisation for the year	(5,550)	(42)	-	(5,592)
Cost as at 31 December 2009, net of accumulated amortisation and impairment	15,272	371	-	15,643
As at 31 December 2009:				
Cost	29,337	753	2,299	32,389
Accumulated amortisation and impairment	(14,065)	(382)	(2,299)	(16,746)
Net carrying amount	15,272	371	-	15,643

	Computer software	Patents and licences RMB'000	Trademark RMB'000	Total RMB'000
Cost as at 1 January 2008, net of accumulated amortisation and impairment (Restated)	12,165	463	329	12,957
Additions	7,603	-	-	7,603
Acquisition of a subsidiary	2,018	-	-	2,018
Disposal	(2,088)	-	-	(2,088)
Amortisation for the year	(4,404)	(50)	(329)	(4,783)
Cost as at 31 December 2008, net of accumulated amortisation and impairment	15,294	413	-	15,707
As at 31 December 2008 (Restated):				
Cost	23,810	753	2,299	26,862
Accumulated amortisation and impairment	(8,516)	(340)	(2,299)	(11,155)
Net carrying amount	15,294	413	-	15,707

20 Intangible assets (continued)

Company

	Computer software RMB'000
Cost as at 1 January 2009, net of accumulated amortisation	4,142
Additions	4,505
Amortisation for the year	(2,901)
Cost as at 31 December 2009, net of accumulated amortisation	5,746
As at 31 December 2009:	
Cost	15,493
Accumulated amortisation	(9,747)
Net carrying amount	5,746
Cost as at 1 January 2008, net of accumulated amortisation	12,165
Transfers	(5,219)
Amortisation for the year	(2,804)
Cost as at 31 December 2008, net of accumulated amortisation	4,142
As at 31 December 2008:	
Cost	10,988
Accumulated amortisation	(6,846)
Net carrying amount	4,142

21 Interests in subsidiaries

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	**4,167,311**	2,838,354
Loans to subsidiaries	**490,000**	155,000
	4,657,311	2,993,354

The Company's trade receivables, other receivables, loans receivable and other payable balances with its subsidiaries are disclosed in notes 27, 29, 30 and 36 to the financial statements, respectively.

The loans to subsidiaries included in interests in subsidiaries above are unsecured, bear variable interest rates subject to adjustments based on the People's Bank of China's baseline lending rate, and are repayable on 24 October 2011.

21 Interests in subsidiaries (continued)

Particulars of the principal subsidiaries of the Company are set out as follows:

Company name	Place and date of establishment and operation	Registered capital	Percentage of equity interests attributable to the Company		Principal activities
		RMB'000			
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	463,000	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan CNOOC Plastic Co., Ltd. (海南中海石油塑編有限公司)	PRC 28 April 2002	12,716	Direct Indirect	100.00 -	Manufacture and sale of woven plastic bags
Hainan CNOOC Complex Fertiliser Co., Ltd. (海南富島複合肥有限公司)	PRC 19 May 2000	7,500	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	6,250	Direct Indirect	- 67.26	Provision of transportation services
CNOOC (Hainan) E&P Gas Limited (中海石油(海南)環保氣體有限公司)	PRC 8 November 2004	6,900	Direct Indirect	100.00 -	Manufacture and sale of liquid carbon dioxide
CNOOC Jincheng Coal Chemical Industry Co., Ltd. (中海石油晉城煤化工產業有限公司)	PRC 26 November 2007	800,000	Direct Indirect	75.00 -	Manufacture and sale of fertilisers
Hainan Basuo Port Limited (海南八所港務有限責任公司)	PRC 25 April 2005	514,034	Direct Indirect	73.11 -	Port operation
CNOOC Tianye Chemical Limited (中海石油天野化工股份有限公司)	PRC 18 December 2000	1,780,000	Direct Indirect	90.00 -	Manufacture and sale of fertilisers and methanol
Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	3,297	Direct Indirect	- 63.54	Manufacture and sale of woven plastic bags
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
China BlueChemical Yichang Mining Ltd (中海石油化學宜昌礦業有限公司)	PRC 7 August 2008	50,000	Direct Indirect	51.00 -	Phosphate mining,mineral processing and sales of phosphate ore
Shanghai Qionghua Trading Co., Ltd (上海瓊化經貿有限公司)	PRC 7 January 2002	27,000	Direct Indirect	- 90.93	Sale of fertilisers
China BlueChemical Baotou Coal Chemical Industry Co., Ltd (中海石油化學包頭煤化工有限公司)	PRC 11 September 2008	100,000	Direct Indirect	100.00 -	Sale of fertilisers and chemical products
China Basuo Ocean Shipping Tally Co., Ltd (八所中理外輪理貨有限公司)	PRC 9 May 2008	300	Direct Indirect	- 61.41	Provision of overseas shipping services
ShanXi Hualu Coal chemical Co., Ltd (山西华鹿煤化工有限公司)	PRC 29 November 2005	61,224	Direct Indirect	- 51.00	Preparatory work for methanol and dimethyl -ether project
Hubei Dayukou Chemical Co., Ltd (湖北大峪口化工有限責任公司)	PRC 12 August 2005	1,005,624	Direct Indirect	83.97 -	Phosphate mining and processing sale of MAP and DAP fertiliser

Notes to the financial statements (continued)

21 Interests in subsidiaries (continued)

The subsidiaries of the Company listed in the above table are all limited companies which, in the opinion of the management, affect the results for the year or formed a substantial portion of the net assets of the Group.

22 Investment in a jointly-controlled entity

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	**105,882**	-

On 17 March 2009, the Company entered into an acquisition agreement with other two parties and acquired a 45% equity interest in Guizhou Jinlin Chemical Co.,Ltd ("Guizhou Jinlin"). As none of the three parties has control over Guizhou Jinlin, the investment was treated as an investment in a jointly-controlled entity.

23 Investments in associates

Group

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**664,675**	12,839

The Group's trade receivable, other receivable and other payable balances with its associates are disclosed in notes 27, 29 and 36 to the financial statements respectively.

23 Investments in associates (continued)

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

Company name	Place and date of establishment	Registered capital	Percentage of ownership interest attributable to the Group		Principal activities
		RMB'000			
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生産資料有限公司)	PRC 11 January 2003	20,000	Direct Indirect	- 30.00	Trading of fertilisers
Shanxi HuaLu Yangpoquan Coal Mining Co., Ltd (山西華鹿陽坡泉煤礦有限公司)	PRC 3 August 2001	52,000	Direct Indirect	49.00 -	Coal mining
China Basuo Overseas Shipping Agency Co., Ltd. (中國八所外輪代理有限公司)	PRC 24 May 2000	1,800	Direct Indirect	- 36.56	Provision of overseas shipping services

The following table illustrates the aggregate amounts of the assets, liabilities, revenue and profit of the Group's associates.

	2009 RMB'000	2008 RMB'000
Assets	**809,584**	194,559
Liabilities	**657,310**	155,383
Revenue	**831,515**	657,747
Profit for the year	**59,375**	15,684

24 Available-for-sale investments

Group

	2009 RMB'000	2008 RMB'000
Non-current		
Unlisted equity investments, at cost	**600**	600

The unlisted equity investments are accounted for at cost less accumulated impairment losses as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

25 Deferred taxation

The movements in deferred tax assets and liabilities of the Group and of the Company during the years ended 31 December 2009 and 2008 are as follows:

Group

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies	Provision for impairment of assets	Wages and salaries	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2009 (Restated)	9,601	60,813	16,881	2,391	89,686
Charged to the consolidated income statement (note 11)	(5,628)	(40,363)	(3,010)	23,012	(25,989)
As at 31 December 2009	3,973	20,450	13,871	25,403	63,697
As at 1 January 2008 (Restated)	12,819	49,464	19,209	9,308	90,800
Acquisition of a subsidiary	424	-	-	-	424
(Charged)/credited to the consolidated income statement (note 11)	(3,642)	11,349	(2,328)	(6,917)	(1,538)
As at 31 December 2008	9,601	60,813	16,881	2,391	89,686

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries	Differences in depreciation and amortisation between tax regulations and accounting policies	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2009 (Restated)	75,616	3,629	3,013	82,258
Acquisition of a subsidiary (note 38)	3,000	-	-	3,000
Credited to the consolidated income statement (note 11)	(4,774)	(1,619)	(1,910)	(8,303)
As at 31 December 2009	73,842	2,010	1,103	76,955
As at 1 January 2008 (Restated)	47,869	3,280	8,416	59,565
Acquisition of a subsidiary	29,303	-	-	29,303
(Credited)/ charged to the consolidated income statement (note 11)	(1,556)	349	(5,403)	(6,610)
As at 31 December 2008	75,616	3,629	3,013	82,258

25 Deferred taxation (continued)

Company

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies	Provision for impairment of assets	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2009	5,370	233	5,603
Credited to the income statement	1,635	-	1,635
As at 31 December 2009	7,005	233	7,238
As at 1 January 2008	4,680	70	4,750
Credited to the income statement	690	163	853
As at 31 December 2008	5,370	233	5,603

26 Inventories

Group

	2009	2008 Restated
	RMB'000	RMB'000
Raw materials and spare parts	**457,725**	457,105
Work in progress	**102,733**	115,721
Finished goods	**237,545**	263,418
	798,003	836,244

Company

	2009	**2008**
	RMB'000	**RMB'000**
Raw materials and spare parts	**142,001**	104,717
Work in progress	**12,414**	34,458
Finished goods	**4,854**	43,070
	159,269	182,245

27 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 date and net of provision for bad and doubtful debts, of the Group and of the Company is as follows:

Group

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

The movements in provision for impairment of trade receivables are as follows:

	2009	2008 Restated
	RMB'000	RMB'000
At 1 January	**2,032**	2,492
Impairment losses recognised	**-**	64
Amount written off as uncollectible	**-**	(31)
Impairment losses reversed	**(15)**	(493)
	2,017	2,032

The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

27 Trade receivables (continued)

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the management is of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2009, the amount due from CNOOC group companies included in the above trade receivable balances was RMB5,566,000 (2008: RMB3,515,000). The amount due from an associate included in the above trade receivable balances was RMB490,000 (2008:RMB106,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

Company

	2009 RMB'000	2008 RMB'000
Within six months	**27,771**	1,232
Over six months but within one year	**-**	6
	27,771	1,238

As at 31 December 2009, the amounts due from subsidiaries of the Company included in the above trade receivable balances were RMB4,947,000(2008: RMB1,029,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

28 Bills receivable

The bills receivable of the Group and the Company as at 31 December 2009 and 2008 all mature within six months.

29 Prepayments, deposits and other receivables

Group

	2009 RMB'000	2008 Restated RMB'000
Prepayments	**398,714**	205,380
Prepaid land lease payments	**11,503**	9,928
Deposits and other receivables	**101,694**	61,989
	511,911	277,297

29 Prepayments, deposits and other receivables (continued)

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

The amounts due from the ultimate holding company, CNOOC group companies and an associate included in the above can be analysed as follows:

	2009 RMB'000	2008 Restated RMB'000
Ultimate holding company	**1,314**	374
CNOOC group companies	**24,888**	15,370
An associate	**575**	110
	26,777	15,854

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

Company

	2009 RMB'000	2008 RMB'000
Prepayments	**297,976**	11,398
Prepaid land lease payments	**1,224**	1,224
Deposits and other receivables	**109,346**	62,421
	408,546	75,043

The amounts due from the ultimate holding company, CNOOC group companies and subsidiaries of the Company included in the above can be analysed as follows:

	2009 RMB'000	2008 RMB'000
Ultimate holding company	**1,314**	374
CNOOC group companies	**18,002**	11,280
Subsidiaries	**34,291**	22,581
	53,607	34,235

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

30 Loans receivable

Group

As at 31 December 2009, loans receivable of the Group represented the entrusted loan with an amount of RMB50,000,000 to Shanxi Hualu Yangpoquan Coal Mining Co.,Ltd. (山西華鹿陽坡泉煤礦有限公司), which is an associate of the company. The loan is unsecured, bears interest at a rate of 7.965% per annum and is repayable on 10 May 2010.

Company

As at 31 December 2009, loans receivable of the Company represented the following:

-Entrusted loan with an amount of RMB90,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 4.779% per annum and is repayable on 15 June 2010;

-Entrusted loan with an amount of RMB6,000,000 which was provided to CNOOC Plastic during the year and is unsecured, bears interest at a rate of 4.779% per annum and is repayable on 26 April 2010;

-Entrusted loan with an amount of RMB11,000,000 which was provided to CNOOC (Hainan) E&P Gas Limited during the year and is unsecured, bears interest at a rate of 2.700% per annum and is repayable on 26 April 2010;

-Entrusted loan with an amount of RMB50,000,000 which was provided to Shanxi Hualu Yangpoquan Coal Mining Co.,Ltd. The loan is unsecured, bears interest at a rate of 7.965% per annum and is repayable on 10 May 2010.

31 Cash and cash equivalents and pledged bank deposits

Group

	2009 RMB'000	2008 Restated RMB'000
Cash and bank balances	**2,081,462**	4,260,541
Less: Pledged bank deposits	**(13,068)**	(14,246)
Time deposits	**(123,720)**	-
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	**1,944,674**	4,246,295

As at 31 December 2009, the Group's pledged bank deposits of RMB13,068,000 (2008: RMB14,246,000) were deposited with banks mainly for issuing letters of credit and guarantees in relation to the purchase of machinery and equipment.

The Group's cash and bank balances are denominated in RMB as at 31 December 2009 and 2008, except for amounts of RMB 76,916,000 (2008: RMB59,937,000) which is translated from USD11,264,000(2008:USD8,770,000); and RMB2,881,000 (2008: RMB2,584,000) which is translated from HKD3,272,000 (2008: HKD2,930,000).

31 Cash and cash equivalents and pledged bank deposits (continued)

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

As at 31 December 2009, included in the Group's cash and cash equivalents was RMB249,626,000 (2008: RMB216,111,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"). The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

Company

	2009 RMB'000	2008 RMB'000
Cash and bank balances	**911,384**	2,880,997

The Company's cash and bank balances are denominated in RMB as at 31 December 2009 and 2008, except for amounts of RMB65,188,000 (2008: RMB6,224,000) which is translated from USD9,547,000 (2008: USD911,000); and RMB2,881,000 (2008: RMB2,560,000) which is translated from HKD3,272,000 (2008: HKD2,903,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2009, included in the Company's cash and cash equivalents was RMB68,477,000 (2008: RMB43,362,000) deposited in CNOOC Finance. The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

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

32 Issued capital

	Number of shares	Nominal value
	'000	RMB'000
Registered capital	4,610,000	4,610,000
Issued and fully paid:		
Domestic Shares of RMB1 each, currently not listed:		
- State-owned shares	2,739,000	2,739,000
- Other legal person shares	75,000	75,000
Unlisted Foreign Shares of RMB1 each	25,000	25,000
H shares of RMB1 each	1,771,000	1,771,000
As at 31 December 2009	4,610,000	4,610,000

33 Benefits liability

CNOOC Tianye, the Company's 90%-owned subsidiary, provides post-employment allowances covering substantially all of its employees, and also early retirement benefits to qualifying retirees.

The following tables summarise the components of net benefits expense recognised in the consolidated income statement and amounts recognised in the consolidated statement of financial position.

The details of net benefits expense by each type of benefits for the years ended 31 December 2009 and 2008 are as follows:

Group

	2009		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	**-**	**278**	**278**
Interest cost on benefits obligation	**516**	**527**	**1,043**
Net actuarial gain recognised for the year	**(886)**	**(835)**	**(1,721)**
Net benefits expense	**(370)**	**(30)**	**(400)**

	2008		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	-	239	239
Interest cost on benefits obligation	923	637	1,560
Net actuarial gain recognised for the year	(2,153)	(1,381)	(3,534)
Net benefits expense	(1,230)	(505)	(1,735)

Notes to the financial statements (continued)

33 Benefits liability (continued)

The details of the benefits liability by each type of benefit as at 31 December 2009 and 2008 are as follows:

	2009		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	**14,978**	**14,938**	**29,916**
Unrecognised net actuarial gain	**28,998**	**2,570**	**31,568**
Benefits liability	**43,976**	**17,508**	**61,484**

	2008		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	17,476	16,476	33,952
Unrecognised net actuarial gain	30,725	1,736	32,461
Benefits liability	48,201	18,212	66,413

33 Benefits liability (continued)

The details of changes in present value of the defined benefit obligation by each type of benefits during the year are as follows:

	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2008	53,193	19,233	72,426
Current service cost	-	239	239
Interest cost on benefit obligation	923	637	1,560
Write off of benefit liability	(2,153)	(1,381)	(3,534)
Benefits paid	(3,762)	(516)	(4,278)
As at 31 December 2008 and 1 January 2009	48,201	18,212	66,413
Current service cost	-	278	278
Interest cost on benefit obligation	516	527	1,043
Write off of benefit liability	(886)	(835)	(1,721)
Benefits paid	(3,855)	(674)	(4,529)
As at 31 December 2009	43,976	17,508	61,484

The Group expects to contribute RMB306,000 to its defined benefit pension plans in 2010.

The principal assumptions used in determining the early retirement benefits obligation and post-employment allowances of the Group as at 31 December 2009 are shown below:

	2009
Discount rate	**4.00 %**
Early retirement rate	**0.00 %**
Inflation rate	**2.00 %**

The management has reviewed the actuarial valuation as at 31 December 2009 which was performed by Watson Wyatt Consultant (Shanghai) Ltd., an independent actuary service provider, using the valuation method detailed under the heading "Employee Benefits" in note 2.4 to the financial statements, and considered that the Group's current provision for the net benefits expenses was adequate for the year ended 31 December 2009.

Notes to the financial statements (continued)

34 Interest-bearing bank and other borrowings

Group

	Effective interest rate (%)	Maturity	2009 RMB'000	2008 Restated RMB'000
Current				
Bank loans				
- Unsecured				
- USD loan	LIBOR+0.65	2009	-	68,347
- RMB loan	5.31-6.72	2009	-	70,000
			-	138,347
Other loans				
- Obligations under finance lease	6.03-6.57	2009	-	259
- Unsecured	2.48-2.60	2009	-	9,169
			-	9,428
			-	147,775
Non-current				
Bank loans				
- Unsecured				
- USD loan	LIBOR+0.65	2013	-	212,009
- RMB loan	5.35	2019	**1,000**	-
			1,000	212,009
			1,000	359,784

34 Interest-bearing bank and other borrowings (continued)

Group (continued)

	2009	2008 Restated
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	-	138,347
In the second year	-	68,347
In the third to fifth years, inclusive	-	143,662
Beyond five years	**1,000**	-
	1,000	350,356
Other loans repayable:		
Within one year or on demand	-	9,428
In the second year	-	-
	-	9,428
	1,000	359,784

Company

	Effective interest rate (%)	Maturity	2009	2008
			RMB'000	RMB'000
Non-Current				
Unsecured bank loans	5.35	2019	**1,000**	-

35 Trade payables

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

Group

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

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

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

Company

	2009	2008
	RMB'000	RMB'000
Within six months	**27,565**	32,694

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

As at 31 December 2009, the amounts due to CNOOC group companies included in the above trade payable balances were RMB27,296,000 (2008: RMB27,593,000).

36 Other payables and accruals

Group

	2009 RMB'000	2008 Restated RMB'000
Advances from customers	**459,942**	399,878
Accruals	**3,466**	5,452
Accrued payroll	**190,157**	197,318
Cash-settled share options	**1,330**	884
Other payables	**124,593**	50,360
Long-term liabilities due within one year	**40,712**	40,000
Payable to government	**67,915**	36,000
Tax payables	**(32,629)**	20,897
Port construction fee payable	**167,971**	164,656
Payables in relation to the construction and purchase of property, plant and equipment	**222,191**	129,882
Due to the ultimate holding company	**10,009**	2,448
Due to CNOOC group companies	**22,912**	29,946
Due to an associate	**1,424**	6,608
	1,279,993	1,084,329

Company

	2009 RMB'000	2008 RMB'000
Advances from customers	**11,274**	84,991
Accrued payroll	**31,299**	26,940
Cash-settled share options	**1,330**	884
Tax payables	**(3,316)**	2,337
Other payables	**15,630**	6,784
Payables in relation to the construction and purchase of property, plant and equipment	**94,785**	46,769
Due to the ultimate holding company	**4,514**	2,448
Due to CNOOC group companies	**6,466**	9,060
Due to subsidiaries	**31,476**	70,581
	193,458	250,794

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

37 Share Option Scheme

On 25 February 2008, 6,224,000 share appreciation rights (the "SARs") were granted to senior executives, which can only be settled in cash. The exercise price of the SARs of HKD 5.10 per share was equal to the market price of the shares on the date of grant. The SARs vest if and when (i) the average return on equity for the financial years 2007 and 2008 is not lower than 14%; and (ii) the average year-on-year increase in net profit of the Company is not lower than 10% for the financial years 2007 and 2008. If these increases are not met, the SARs lapse. If the SARs vest, the recipients are entitled to exercise once in each year from 2010 to 2014, to the extent of 25% of total SARs granted. Although the conditions for vesting of the SARs have been achieved, as at 31 December 2009, the board of directors of the company had not yet approved the vesting of the SARs.

The fair value of the SARs is estimated at the date of grant using the Black-Scholes pricing model taking into account the terms and conditions under which the SARs were granted. The annual payment upon the exercise shall not be more than 50% of the total annual remuneration of the recipients of the SARs as at the time of the grant. The services received and a liability to pay for those services is recognised over the expected vesting period. Until the liability is settled, it is re-measured at each reporting date with changes in fair value recognised in profit or loss.

The fair value of the SARs granted as at 31 December 2009 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	2.22
Expected volatility (%)	55.94
Risk-free interest rate (%)	0.67
Expected life (years)	4.00
Weighted average share price (HKD per share)	4.96

The carrying amount of the liability relating to the SARs as at 31 December 2009 was RMB1,330,000 (2008: RMB884,000).

38 Business combination

(1) Business combination under common control

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

As the Company, DYK Chemical, and ZHJ Mining are all ultimately controlled by CNOOC, before and after the Acquisition, the Acquisition falls under the category of business combinations among entities under common control, which is not dealt with by IFRS3 Business Combinations. The Company chose to refer to the principles set out in Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the Hong Kong Institute of Certified Public Accountants ("AG5") when preparing the consolidated financial statements of the Group as if the Acquisition had occurred from the date when the combining entities first came under the control of CNOOC, and the consideration was regarded as the deemed distribution to CNOOC.

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

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

38 Business combination (continued)

(1) Business combination under common control (continued)

In accordance with AG5, the comparative amounts of the consolidated financial statements of the Group as at December 31 2008 have been restated to include the financial statement items of DYK Chemical and ZHJ Mining. The effects of the Acquisition to the Group's comparative amounts are as follows:

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

	The Group As previously reported	DYK Chemical	ZHJ Mining*	Total	Consolidation adjustments	As restated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets						
Non-current assets						
Property, plant and equipment	6,202,554	754,074	95,704	7,052,332	-	7,052,332
Mining rights	-	57,574	45,875	103,449	-	103,449
Prepaid land lease payments	395,388	26,874	-	422,262	-	422,262
Intangible assets	15,294	-	413	15,707	-	15,707
Investments in associates	12,839	-	-	12,839	-	12,839
Available-for-sale Investments	600	-	-	600	-	600
Deferred tax assets	42,101	42,556	5,029	89,686	-	89,686
	6,668,776	881,078	147,021	7,696,875	-	7,696,875
Current assets						
Inventories	526,759	302,664	6,821	836,244	-	836,244
Trade receivables	48,305	11,126	955	60,386	(955)	59,431
Bills receivable	30,351	25,473	4,861	60,685	-	60,685
Prepayments, deposits and other receivables	233,854	40,434	3,009	277,297	-	277,297
Pledged bank deposits	14,246	-	-	14,246	-	14,246
Cash and cash equivalents	4,177,279	66,316	2,700	4,246,295	-	4,246,295
	5,030,794	446,013	18,346	5,495,153	(955)	5,494,198
Total assets	11,699,570	1,327,091	165,367	13,192,028	(955)	13,191,073

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

Notes to the financial statements (continued)

38 Business combination (continued)

(1) Business combination under common control (continued)

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

	The Group As previously reported RMB'000	DYK Chemical RMB'000	ZHJ Mining* RMB'000	Total RMB'000	Consolidation adjustments RMB'000	As restated RMB'000
Equity and liabilities						
Equity attributable to the owners of the parent						
Paid-up capital	4,610,000	1,000,624	50,000	5,660,624	(1,050,624)	4,610,000
Reserves	4,377,276	(120,408)	76,035	4,332,903	902,482	5,235,385
Proposed dividend	437,950	-	-	437,950	-	437,950
Minority interests	901,595	-	-	901,595	148,142	1,049,737
Total equity	10,326,821	880,216	126,035	11,333,072	-	11,333,072
Non-current liabilities						
Benefits liability	66,413	-	-	66,413	-	66,413
Interest-bearing bank and other borrowings	212,009	-	-	212,009	-	212,009
Other long-term liabilities	55,029	46,502	11,209	112,740	-	112,740
Deferred tax liabilities	76,564	2,956	2,738	82,258	-	82,258
	410,015	49,458	13,947	473,420	-	473,420
Current liabilities						
Trade payables	107,709	21,000	3,843	132,552	(955)	131,597
Other payables and accruals	757,576	306,417	20,336	1,084,329	-	1,084,329
Interest-bearing bank and other borrowings	77,775	70,000	-	147,775	-	147,775
Income tax payable	19,674	-	1,206	20,880	-	20,880
	962,734	397,417	25,385	1,385,536	(955)	1,384,581
Total liabilities	1,372,749	446,875	39,332	1,858,956	(955)	1,858,001
Total equity and liabilities	11,699,570	1,327,091	165,367	13,192,028	(955)	13,191,073

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

38 Business combination (continued)

(1) Business combination under common control (continued)

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

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

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

Notes to the financial statements (continued)

38 Business combination (continued)

(2) Business combination and acquisition of minority interests

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

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

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

	Notes	As at 30 July 2009 Fair value recognised on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	16	**17,213**	**17,213**
Prepaid land lease payments	19	**55,705**	**43,705**
Inventories		**40**	**40**
Prepayments and other receivables		**500**	**500**
Cash and bank balances		**40,794**	**40,794**
		114,252	**102,252**
Trade payables		**(1,826)**	**(1,826)**
Accruals and other payables		**(1,221)**	**(1,221)**
Other long-term liabilities		**(28,613)**	**(28,613)**
Deferred tax liabilities	25	**(3,000)**	**-**
		(34,660)	**(31,660)**
Net assets		**79,592**	**70,592**
Minority interest(49%)		**(39,000)**	
Total net assets acquired		**40,592**	
Consideration, settled in cash		**40,592**	
Analysis of cash flow on acquisition			
Cash acquired		**40,794**	
Consideration paid		**(40,592)**	
Net cash inflow on acquisition		**202**	

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

39 Operating lease arrangements

(i) As lessor

Group

As at 31 December 2009 and 2008, the Group had no significant future minimum lease receivables under non-cancellable operating leases.

Company

The Company leases certain of its buildings under operating lease arrangements with leases negotiated for terms from one year to twenty years to its subsidiaries and CNOOC group companies.

As at 31 December 2009 and 2008, the Company had total future minimum lease receivables from the CNOOC New Energy (HaiNan) Bio-energy&Chemical Co.,Ltd. and CNOOC Green Materials Ltd. under non-cancellable operating leases falling due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**888**	551
In the second to fifth years, inclusive	**3,552**	2,205
After five years	**8,399**	4,202
	12,839	6,958

(ii) As lessee

Group

	2009 RMB'000	2008 Restated RMB'000
Within one year	**6,406**	-
In the second to fifth years, inclusive	**10,145**	-
After five years	**2,695**	-
	19,246	-

As at 31 December 2009 and 2008, the Company had no significant future minimum lease payments under non-cancellable operating leases.

40 Commitments and contingent liabilities

Capital commitments

Group

	2009 RMB'000	2008 Restated RMB'000
Contracted, but not provided for:		
- Acquisition of land and buildings	**-**	196
- Acquisition of plant and machinery	**1,150,930**	1,497,613
	1,150,930	1,497,809
Authorised, but not contracted for:		
- Acquisition of land and buildings	**-**	41,010
- Acquisition of plant and machinery	**1,111,767**	2,312,790
	1,111,767	2,353,800
	2,262,697	3,851,609

Company

	2009 RMB'000	2008 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	**562,920**	335,501
	562,920	335,501
Authorised, but not contracted for:		
- Acquisition of land and buildings	**-**	41,010
- Acquisition of plant and machinery	**859,768**	1,846,587
	859,768	1,887,597
	1,422,688	2,223,098

	2009 RMB'000	2008 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- A subsidiary	**-**	168,214

41 Related party transactions

During the year, the Group had the following material transactions with related parties:

(1) Recurring

	Notes	2009	2008 Restated
		RMB'000	RMB'000
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	**18,632**	30,487
Provision of transportation services	(ii)	**3,705**	4,025
Provision of packaging and assembling services	(iii)	**17,268**	9,774
Provision of logistics services	(iii)	**1,546**	679
Provision of rental services	(iii)	**-**	100
(b) Associates			
Sale of goods	(i)	**220,269**	396,108
Provision of transportation services	(ii)	**9,858**	14,979
Provision of packaging and assembling services	(iii)	**-**	293
Finance income	(vii)	**575**	-
(c) A jointly-controlled entity			
Sale of raw materials	(iii)	**-**	1,418
Provision of transportation services	(ii)	**-**	1,560
Provision of packaging and assembling services	(iii)	**-**	2,243
Provision of logistics services	(iii)	**-**	86
Provision of rental services	(iii)	**-**	44

Notes to the financial statements (continued)

41 Related party transactions (continued)

(1) Recurring (continued)

	Notes	2009 RMB'000	2008 Restated RMB'000
(B) Included in cost of sales and other expenses			
(a) CNOOC group companies			
Purchase of raw materials	(i)	**876,638**	1,004,599
Transportation services	(ii)	**5,402**	19,982
Lease of offices	(iv)	**5,598**	2,912
Construction and installation services	(v)	**85,977**	44,574
Labour services	(vi)	**61,474**	41,845
Network services	(vi)	**13,366**	7,517
Logistics services	(vi)	**4,192**	2,948
(b) Associates			
Purchase of raw materials	(i)	**204**	-
(c) A jointly-controlled entity			
Purchase of raw materials	(i)	**-**	4,096
(C) Included in finance income/costs			
CNOOC Finance			
Finance income	(vii)	**2,725**	4,226
Finance costs	(vii)	**-**	1,157

41 Related party transactions (continued)

(1) Recurring (continued)

Notes:

(i) These transactions were conducted in accordance with terms agreed among the Group, its associates and CNOOC group companies.

(ii) Transportation services were based on mutually agreed terms with reference to the market rate.

(iii) Income from these sales and services was determined by mutually agreed terms.

(iv) Rental fees were based on mutually agreed terms with reference to the market rate.

(v) The construction and installation fees were determined by market prices.

(vi) Finance income/costs were based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.

(2) Non-recurring

	Notes	2009 RMB'000	2008 Restated RMB'000
Provision of utilities to CNOOC group companies	(i)	**2,327**	1,452
Fees and charges paid to CNOOC group companies	(ii)	**1,558**	1,055

Notes:

(i) The transaction was conducted in accordance with terms agreed between the Group and CNOOC group companies.

(ii) Fees and charges were based on mutually agreed terms.

The above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules but without the transaction of "Products and services provided to Hong Kong Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement".

41 Related party transactions (continued)

(3) Balances with related parties

Except for the balances with CNOOC Finance, one of the CNOOC group companies, the balances due from/to related parties of the Group and the Company mainly resulted from trading transactions and miscellaneous amounts reimbursable by/to these related parties. Further details are set out in notes 27, 29, 35 and 36 to the financial statements.

Group

	Due from related parties		Due to related parties	
	31 December 2009	31 December 2008 Restated	31 December 2009	31 December 2008 Restated
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	**1,314**	374	**10,009**	2,448
CNOOC group companies (excluding CNOOC Finance)	**30,297**	18,885	**98,651**	103,947
Associates	**51,065**	216	**5,069**	6,608
CNOOC Finance	**157**	-	**88**	-

Company

	Due from related parties		Due to related parties	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	**1,314**	374	**4,514**	2,448
CNOOC group companies (excluding CNOOC Finance)	**18,002**	11,280	**33,762**	36,653

As at 31 December 2009, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	31 December 2009	31 December 2008 Restated
	RMB'000	RMB'000
Deposits placed by the Group with CNOOC Finance	**249,626**	216,111

41 Related party transactions (continued)

(3) Balances with related parties (continued)

Company

	31 December 2009 RMB'000	31 December 2008 RMB'000
Deposit placed by the Company with CNOOC Finance	**68,477**	43,362

Further details of the deposits placed with CNOOC Finance are set out in note 31 to the financial statements.

(4) Compensation of key management personnel of the Group

	2009 RMB'000	2008 RMB'000
Short-term employee benefits	**4,351**	4,563
Post-employment benefits	**256**	235
Total compensation paid to key management personnel	**4,607**	4,798

Further details of directors' and supervisors' emoluments are set out in note 9 to the financial statements.

(5) Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the "State-owned Enterprises"). During the year, the Group had transactions with the State-owned Enterprises including, but not limited to, the sale of fertilisers and purchases of raw materials. The management considers that transactions with such other State-owned Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and such other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the management is of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

Notes to the financial statements (continued)

42 Financial Instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009	Group		
Financial assets			
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investment	**-**	**600**	**600**
Trade receivables	**109,249**	**-**	**109,249**
Bills receivable	**53,440**	**-**	**53,440**
Loans receivable	**50,000**	**-**	**50,000**
Pledged bank deposits	**13,068**	**-**	**13,068**
Timing deposits	**123,720**	**-**	**123,720**
	349,477	**600**	**350,077**

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Interest-bearing bank and other borrowings	**1,000**
Trade payables	**148,385**
Financial liabilities included in other payables and cruals	**346,785**
Due to the ultimate holding company (Note 33)	**10,009**
	506,179

42 Financial Instruments by category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

2008	Group		
Financial assets			
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investment	-	600	600
Trade receivables	59,431	-	59,431
Bills receivable	60,685	-	60,685
Pledged bank deposits	14,246	-	14,246
	134,362	600	134,962

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Interest-bearing bank and other borrowings	359,784
Trade payables	131,597
Financial liabilities included in other payables and accruals	180,242
Due to the ultimate holding company (Note 33)	2,448
	674,071

Notes to the financial statements (continued)

43 Financial risk management objectives and policies

The Group's principal financial instruments other than derivatives comprise bank loans, other interest-bearing loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including a cross currency interest rate swap contract and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

As at 31 December 2009, the Group's bank and other borrowings bearing variable interest rates amounted to RMB1,000,000(2008: RMB280,356,000), or 100% (2008: 80%) of the Group's total interest-bearing borrowings.

The interest rates and the terms of repayment of the Group's bank and other borrowings are disclosed in note 34 to the financial statements.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than Group's functional currency. Approximately 15% (2008: 5%) of the Group's sales are denominated in currencies other than functional currency of the Group.

The Group's monetary assets, loans and transactions are principally denominated in RMB, USD and HKD. The Group was exposed to foreign currency risk arising from the changes in the exchange rates of HKD and USD against RMB.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

43 Financial risk management objectives and policies (continued)

(iii) Credit risk

The carrying amounts of the Group's cash and cash equivalents, available-for-sale investments, trade receivables, other receivables and other current assets except for prepayments and tax recoverables represent the Group's maximum exposure to credit risk in relation to its financial assets.

The majority of the Group's trade receivables are related to the sale of fertilisers and methanol. The sale of fertilisers is normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and only long-standing customers are granted with credit terms. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. As at the balance sheet date for 2008 and 2009, there were no Group's trade receivables due from the Group's largest customer and the five largest customers, respectively.

No other financial assets carry a significant exposure to credit risk.

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and bonds. As at 31 December 2009, RMB Nil (2008:RMB147,775,000), or 0% (2008: 41%) of the Group's interest bearing debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

43 Financial risk management objectives and policies (continued)

(v) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2009 and 2008.

The Group monitors capital using a gearing ratio, which is calculated as interest-bearing loans divided by total capital plus interest-bearing loans. The gearing ratios as at the end of the reporting periods were as follows:

	2009 RMB'000	2008 Restated RMB'000
Interest-bearing loans	1,000	359,784
Equity attributable to owners of the parent	9,686,111	10,283,335
Total capital	10,944,210	11,333,072
Capital and net debt	10,945,210	11,692,856
Gearing ratio	0.01%	3.10%

44 Approval of the financial statements

The financial statements were approved and authorised for issuance by the board of directors on 27 March 2010.

Glossary

Ammonia	NH_3, a colorless, combustible alkaline gas. Ammonia is a compound of nitrogen and hydrogen, it is used extensively for the manufacture of fertilisers and a wide variety of nitrogen-containing organic and inorganic chemicals;
BB fertilisers	Bulk blended fertilisers, according to the PRC national standard being a chemical compound containing at least two primary plant nutrients among N, P and K;
Compound fertilisers	Chemically obtained fertiliser, composed of at least two primary plant nutrients, also contained secondary nutrients.
DAP	di-ammonium phosphate, $(NH_4)_2HPO_4$, a type of phosphate fertiliser;
Formaldehyde	CH_2O, a colorless, poisonous gas, made by the oxidation of methanol;
MAP	mono-ammonium phosphate, $NH_4H_2PO_4$, a type of phosphate fertiliser;
Methanol	CH_3OH, or methyl alcohol, or wood alcohol, a colorless, flammable liquid, produced synthetically by the direct combination of hydrogen and carbon monoxide gases, heated under pressure in the presence of a catalyst;
Natural gas	Colorless, highly flammable gaseous hydrocarbon consisting primarily of methane and ethane. It is a type of petroleum that commonly occurs in association with crude oil. Natural gas is often found dissolved in oil at the high pressures existing in a reservoir, and it also can be present as a gas cap above the oil;
P fertiliser or phosphate-based fertiliser	a fertiliser containing phosphorus (P) as the main nutrient, common examples include MAP and DAP;
Polyoxymethylene (POM)	$-(-O-CH_2-)n-$, also known as acetal resin, an engineering plastic used to make gears, bushings and other mechanical parts. It is a thermoplastic with good physical and processing properties;
Urea	$H_2N-CO-NH_2$, nitrogen fertiliser formed by reacting ammonia with carbon dioxide at high pressure (containing 46% nitrogen);
Utilisation rate	A percentage calculated by dividing the actual annual production volume by the designed annual production volume.

Company Information

Registered Office	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC
Principal place of business in the PRC	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC
Representative Office in Hong Kong	65/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong
Joint Company Secretaries	QUAN Changsheng LEE Tze Leung, Raymond(ACCA,CPA)
Qualified Accountant	LEE Tze Leung, Raymond(ACCA,CPA)
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Hong Kong & US law legal adviser	Baker & Mckenzie 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong
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