Annual Report 2010

HKSE CODE: 3983

中海石油化學股份有限公司
China BlueChemical Ltd.

COMPANY PROFILE

China BlueChemical Ltd. ("China BlueChem", stock code: 03983) is a large-scale and modernized enterprise engaging in the development, production and sales of mineral fertilisers and chemical products. Headquartered in Beijing, China BlueChem's production facilities are located in Hainan Province, the Inner Mongolia 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 1,600,000 tonnes of methanol. On 29 September 2006, China BlueChem was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

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 petroleum company in China. China BlueChem is well equipped with competitive advantages to lay a solid foundation for the robust development of mineral fertilizers and related chemical businesses.

The 800,000 t/a methanol plant of Hainan Phase II went into commercial operation in December 2010

– 2010 –
China BlueChem celebrated its tenth anniversary of establishment

The Inner Mongolia 60,000 t/a POM plant produced the qualified products in November 2010

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Financial Highlights

Selected Consolidated Income Statement Data

For the year ended 31 December, RMB'million

	2006	2007	2008 (As previously reported)	2008 Restated (Note)	2009	**2010**
Revenue	3,465.8	4,340.4	5,518.2	6,811.8	5,794.6	**6,867.3**
Cost of sales	(2,164.2)	(2,552.1)	(3,250.0)	(4,505.4)	(4,075.3)	**(4,678.5)**
Gross profit	1,301.6	1,788.3	2,268.2	2,306.4	1,719.3	**2,188.7**
Other income and gains	125.6	74.0	127.8	138.3	69.3	**67.3**
Excess over the cost of a business combination	577.6	–	–	–	–	–
Selling and distribution costs	(33.9)	(70.2)	(82.5)	(101.5)	(132.8)	**(147.8)**
Administrative expenses	(199.5)	(223.8)	(280.8)	(380.3)	(349.4)	**(382.6)**
Other expenses	(34.5)	(51.2)	(28.7)	(32.5)	(23.6)	**(34.8)**
Finance income	119.8	29.3	25.5	26.5	32.4	**11.3**
Finance costs	(61.7)	(18.3)	(12.1)	(22.9)	(14.5)	**(11.9)**
Exchange (losses)/gains, net	(1.5)	14.4	14.9	14.7	(3.1)	**(4.2)**
Share of (losses)/profits of associates	1.8	4.0	4.7	4.7	14.8	**(0.4)**
Profit before tax	1,795.3	1,546.5	2,037.0	1,953.4	1,312.4	**1,685.7**
Income tax expense	(120.1)	(67.1)	(176.1)	(131.8)	(197.7)	**(316.0)**
Profit for the year	1,675.2	1,479.4	1,860.9	1,821.6	1,114.7	**1,369.7**
Profit attributable to equity holders of the parent	1,645.8	1,448.3	1,635.3	1,608.5	984.7	**1,175.3**
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	0.48	0.31	0.35	0.35	0.21	**0.25**

Selected Consolidated Statement of Financial Position Data

As at 31 December, RMB'million

	2006	2007	2008 (As previously reported)	2008 Restated (Note)	2009	**2010**
Assets						
Non-current assets	6,331.1	5,986.0	6,668.8	7,696.9	9,042.3	**10,650.8**
Current assets	2,779.8	3,711.5	5,030.8	5,494.2	3,604.1	**3,875.8**
Total assets	9,110.9	9,697.5	11,699.6	13,191.1	12,646.4	**14,526.7**
Equity and liabilities						
Total equity	7,048.9	8,482.5	10,326.8	11,333.1	10,944.2	**11,922.0**
Non-current liabilities	563.8	352.4	410.0	473.4	249.8	**580.1**
Current liabilities	1,498.2	862.6	962.7	1,384.6	1,452.4	**2,024.6**
Total equity and liabilities	9,110.9	9,697.5	11,699.6	13,191.1	12,646.4	**14,526.7**

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 *(%)*		
	2010	2009	Change *(%)*	**2010**	2009	Change
Fertilisers						
Urea						
Fudao Phase I	**570,135**	529,566	7.1	**109.6**	101.8	7.8
Fudao Phase II	**875,070**	760,339	15.1	**109.4**	95.0	14.4
CNOOC Tianye	**565,131**	610,262	(7.4)	**108.7**	117.4	(8.7)
Group total	**2,010,336**	1,900,167	5.8	**109.3**	103.3	6.0
Phosphate Fertilisers						
DYK Chemical MAP	**53,854**	40,518	32.9	**35.9**	27.0	8.9
DYK Chemical DAP	**401,353**	401,330	0.01	**114.7**	114.7	0.0
Group total	**455,207**	441,848	3.0	**91.0**	88.4	2.6
Chemical Products						
Methanol						
Hainan Phase I (CNOOC Jiantao)	**633,703**	606,134	4.5	**105.6**	101.0	4.6
Hainan Phase II (note)	**74,762**	–	–	**112.1**	–	–
CNOOC Tianye	**158,616**	203,343	(22.0)	**79.3**	101.7	(22.4)
Group total	**867,081**	809,477	7.1	**100.0**	101.2	(1.2)

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

Sales volume of the Group's various plants

Unit: tonne

	For the year ended 31 December 2010	For the year ended 31 December 2009	Change *(%)*
Fertilisers			
Urea			
Fudao Phase I	**563,100**	538,693	4.5
Fudao Phase II	**867,490**	802,859	8.1
CNOOC Tianye	**553,454**	616,441	(10.2)
Group total	**1,984,044**	1,957,993	1.3
Phosphate Fertilisers			
DYK Chemical MAP	**58,513**	48,252	21.3
DYK Chemical DAP	**421,043**	353,238	19.2
Group total	**479,556**	401,490	19.4
Chemical Products			
Methanol			
Hainan Phase I	**647,343**	594,657	8.9
Hainan Phase II	**64,457**	–	–
CNOOC Tianye	**155,059**	206,919	(25.1)
Group total	**866,859**	801,576	8.1

Chairman's Statement

Dear Shareholders,

The year of 2010 had marked the 10th year of China BlueChem since its establishment. Through organic growth and acquisition, your Company achieved healthy development. Moreover, the Company made significant contribution to the development of the national agricultural industry and the increase of farmers' income. As a result, the Company earned recognition and respects from industry peers.

Since our listing in Hong Kong in 2006, the effective management, strong operating results and sound development strategy had been recognized by the capital market. In March 2010, your Company was selected as one of the constituents of the Hang Seng Composite Index. The share price of the Company out-performed the market during the year 2010. Furthermore, the Company continuously delivered good returns for our shareholders.

The Board of Directors strives for excellent corporate governance. With the principle of standardized operation, high efficiency and transparency, and openness and fairness, the Board carefully identified professionals with solid industry background and experiences for the replacement of a board member, and the result was in the interest of the shareholders. Secondly, the Board continuously improved comprehensive risk management system by incorporating best practices, secured high standard of professional ethics, and proactively monitored and controlled risks. In addition, the Board and its committees worked effectively and fulfilled all duties thoroughly.

During the "Twelfth Five-Year Plan", the PRC government will continue to undertake the structural reform of both fertilizers and chemicals industries. The domestic demand for fertilizers will assuredly increase with strong government support to the agricultural sector and rising food consumption. Also, the domestic methanol demand will rise as a consequence of sustained economic growth and continual promotion of alternative energy. In realignment of the trend of industry re-structuring in China, the Board will drive fast, healthy and sustainable development of the Company.

On behalf of the Board, I would like to express my sincere appreciation to all shareholders and customers, and the management team and our staff.

WU Mengfei

Chairman

CEO's Report

Dear Shareholders,

2010 signified the first decade of establishment of China BlueChem, during which the Company achieved its robust development from a regional urea production enterprise into a large-scale enterprise engaging in the development, production and sale of fertilisers, methanol and related chemical products.

Under the leadership of our board of directors (the "Board") in 2010, the Company achieved sound operating results and created good returns for our shareholders, by overcoming the effects of such adverse factors as abnormal weather and drought in the PRC which led to demand decline for fertilisers and also the increase in prices of raw materials.

Significant improvements in operating results

In 2010, with the efforts of the management team and all staff, the Company achieved long cycles of stable operations for major production plants, significant results on cost control and satisfactory products sales, which contributed to the sound operating results of our Company.

In 2010, our revenue was approximately RMB6,867 million, an increase of approximately 19% over last year, and our net profit attributable to owners of the parent was approximately RMB1,175 million, an increase of approximately 19% over last year.

We continue to lead our industry in terms of profitability with a gross profit margin of approximately 32% in 2010.

Safe and efficient operation of our production plants

In 2010, we reached our record highs in terms of production volumes, with over 2 million tonnes of urea, 450 thousand tonnes of phosphate fertilisers and 860 thousand tonnes of methanol.

Safe, stable and highly efficient operations of our production plants constitue the solid bases of our sound performance.

Competitive advantages in widely recognized brands and sales management secured our products sales

Due to our widely recognized brands in urea and methanol and national wide centralised sales management, the Company overcame such adverse factors of declining in domestic fertiliser demands during the first half of 2010, and fully capitalised on the improving domestic fertilisers and chemicals market and the robust demand in the international fertilisers market during the second half of 2010, which exceeded our annual sales targets. Benefitted from the regional advantages of Hainan and the preferential policy of low export tariff period, our total exports for the year were 642 thousand tonnes of urea and 56 thousand tonnes of phosphate fertilisers.

Progress of major projects on schedule

Construction of our Hainan methanol plant with an 800,000-tonne annual capacity was successfully completed with trial production commenced in October 2010. It went into commercial operation on 1 December 2010.

Construction of our Inner Mongolia POM plant with a 60,000-tonne annual capacity was completed in October 2010. Qualified products were produced on 19 November from production line A, the process of which only took 25 days from trial production of raw materials to production of finished products. Production Line B went into trial production on 30 December 2010 and qualified products were produced within 12 days. Production Lines A and B achieved the best production time records among our fellow domestic industry peers.

Our DYK Chemical's phosphate fertiliser production expansion and renovation project is proceeding according to schedule and is expected to complete by the end of 2011.

All government's approvals in respect of our coal-based urea projects in Hequ, Shanxi and Hegang, Heilongjiang have been received and the plants are scheduled to commence construction in 2011.

Mergers and acquisitions

By acquiring the 80% equity interests in Hegang Huahe Coal Chemical Ltd. ("Huahe Chemical") in July 2010, we completed our expansion of fertilizer production and market coverage to the north-eastern region of the PRC. Leveraging on the acquired coal resources for constructing our vertically integrated coal-based urea production bases, we will be able to maintain our competitive cost advantages.

We became the controlling shareholder of Guangxi Fudao Agricultural Means of Production Limited ("Guangxi Fudao AMP") by acquiring the 21% equity interests in Guangxi Fudao AMP by CNOOC Fudao Limited, our wholly-owned subsidiary, and lay a sound foundation for enlarging the share of our fertilisers and chemical products in the Guangxi market.

Strengthening our core management further

In 2010, we undertook a thorough review and revision to our management system and smoothened management interfaces and functional positioning among the three-tiered management of the Group, production bases and business units, for which we have formulated a relative system of business authority limits in order to ensure the healthy and sustainable development of the Company. Our internal management audits, efficiency supervision and risk control have strengthened our ability to prevent and control operating risks.

Active fulfilment of corporate social responsibility

We have been actively fulfilling our corporate social responsibility through aiding farmers in soil-testing and fertilizing prescription for their scientific fertilising in order to enhance soil fertility and increase production harvests and farmers' income. All our production bases are actively undertaking charitable relief work for the poor, uneducated, disaster victims and underprivileged, and achieved the harmonious development among the corporate citizens and the community. Given our high concern to environmental protection, energy-saving and emission-reduction, we have continued to reduce the impact of our operations on the environment by means of optimising management and renovating technology.

In 2010, we were honoured as "China's top 100 agricultural and chemical service enterprises for 2010" and a national "resources-saving and environmental-friendly" enterprise.

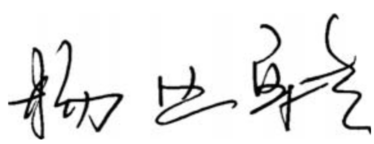
Outlook for 2011

The continual structural reform of the fertiliser and chemical industries by the PRC government will create both opportunities and challenges. We will focus on the following tasks in 2011: to ensure the safe and stable operations of production plants in order to complete our production and operation targets; to continue to optimise and integrate our sales network resources in order to promote our sales of fertiliser and chemical products; to push forward our projects that are under construction and under feasibility study in order to drive our capacity expansion with sound profitability; to continue to enhance HSE management and strengthen energy-saving and emission-reduction tasks; and to continue to identify domestic and international mergers and acquisition opportunities that match our development strategy.

In 2011, with the support of our shareholders and the Board, the management and employees of the Company will jointly continue in their endeavor to create good value for our shareholders.

YANG Yexin

CEO & President



Management Discussion and Analysis

Sector Review and Outlook

Fertiliser sector

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

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

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

(1) Urea

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

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

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

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

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

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

(2) Phosphate Fertilisers

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

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

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

Methanol sector

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

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

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

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

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

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

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

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

Business Review

Production Management

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

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

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

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

Sales Management

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

Urea

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

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

Phosphate fertilisers

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

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

Methanol

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

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

BB fertilisers

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

Woven plastic bags

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

Sea-land logistics services

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

Financial Review

Revenue

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

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

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

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

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

Cost of sales

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

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

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

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

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance income and finance costs

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

Exchange losses, net

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

Income tax expense

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

Profit for the year

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

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

Dividends

The Board recommended the payment of a final dividend of RMB0.09 per share for 2010, aggregating RMB414.9 million.

The proposed final dividend for 2010 will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of acquisition, property, plant and equipment and prepaid land lease payments amounted to RMB2,133.1 million. Capital expenditure primarily included: (1) RMB1,018.1 million for Hainan Phase II Methanol Project; (2) RMB603.6 million for the Inner Mongolia POM Project; (3) RMB204.6 million for DYK Chemical Phase II Expansion Project; (4) RMB218.1 million for plant upgrades and equipment purchases; (5) RMB81.8 million for the acquisition of 80% interest in Huahe Chemical; and (6) RMB6.9 million for acquisition of 21% interest in Guangxi Fudao AMP.

Pledge of assets

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

Major investment

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

Capital management

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

Cash and cash equivalents

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

Human resources and training

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

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

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. During the reporting period, the Renminbi to US dollar exchange rate ranged from 6.6227–6.8284. The appreciation of Renminbi against the US dollar may have produced a double effect. The Group's revenue from sales of products may have declined as a result of the depreciation of the US dollar against Renminbi. The import prices for equipment and raw materials may also have been reduced.

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

Inflation and currency risk

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

Liquidity risk

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

Post balance sheet events and contingent liabilities

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

Material litigation and arbitration

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

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

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

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

Outlook

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

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

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

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

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

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

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

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

Quality, Health, Safety and Environmental Protection

In 2010, 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. The HSE management standards of the Company have been continually enhanced and achieved HSE's management target, 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 reporting period, the Company's urea products attained a superior quality rate of 99.45% with a 100% pass rate on net weight of single packets and a 96.6% customer satisfaction rate, and methanol products attained a superior quality rate of 100% with a 97.0% of customer satisfaction rate. The quality of CNOOC Jiantao's methanol products fully met and even exceeded the respective national quality and American "AA" standards and reached international first-rate standards. "Fudao" brand was honoured as a well-known brandname of the China's petroleum and chemical industries.

Health, Safety and Environmental Protection (HSE)

During the year, in response to our requirements to standardise management and control on a group-wide basis, the headquarter of the Company completed the establishment of quality, HSE and energy-saving and emission-reduction regimes. All production plants have also achieved the HSE regime-based management and organised internal audits and management reviews according to requirements in order to drive the effective operation of the QHSE regime.

Through instant transmission of on-site video pictures of each plant to the headquarter, provides a sound foundation of securing emergency information and timely command strategy to our headquarter through the completion of construction of an emergency command centre at our headquarter and the corresponding establishment of a sophisticated emergency command system at our Hainan, Inner Mongolia and Hubei plants.

By standardising the access standards of mine contractors on a stringent basis to avoid the occurrence of any major incidents by them, the Company has further continued to fortify the management of contractors in 2010.

At the beginning of 2010, the Company enhanced the safety management level of chemical plants by conducting HAZOP (hazards and operational analysis) analysis activities at the more hazardous chemical plants, so as to locate and eradicate potential risks prevailing at chemical production plants systematically.

By incorporating the environmental protection targets in the HSE responsibility booklet of each unit as part of the departmental appraisal, the Company further strengthened its management of environmental protection, which has been treated as the key aspect for inspection at each major safety inspection. The environmental protection facilities of all plants of the Company operated normally. The effects of bio-chemical treatment of waste fluids was good with a 100% passing rate of the environmental protection standards of external discharge of waste fluids.

In 2010, the Company achieved excellent results in HSE management. No major accident or incident of responsibility, or occupational hazards occurred during the year. The OSHA index of recordable incident was only 0.0014.

Human Resources

Adhering to the personnel objective and philosophy of "Staff-Oriented, Employee-Caring" 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, in order to perfect the improvement of its talent team building mechanism. In 2010, through optimisation of work and distribution system and expansion of training efforts, 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.

To fuse up with actual corporate situations, the Company continued to enhance and perfect its reforms on employment and remuneration systems, and through extensive investigations and studies and in-depth researches and deliberations, the Company has optimised the employment and remuneration systems of CNOOC Tianye and DYK Chemical and gradually smoothened the management of such unit.

Performance Appraisal

In order to ensure the joint development of both the Company and its employees, the Company established a scientific performance appraisal scheme and an effective incentive and binding mechanism.

During the year, the Company commenced the 2010 performance appraisal of all employees. Through the appraisal, employees of all levels could review and summarize their work in 2010 thereafter to plan ahead for 2011. All units, departments and employees were also encouraged to strive to learn from outstanding employees, who were given the titles of "Outstanding Employees", and to develop the spirits of "unity, integrity, innovation and contribution" in perfecting their work and striving towards the Company's leadership role in the domestic fertiliser industry.

Training Management

In 2010, the Company established and enhanced the training management, talent development and cultivation system in the group management and control regime. During the year, in order to push forward the comprehensive provision of information and standardisation of the Group's training work, the Company further standardised and enhanced training record statistics and training information management, improving the basic information and detailed implementation records of training projects and strengthening the daily management and maintenance of training information.

During the year, the Company organised the first training course of international talents in establishing a pool of international talents and backup talents. Technicians in chemical maintenance machinist were awarded third class in group events of the Third Petrochemical Industry Skill Competition, a historical record for the Company.

As at the end of 2010, the Company held 1,818 training courses with the participation of 45,991 staff, with total training hours amounted to 323,912 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 2010, the Company strictly complied with the relevant code 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").

Since its listing, the Company has established a modern and balanced corporate governance structure which comprises a number of independently operated bodies including general meeting, the Board, the supervisory committee of the Company ("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.

To safeguard and protect the interests of the shareholders of the Company, the Company attaches great importance to the establishment of standardized and efficient corporate governance structure and have fully elaborated the roles of the Board in its decision making and the supervisory role of the supervisory committee. In 2010, the Company further improved its corporate governance structure through the election of a new director of the Company ("Director") and a new supervisor of the Company ("Supervisor") and setting up the office of the Supervisory Committee.

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 the general meeting and is responsible for leading and supervising the Company, jointly formulating business strategies and overseeing the affairs of the Company.

Duties of the Board

Although it delegates powers and responsibilities to management for the purposes of implementing business strategies and managing daily business operations of the Group, the Board is jointly responsible for formulating business strategies and policies, business plans and investment proposals, establishing management objectives, reviewing the performance of the Company, evaluating the effectiveness of management strategies, formulating the Company's proposals for profit distribution and recovery of losses, determining the appointment or removal of members of the senior management of the Company and their remunerations, deciding on the establishment of the Company's internal management structure, formulating the Company's basic management systems, and exercising proprietary powers, including, inter alia:

- To call and report to general meeting;
- To implement the resolutions of the general meeting;
- To formulate the Company's operating strategies and investment plans;
- To formulate the Company's annual financial budgets and accounting plans;
- To prepare the Company's profit distribution and losses recovery proposals;
- To prepare proposals of increase or reduction of the registered capital, issuance of debenture and other securities, and listing of the Company;
- To prepare proposals of mergers, separations, changes in the form of the Company and the dissolution of the Company;
- To determine the Company's internal management structure;
- To appoint or remove the President of the Company, appoint or remove other senior management based on the nomination of the President and determine their remunerations;
- To formulate the basic management regime of the Company;
- To prepare proposals of amendments to the articles of association ("Articles") of the Company;
- To propose the appointment, reappointment or dismissal of accounting firms for the provision of auditing services to the Company to the general meeting;
- To exercise other powers stipulated in the Articles of the Company or delegated by the general meeting.

Directors

The profiles of the Directors are set out on page 28 to page 31 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 responsibilities to shareholders.

The Board consists of seven Directors as of 31 December 2010, 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 were fully in compliance with Rules 3.10(1) and (2) of the Listing Rules. 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 have no business or financial interests in either the Company or its subsidiaries, nor do they hold executive positions 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 have 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 2010, the independent non-executive Directors expressed their views and advice on matters concerning the interests of shareholders and 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 from 12 June 2009 (except Mr. GU Zongqin). In accordance with the service contracts, their terms of office started on 12 June 2009 (except Mr. GU Zongqin) and expire when new non-executive Directors and independent non-executive Directors are elected at the general meeting held in the year when their terms 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 election at the general meeting held in the year when their terms of office expire.

As of 31 December 2010, the members of the current session of the Board of the Company 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
GU Zongqin	Independent Non-executive Director	4 June 2010

Note: The terms of the above Directors (except Mr. GU Zongqin) are three years. The term of Mr. GU Zongqin commenced on 4 June 2010 and expires upon the election of new Directors at the 2011 annual general meeting of the Company. Each Director is eligible for re-election when his term of office expires.

Board 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 on such issues at such meeting 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 2010:

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
GU Zongqin (Note 1)	3/3	100
LI Yongwu(Note 2)	2/2	100

Notes:

(1) Mr. GU Zongqin was appointed as an independent non-executive Director of the Company on 4 June 2010. Three Board meetings were held in total from 4 June 2010 to 31 December 2010.

(2) Mr. LI Yongwu resigned as an independent non-executive Director of the Company on 30 June 2010. Two Board meetings were held in total from 1 January 2010 to 30 June 2010.

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. GU Zongqin was appointed as member of the Audit Committee on 23 June 2010 while Mr. LI Yongwu resigned as member of the Audit Committee on 24 June 2010. Currently, the Audit Committee consists of three independent non-executive Directors, namely Mr. TSUI Yiu Wa, Alec, Mr. ZHANG Xinzhi and Mr. GU Zongqin. 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 duties of the Audit Committee are to review and supervise the integrity and preparation procedure of the financial reports 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 and 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 fulfillment of the Company's corporate objectives and strategies. The Audit Committee also examines the annual internal audit work planning of the Company and submits relevant reports, deliberations and recommendations to the Board.

The Audit Committee held four meetings in 2010 where their work performed were summarised as follows:

- Reviewed the 2009 financial statements and the 2010 interim financial statements, in particular, focusing on their compliance with accounting standards, the Listing Rules and other regulations, and provided recommendations to the Board;
- Reviewed the 2011 operating and financial budgets;
- Reviewed the statutory audit plan of the external auditors and the nature and scope of their audit prior to the commencement of the audit;
- Had meetings and further discussed the internal financial audit with the external auditors;
- Reviewed the internal audit findings and recommendations for 2010 and approved the internal audit plan for 2011;
- Reviewed the effectiveness of the internal control system of the Company;
- Approved the audit fees and the terms of engagement of the external auditors; and
- Reviewed the independence of the external auditors and provided recommendations to the Board on reappointment of the external auditors.

Attendance of members of Audit Committee at committee meetings in 2010:

Audit Committee member	Attendance/Number of meetings	Attendance rate (%)
TSUI Yiu Wa, Alec (Chairman)	4/4	100
ZHANG Xinzhi	4/4	100
GU Zongqin (Note 1)	3/3	100
LI Yongwu (Note 2)	2/2	100

Notes:

(1) Three meetings of the Audit Committee were held in total during the period from 23 June 2010 to 31 December 2010 when Mr. GU Zongqin was a member of the Audit Committee.

(2) Two meetings of the Audit Committee were held in total during the period from 1 January 2010 to 24 June 2010 when Mr. LI Yongwu was a member of the Audit Committee.

Remuneration Committee

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

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 standards, procedures and major proposals of performance appraisal and major proposals and system of 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, President and other executive Directors.

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 to and retaining the executive Directors.

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

One meeting of the Remuneration Committee was held in 2010, during which the remuneration of a Supervisor of the Company, namely Mr. QIU Kewen was determined and with the authority delegated by the Board and recommendation to the Board in respect of the remuneration of an independent non-executive Director of the Company, namely Mr. GU Zongqin, was made.

Attendance of members of Remuneration Committee at committee meetings in 2010:

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 2010 is set out in the Note 9 to the financial statements.

Nomination Committee

Mr. GU Zongqin was appointed as a member and the chairman of the Nomination Committee on 23 June 2010 while Mr. LI Yongwu resigned as a member of the Nomination Committee on 24 June 2010. The Nomination Committee consists of three members, including two independent non-executive Directors, namely Mr. GU Zongqin and Mr. ZHANG Xinzhi, and an executive Director, YANG Yexin. Mr. GU Zongqin is the Chairman.

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, reappointments and succession plans of the 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 succession plans of the members of the Board based on certain standards adopted by the Committee, such guidance shall include the suitability of the Directors in terms of 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.

One meeting of the Nomination Committee was held in 2010, at which the Committee discussed the nomination of Mr. GU Zongqin as an independent non-executive Director. In addition, the Committee reviewed the retirement of the Company's independent non-executive Director Mr. LI Yongwu and provided relevant opinions to the Board of the Company.

Attendance of members of the Nomination Committee at committee meetings in 2010:

Nomination Committee member	Attendance/Number of meetings	Attendance rate (%)
LI Yongwu (Note)	1/1	100
ZHANG Xinzhi	1/1	100
YANG Yexin	1/1	100

Note: No meeting of the Nomination Committee was held during the period from 23 June 2010 to 31 December 2010 when Mr. GU Zongqin was a member of the Nomination Committee; One meeting of the Nomination Committee was held in total during the period from 1 January 2010 to 24 June 2010 when Mr. LI Yongwu was a member of the Nomination Committee.

Investment Review Committee

The Investment Review Committee consists of four members, including two independent non-executive Directors, namely, Mr. ZHANG Xinzhi and Mr. TSUI Yiu Wa, Alec, one non-executive Director, WU Mengfei and one executive Director, Mr. YANG Yexin. Mr. ZHANG Xinzhi is the Chairman.

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.

Four meetings were held by the Investment Review Committee in 2010, at which the major investment projects of the Company in 2010 were reviewed and the opinion of the Committee was reported to the Board.

Attendance of members of the Investment Review Committee at committee meetings in 2010:

Investment Review Committee member	Attendance/Number of meetings	Attendance rate (%)
ZHANG Xinzhi (Chairman)	4/4	100
TSUI Yiu Wa, Alec	4/4	100
WU Mengfei	4/4	100
YANG Yexin	4/4	100

3 Supervisory Committee

The Supervisory Committee is responsible 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 of the Company;
- To order the misbehaving Directors, President and other senior management to rectify any improper behaviour 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 or an auditor to re-examine in the name of the Company in case of doubt;
- To propose the convening of extraordinary general meeting, to organise and chair the general meeting when the Board fails to fulfill its responsibility under the Articles to do so;
- To make proposals to the general meeting;
- To lodge lawsuits against the Directors, President and other senior management of the Company in accordance with the PRC Company Law; and
- To exercise other powers stipulated in the Articles of the Company.

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

For details of 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 Vice President, Chief Financial Officer (Financial Controller), Vice President and 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 of the Company in accordance with laws and regulations, the Articles of the Company and powers authorised by the Board, and exercise the following major powers:

- To oversee the management of production and operation and carry out the resolutions of the Board;
- To implement the operation plans and investment proposals of the Company for the year;
- To propose the Company's internal management structures;
- To propose the basic management regime of the Company;
- To formulate the basic rules and guidelines of the Company;
- To recommend the appointment or dismissal of the Executive Vice President, Chief Financial Officer (Financial Controller) or Vice President of the Company;
- To appoint or dismiss management staff other than those required to be appointed or dismissed by the Board;
- To sign the securities issued by the Company; and
- To exercise other powers stipulated in the Articles of the Company and delegated by the Board.

5 Securities Transactions by Directors and Supervisors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the model code for securities transactions by its Directors and Supervisors. After specific inquiries to the Directors and the Supervisors of the Company, all Directors and Supervisors have confirmed that during the accounting period covered by this report, they have 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 Provision A.2.1 of the Corporate Governance Code, the roles of Chairman and Chief Executive Officer 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 Chief Executive Officer have different duties. Mr. WU Mengfei and Mr. YANG Yexin act as the Chairman and the Chief Executive Officer of the Company respectively. The Chairman is responsible for ensuring effective management of the Board, while the Chief Executive Officer is responsible for the daily business operation 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 meeting and other general meetings.

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

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.

The Company has conducted a comprehensive streamlining and refining of its internal control system in 2010 in order to clearly define the three-tier functions regarding positions, the relationship between management functions and duties of each of the headquarter, production bases and business units of the Company, and strengthen the management and control of the Group and enhance the operation efficiency. Based on its foundational systems, management measures and operation rules and procedures, the Company has divided its various functions into 14 sub-systems with clear definitions that complement each other. With a total of 16 management systems, 148 management measures, 191 implementation rules and 216 operation procedures, the systems now covers the whole operation from corporation decision-making and management to production so as to ensure the healthy and sustainable development of the Group.

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 results 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 has received relevant training courses.

9 Auditors and Fees

Ernst & Young is the external auditors of the Company. The audit fee for 2010 was RMB3.57 million, which has been approved by the Audit Committee.

For the year ended 31 December 2010, 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 47 of this annual report.

10 2010 Annual Review on Non-Competition Agreement

On 7 September 2006, the Company and 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 26 March 2011, the Company and CNOOC held the 2010 annual review on non-competition.

At the meeting, there was a review of the investment opportunities obtained in 2010 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 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 have assessed the Company's financial position, results, cash flow status and prospects during the period in a balanced, clear and comprehensive manner based on the timely and appropriate data provided by the 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

Directors

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Non-Executive Director

1 **WU Mengfei**, born in 1955, is a non-executive Director and the Chairman of the Company. Mr. Wu obtained a master's degree from East China Petroleum Institute as well as a MBA degree from the Massachusetts Institute of Technology. Since April 2006, he has been the chief accountant of CNOOC, and 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"), and served as an executive director from May 2004 to March 2006 and an executive vice president and the chief financial officer of COSL from July 2002 to March 2006. 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

2 **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 Offshore Oil Southern Drilling Company, 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 Offshore 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 and was appointed as a director and the chairman of CNOOC Fudao Limited. He was appointed as a director in September 2003 and the general manager of the Company in October 2005, and was the chairman of Hainan Basuo from its incorporation to May 2010 and has been the chairman of CNOOC Jiantao since its incorporation. He is also the chairman of Hubei Dayukou Chemical Co., Ltd.. Mr. Yang was appointed as an executive Director of the Company in April 2006.

3 **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 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 Limited in December 2001. He was appointed as a director of the Company 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.

4 **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

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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 the Company since October 2005. He served as the general manager of Tianye Chemical from February 2006 to January 2009; and its chairman since February 2006. Mr. Chen was appointed as an executive Director of the Company in April 2006.

Independent Non-Executive Directors

5 **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 the University of Science and Technology of China in 1967. From 1967 to 1989, he was with No. 3 Fushun Petroleum Factory and 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 in 1992 and a manager of Fushun Petroleum and 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 Chemistry and Physics, the Institute of Chemistry and the Lanzhou Institute of Chemistry and Physics with the Chinese 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 the Chinese Academy of Sciences. Mr. Zhang was appointed as an independent non-executive director in April 2006.

6 **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 in the USA 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 Securities and Futures Commission 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, China Chengtong Development Group Ltd. (from March 2003), COSCO International Holdings Ltd. (from February 2004), China Power International Development Ltd. (from March 2004), Pacific Online Limited, (from November 2007), China Oilfield Services Limited (from June 2009) and Arnhold Holdings Limited (from March 2011) 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). He was appointed as an independent non-executive Director of the Company in April 2006.

7 **GU Zongqin**, born in 1955, is an independent non-executive Director of the Company. Mr. Gu graduated from Nanjing Chemical Engineering Institute in February 1982 with a major in Inorganic Chemical Engineering. He worked

Supervisors


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in the Chemical Fertilizer Division of the Planning Institute of Ministry of Chemical Industry from February 1982 to June 1991 and served as the deputy director of the Division between July 1991 and June 1993. Between July 1993 and October 1994, Mr. Gu was an assistant to the president of the Planning Institute of Ministry of Chemical Industry and from November 1994 to January 2000, he served as the vice president of the Planning Institute of Ministry of Chemical Industry. He has been the president and Party Secretary of the China National Petroleum and Chemical Planning Institute since February 2000 and also served as the deputy president of China Petroleum and Chemical Industry Association since April 2006. Mr. Gu has been an independent director of Hubei Xingfa Chemicals Group Co., Ltd. (a company listed on Shanghai Stock Exchange) since April 2006, Shaanxi Xinghua Chemical Co., Ltd. (a company listed on Shenzhen Stock Exchange) since May 2007 and Guizhou Chitianhua Co. Ltd. (a company listed on Shanghai Stock Exchange) since April 2008. He was appointed as an independent non-executive Director of the Company in June 2010.

Supervisors

8 **QIU Kewen**, born in 1955, is the chairman of the Supervisory Committee of the Company. Mr. Qiu graduated from Sun Yat-sen University in 1982 with a major in Mathematics and Mechanics of Automatic Control. He enrolled in Management Science and Engineering at China University of Petroleum, Beijing between September 1997 and July 1999 and obtained a master's degree in Management. From March 1976 to March 1978, Mr. Qiu served as the port supervisor of Guangzhou Maritime Bureau; from January 1982 to June 1985, he was appointed as a lecturer of Sun Yat-sen University; from June 1985 to December 1999, he served as an assistant engineer of the Research Center, deputy manager of the Software Department of the Computing Center, assistant to the director of the Computing Center, deputy director of the Computing Center, director of the Computing Center and deputy director of the Technology Research Center of CNOOC Nanhai East Corporation; from January 2000 to April 2004, he served as the vice president and secretary of party branch of CNOOC Research Center, Nan Hai East Institute; from May 2004 to July 2009, he served as the deputy party secretary, secretary of Discipline Inspection Committee and chairman of the Labour Union of CNOOC Nanhai East Corporation; from June 2004 to May 2006, he was also appointed as the chairman of the Supervisory Committee of CNOOC Huizhou Petrochemicals Service Co., Ltd.; from July to November 2009, he served as the secretary of Discipline Inspection Committee and Chairman of the Labour Union of Petroleum Administration of CNOOC Nanhai East Corporation. He has been chairman of the Supervisory Committee of China National Offshore Oil Corporation since November 2009 and chairman of the Supervisory Committee of China Ocean Offshore Oilfields Service (Hong Kong) Limited and CNOOC New Energy Investment Co., Ltd. since December 2009. He was appointed as a Supervisor of the Company in June 2010.

9 **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 postgraduate 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. 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 is also a part-time professor at the Russian 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.

10 **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

Senior Management


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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 the head responsible for auditing investment projects at the Audit and Supervising Department of CNOOC. Since February 2008, he has served as general manager of Audit and 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

11 **ZHOU Fan**, born in 1962, with a master's degree, is an executive vice president of the Company. She graduated from Guangdong Marine University with a bachelor degree of science in Marine Diesel in August 1983; and the China University of Petroleum at Beijing with a master degree in Management in December 2005. In August 1983, she joined CNOOC Nanhai West Corporation and served as an officer of personnel department, a deputy head of the organisation department and a deputy secretary and secretary of the education department of the Communist Youth League. From May 1989 to May 1998, she served as deputy secretary and secretary of Communist Youth League of CNOOC Nanhai West Corporation; from May 1999 to September 2002 as a deputy secretary and secretary of the disciplinary committee of the Party and chairman of labour union of Zhanjiang Branch of CNOOC; from September 2002 to November 2004 as deputy Party secretary and Party secretary of CNOOC Nanhai West Corporation; and from November 2004 to August 2007, she was a deputy general manager of CNOOC Base Group Ltd. and Party secretary and secretary to disciplinary committee of CNOOC Nanhai West Corporation. She was appointed as an executive vice president of the Company in August 2007.

12 **QUAN Changsheng**, born in 1966, is the chief financial officer, vice president and the board secretary of the Company. Mr. Quan graduated from East China Petroleum Institute (later renamed as "Petroleum University") in 1986 with a major in business management, and joined the CNOOC Group thereafter. He served as accountant, senior accountant and budgetary reporting supervisor to various divisions of CNOOC Nanhai East Corporation, a manager of the finance department of the CNOOC QHD32-6 Operating Company from 1999 to 2002, and a manager of the finance department of the Tianjin branch of CNOOC Limited from 2002 to 2006. Mr. Quan joined the Company in March 2006 and was appointed as the chief financial officer and vice president in May 2006. In July 2007, he was also appointed as Board secretary and company secretary. Mr. Quan was also the director of DYK Chemical and CNOOC Tianye. He has been appointed the chairman of Shanxi Hualu Coal Chemical Ltd. since August 2009.

13 **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 Limited from 2001 to October 2005, and then he was appointed as a deputy general manager of the Company.

14 **MIAO Qian**, born in 1963, is a vice president of the Company. Mr. Miao graduated from Fuzhou University with a major in Civil Construction in 1983. 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 Jianyuan Company. He joined the Company in May 2002 and served in the methanol project department as an assistant to the general manager of the Company. In October 2005, he was appointed as a deputy general manager of the Company. In September 2010, he was appointed as the chairman of Hegang Huahe Coal Chemical Ltd.

Report of Directors

The Directors are pleased to present the audited financial statements for the year ended 31 December 2010 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 phosphate fertilisers) and chemical products (mainly methanol) during the prior years.

During the reporting period, the Company increased its annual total production capacity of methanol by 800,000 tonnes to 1,600,000 tonnes. The A and B production lines of the Company's POM project, with an annual production capacity of 60,000 tonnes, were completed and went into commercial production with qualified products.

Results

Profit of the Group for the year ended 31 December 2010 and the financial position of the Company and the Group as at that date are set out on pages 48 to 56 of the financial statements.

Dividends

The Board recommended the payment of a final dividend of RMB0.09 per share for 2010, aggregating RMB414.9 million. The proposed final dividend for 2010 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 to 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, as announced on the website of the People's Bank of China (the "PBOC"), for the 7 business days before the date of declaration of the dividends.

Subsidiaries

Particulars of the subsidiaries of the Company as at 31 December 2010 are set out in Note 21 to the financial statements.

Summary of 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 2010, 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 RMB1 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 the share capital structure of the Company as at 31 December 2010 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 the Company and the PRC laws 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 2010.

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 2010, the reserves available for distribution of the Company was RMB3,971.2 million.

Charitable Donations

During the year, the Group made charitable donations of RMB14.9 million in total.

Major Customers and Suppliers

During the reporting period, sales to the Group's five largest customers accounted for 23% of the total sales for the year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for 64% of the total purchases for the year. Purchases from the largest supplier accounted for 33% of the total purchases for the year.

The Group purchased raw materials from certain companies under the common control of the same ultimate holding company as the Company, details of which are set out in the note "Connected Transactions" below. Save as aforesaid, none of the Directors 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 interests 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
GU Zongqin	Appointed on 4 June 2010
Supervisors:	
Qiu Kewen	Appointed on 4 June 2010
HUANG Jinggui	Re-appointed on 12 June 2009
ZHANG Ping	Appointed on 17 April 2009

Note: Mr. LI Yongwu resigned as an independent non-executive Director of the Company on 30 June 2010. Please refer to the announcement dated 30 June 2010 of the Company for details. Mr. YIN Jihong resigned as a Supervisor of the Company on 4 June 2010. Please refer to the announcement dated 4 June 2010 of the Company for details.

Pursuant to the Articles of the Company, 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 term of office, 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 the term of office expires in accordance with the provisions of relevant laws, regulations and the Articles promptly, 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.

Biographies of Directors, Supervisors and Senior Management

Biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 28 to 31 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 of office expires. All Directors and Supervisors may serve consecutive terms upon re-election. The term of office of Mr. GU Zongqin and Mr. QIU Kewen, who were appointed independent non-executive Director and Supervisor respectively on 4 June 2010, commenced on 4 June 2010 until new Directors or Supervisors are approved by shareholders at the 2011 Annual General Meeting of the Company in which the term expires, and 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 remunerations of Directors and Supervisors 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 2010 or subsisted at any time during the year.

H-Share Appreciation Rights Scheme

Pursuant to the announcement dated 9 January 2008 of the Company and the circular to shareholders dated 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, which 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 incentives 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 equity structure. Upon 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 lapse. 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 previous financial year of the Company.

Pursuant to the Scheme, the Scheme is conditional subject to the fulfilment of certain conditions precedent 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 2010, the following Directors and senior management were granted the following share appreciation rights:

Names of directors and senior management	Capacity	Number of share appreciation rights granted (shares)	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares of the Company (%)
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
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 2010, 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 of 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 of the Company (%)
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 the 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 the 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 the 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 the 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 2010, none of the Directors, Supervisors or chief executives of the Company had any interests: (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; or (ii) which were required to be entered into the register pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code 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 2010, pursuant to the register of substantial shareholders required to be kept under section 336 of the SFO, the interests and short positions in any shares and underlying shares of the Company of the following shareholders (excluding Directors, Supervisors and chief executives of the Company or their respective associates) are set out as below:

Names of substantial shareholders	Capacity	Number of Shares held (shares)	Class of Shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total 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)
JPMorgan Chase & Co.	Beneficial owner; Investment manager; Custodian / approved lending agent	195,010,260(L) 3,436,000(S) 123,560,260(P) (Note 3)	H Shares	11.01(L) 0.19(S) 6.98(P)	4.23(L) 0.07(S) 2.68(P)
Commonwealth Bank of Australia	Interests in controlled Corporations	192,372,000(L) (Note 4)	H Shares	10.86(L)	4.17(L)
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	143,444,000(L) (Note 5)	H Shares	8.09(L)	3.11(L)
Mondrian Investment Partners Limited	Investment manager	89,214,000(L)	H Shares	5.04(L)	1.94(L)

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

(1) Mr. Wu Mengfei, the non-executive Director of the Company, is also the chief accountant 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 number of controlled corporations of JPMorgan Chase & Co., the controlled corporations that directly hold shares of the Company are JPMorgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc., JF Asset Management Limited, JPMorgan Asset Management (Singapore) Limited, J. P. Morgan securities Ltd., and JF International Management Inc.

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

(5) 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.

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any person (other than a Director, Supervisor or chief executive of the Company or their respective associates) of any interests and short positions in the shares and underlying shares (as the case may be) of the Company which were required to be entered into the register kept pursuant to section 336 of the SFO.

Management Contract

No contracts in respect of the management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

Connected Transactions

Continuing connected transactions

Details of the continuing connected transactions of the Group approved by the independent shareholders in 2010 were as follows:

Connected Persons

1 CNOOC and its associates

CNOOC is the controlling shareholder of the Company and, therefore, CNOOC and its associates (other than the Group) are connected persons to 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 to 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 to 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 to 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 to 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. Pursuant to Rules 1.01 and 14A.11(1) of the Listing Rules, Hong Kong Kingboard and its associates (including the parent company of Hong Kong Kingboard, i.e., Kingboard Chemical Group) are also connected persons to 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 2010, the Group continued to lease properties from 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.

In view of the needs for business expansion, the Company accepted the provision of property leasing services of Kaikang CNOOC Mansion in Beijing from members of the CNOOC Group since 1 May 2010.

In addition, on 22 September 2008, CNOOC Investment and ZHJ Mining, a subsidiary of the Company, 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 expired on 31 December 2010. Pursuant to the internal reorganisation of the organisational structure of the Group, ZHJ Mining was deregistered and its rights and obligations were succeeded by DYK Chemical. Subsequent to the expiry of the Land Use Rights Lease Agreement on 31 December 2010, DYK Chemical and CNOOC Investment entered into a new land use rights lease agreement (the "New Land Use Rights Lease Agreement"), on the same basis as the Land Use Rights Lease Agreement, on 31 December 2010 pursuant to which the term of the lease commenced on 1 January 2011 and will expire on 31 December 2013 with the other terms of the Land Use Rights Lease Agreement remaining unchanged. The annual rent under the New Land Use Rights Lease Agreement is RMB3,000,000. From the date of the New Land Use Rights Lease Agreement to 26 March 2011, the actual transaction amount under the Properties Leasing Agreement and the New Land Use Rights Lease Agreement has not exceeded the existing annual cap under item A(1) of the Continuing Connected Transactions below.

In accordance with the circular to shareholders dated 31 December 2008 of 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 2010 was RMB18,083,000.

2 COSL Transportation Agreement

In 2010, the Group continued to use the transportation services of COSL under the terms and conditions of the transportation services framework agreement (the "COSL Transportation Agreement" dated 1 September 2006 entered into by the Company 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 government prescribed-price of the PRC government;

(ii) where there is no government-prescribed price but there is a government-guidance price, a price not higher than the government-guidance price of 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 cost plus 10%.

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

The actual aggregate expenses for the transportation services in 2010 was RMB5,097,000.

3 Natural Gas Sale and Purchase Agreements

In 2010, the Group continued to purchase natural gas under the three long-term agreements entered into with CNOOC China, a wholly-owned subsidiary of CNOOC (the three long-term agreements are collectively referred to as the "Natural Gas Sale and Purchase Agreements"):

(i) the Dongfang 1-1 Offshore Gasfields Natural Gas Sale and Purchase Agreement entered into between CNOOC China and the Company on 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) the Dongfang 1-1 Offshore Gasfields Natural Gas Sale and Purchase Agreement entered into between CNOOC China and CNOOC Jiantao on 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 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 entered into between the Company and CNOOC China on 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 practices. The term of the agreement is 20 years commencing on the date of the agreement.

CNOOC China and the Company entered into the "Ledong Natural Gasfields Natural Gas Sale and Purchase Agreement" on 26 March 2010, pursuant to which CNOOC China has agreed to supply natural gas to the Company for Hainan Phase II Methanol Plant at benchmark prices of natural gas 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 the agreement commenced from 26 March 2010 and will expire on the closing date of the delivery period as agreed in the agreement. The target delivery period is 15 years commencing on 1 January 2011 and will expire on 31 December 2025, or the substitute period as determined in accordance with the terms 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 which are provided by Platts Crude Oil Marketwire.

The aggregate expenses in 2010 of the Company on purchase of natural gas from CNOOC China was RMB1,223,470,000.

4 Comprehensive Services and Product Sales Agreement

In 2010, 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 telecommunications and computer network services, enterprise resources planning and office automation services, construction of production facilities and related construction project management and supervision, machinery and vehicle rental and maintenance, production equipment rental and repairs, 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 machinery and vehicle rental, transportation services, business management services, catering and accommodation); 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 government-prescribed price of the PRC government;

(ii) where there is no government-prescribed price but there is a government-guidance price, a price not higher than the government-guidance price of 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 cost plus 10%.

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

In addition, DYK Chemical, a 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 amounts 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).

Annual expense in 2010 of the Company on services and supplies from certain companies of CNOOC Group was RMB190,303,000. Annual revenue in 2010 from services and supplies provided to certain companies of CNOOC Group was RMB30,353,000. Annual revenue in 2010 of the Company from the sale of our products to CNOOC and its associates was RMB46,321,000. Annual expense in 2010 of DYK Chemical on the purchase of products from the CNOOC Group was RMB98,707,000.

5 Financial Services Agreement

In 2010, 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 settlements for transactions between the Company and its subsidiaries and between the Group and certain members of 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 permitted, by relevant laws and regulations;

(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 by CNOOC Finance against the amount due by the Group to CNOOC Finance. CNOOC Finance shall not have any offset right.

In 2010, the maximum daily credit balances provided by CNOOC Finance to the Company (including accrued interest) was RMB80,000,000. The maximum daily balance of the Company's deposits placed with CNOOC Finance (including accrued interest) was RMB331,176,000. Annual expenses of the Company on category (c1), (c2) and (c3) services provided by CNOOC was RMB2,523,000.

6 Kingboard Product Sales and Services Agreement

In 2010, 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 government-prescribed-price of the PRC government;

(ii) where there is no government-prescribed price but there is a government-guidance price, a price not higher than the government-guidance price of 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 cost plus 15%.

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

The aggregate revenue of the Company in 2010 from the sales of products and provision of related services to Hong Kong Kingboard and its associates was RMB321,975,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2010 are set out below:

	Annual cap amount for 2010 (RMB)	Actual transaction amount in 2010 (RMB)
A. Continuing connected transactions with CNOOC and its associates		
(1) Acquisition of property leasing services under the Properties Leasing Agreement (note 1)	18,845,000	18,083,000
(2) Acquisition of transportation services under the COSL Transportation Agreement	67,200,000	5,097,000
(3) Purchase of natural gas under the Natural Gas Sale and Purchase Agreements	1,540,198,000	1,223,470,000
(4) Comprehensive services and sale of products under the Comprehensive Services and Products Sales Agreement		
(a) Acquisition of services and supplies from certain companies within CNOOC Group by the Company	318,899,000	190,303,000
(b) Provision of services and supplies to certain companies within CNOOC Group by the Company	196,229,000	30,353,000
(c) Sales of products to certain companies within CNOOC Group by the Group	531,147,000	46,321,000
(d) Purchases of products from CNOOC Group by DYK Chemical	308,000,000	98,707,000
(5) Financial services under the Financial Services Agreement		
(a) Maximum daily credit balance (including accrued interest) granted by CNOOC Finance to the Company (note 2)	600,000,000	80,000,000
(b) Maximum daily balance of deposits (including accrued interest) placed by the Company with CNOOC Finance (note 2)	500,000,000	331,176,000
(c) Category (c1), (c2) and (c3) services accepted by the Company from CNOOC Finance	-	2,523,000
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	877,800,000	321,975,000

Notes:

(1) The 2011 annual cap for the Continuing Connected Transactions under Category A(1) has been revised to RMB28,285,000 on 26 March 2011 with the approval of the Board. Please refer to the announcement dated 27 March 2011 for details.

(2) The actual and annual cap amounts refer to the Company's maximum daily balance during the year.

New Continuing Connected Transactions

On 11 July 2010, CNOOC Fudao, a wholly-owned subsidiary of the Company entered into an acquisition agreement (the "Acquisition Agreement") with Zhejiang AMP , pursuant to which CNOOC Fudao agreed to purchase, and Zhejiang AMP agreed to sell the 21% equity interests in Guangxi Fudao AMP (the "Acquisition").

Prior to signing the Acquisition Agreement, the equity interests of Guangxi Fudao AMP were held as to 30% by CNOOC Fudao and as to 70% by Zhejiang AMP. Subsequent to completion of the Acquisition, Guangxi Fudao AMP was owned as to 51% by CNOOC Fudao and as to 49% by Zhejiang AMP. Zhejiang AMP became a substantial shareholder of Guangxi Fudao AMP, which is a non-wholly-owned subsidiary of the Company, and therefore, is a connected person to the Company pursuant to Chapter 14A of the Listing Rules.

The Group has conducted transactions with Zhejiang AMP and its associates providing products and services to each other in the previous years under the framework agreement entered into by the Company and Zhejiang AMP in 2006. The transactions will continue to be conducted on a regular and continuing basis and in the ordinary and usual course of business of the Group. Immediately following completion of the Acquisition, the transactions constitute continuing connected transactions of the Company pursuant to the Listing Rules.

Pursuant to Rule 14A.41 of the Listing Rules, the transactions are subject to the applicable reporting, annual review and disclosure requirements of Chapter 14A of the Listing Rules. The Company will comply in full with all applicable reporting, annual review, disclosure and if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the framework agreement.

Please refer to the announcement dated 11 July 2010 for details of the continuing connected transactions between the Company and Zhejiang AMP.

Since 1 August 2010, the total revenue of the Group from the provisions of products and services to Zhejiang AMP and its associates was RMB31,638,000 and the total expense of the Group for the acquisition of products and services from Zhejiang AMP was RMB1,501,000.

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 to the independent shareholders as a whole and were in the interests of the shareholders of the Company as a whole.

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 of the Company;

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

3. the above transactions were conducted in accordance with the terms of relevant governing agreements; and

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

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, during the year ended 31 December 2010 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's total issued share capital as required under the Listing Rules.

Material Litigation

As at 31 December 2010, 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 2010 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 2010 audited 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 a whole. As at 31 December 2010, the Company has strictly complied with the provisions in the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

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

Auditor

The 2010 financial statements have been audited by Ernst & Young who will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
WU Mengfei
Chairman

Shenzhen, the PRC, 26 March 2011

Report by the Supervisory Committee

In 2010, all the members of the Supervisory Committee earnestly performed their supervisory functions to safeguard the rights and interests of the Company and the shareholders in accordance with the relevant provisions of the Company Law of the PRC, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules.

1 Meetings of the Supervisory Committee

(1) The 2009 Report of the Supervisory Committee of China BlueChemical Ltd. and the resolution in respect of the change of Supervisor were considered and passed by the 2010 First Meeting of the Supervisory Committee of the Company, which was held in Shenzhen, Guangdong on 26 March 2010.

(2) The resolution in respect of the election of the Chairman of the new Supervisory Committee was considered and passed and the proposal in respect of the establishment of an office of the Supervisory Committee was tabled and submitted for the consideration and approval of the Board by the 2010 Second Meeting of the Supervisory Committee of the Company, which was held in Beijing on 23 June 2010.

(3) The 2010 Interim Financial Report of the Company was considered and reviewed and the constructive opinions in respect of the identification of financial management risks were provided by the 2010 Third Meeting of the Supervisory Committee of the Company, which was held in Shenzhen, Guangdong on 28 August 2010.

2. Principal Inspection and Supervision Work of the Supervisory Committee in 2010

(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 information, such as accounting books, documents and their related contracts of the Company 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 presided 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) In 2010, investigations and researches of the following subsidiaries were conducted by the Supervisory Committee, including Hainan Fudao Phases I and II, Hainan Basuo Port Limited, Hubei Dayukou Chemical Co., Ltd., CNOOC Kingboard Chemical Limited, CNOOC Tianye Chemical Limited and Shanghai Qionghua Trading Co., Ltd. The focus of the Supervisory Committee was in respect of the inspection of project construction and production and operations management, operational safety conditions of the highly dangerous sectors, such as mines and ports, as well as the management conditions of significant sources of hazards, such as phosphoric tailing storage, liquefied ammonia storage drums and obsolescence of equipment.

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

(1) Operation and management of the Company

During the reporting period, despite the adverse affects by factors such as serious droughts in the south-west at the beginning, price rises of natural gas in the middle and realignment of customs tariffs at the end of the year, 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 management of various systems of internal controls, and enhanced, in particular, the system of business processes of all departments of the

Group with further progress in the level of corporate governance.

The management of the Company has 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 and review and approval of the relevant financial information of the Company were conducted by members of the Supervisory Committee, which was 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 treatments were in line with the principles of consistency. The Company's financial reports have objectively and fairly reflected the financial position and operating results of the Company.

The unqualified audited reports in respect of the financial position and operating results of the Company for 2010 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 those undertaken in the prospectus of the Company.

(4) Connected transactions

The connected transactions between the Company and its subsidiaries and its respective connected persons from time to time during the reporting period were examined at random 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 shareholders and the Company.

(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 of directors meetings had faithfully implemented the resolutions approved by the general meetings.

In 2011, the Supervisory Committee will continue to closely monitor the regulatory compliance of the operation activities of the Company and supervise the actions of its Directors and senior management in their performance of duties, and pay close attention to any significant development and continue to strengthen the procedural supervision of the Company's investment projects so as to facilitate the efficient growth in economic return of the Company and to faithfully safeguard the interests of all shareholders and the Company in accordance with the relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules and the principle of honesty as it has been.

By Order of the Supervisory Committee
Qiu Kewen
Chairman of the Supervisory Committee

Shenzhen, the PRC, 25 March 2011

Audited Financial Statements

China BlueChemical Ltd.

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

31 December 2010

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 consolidated financial statements of China BlueChemical Ltd. ("the Company") and its subsidiaries (together, "the Group") set out on pages 48 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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

26 March 2011

Consolidated income statement

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	5	**6,867,250**	5,794,611
Cost of sales		**(4,678,512)**	(4,075,298)
Gross profit		**2,188,738**	1,719,313
Other income and gains	5	**67,289**	69,326
Selling and distribution costs		**(147,795)**	(132,809)
Administrative expenses		**(382,619)**	(349,409)
Other expenses		**(34,803)**	(23,617)
Finance income	6	**11,324**	32,400
Finance costs	7	**(11,915)**	(14,525)
Exchange losses, net		**(4,179)**	(3,091)
Share of (losses)/profits of associates		**(374)**	14,836
Profit before tax	8	**1,685,666**	1,312,424
Income tax expense	11	**(316,012)**	(197,726)
Profit for the year		**1,369,654**	1,114,698
Attributable to:			
Owners of the parent	12	**1,175,285**	984,701
Non-controlling interests		**194,369**	129,997
		1,369,654	1,114,698
Earnings per share attributable to ordinary owners of the parent			
- Basic for the year (RMB)	14	**0.25**	0.21

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 2010

	Note	2010 RMB'000	2009 RMB'000
Profit for the year		**1,369,654**	1,114,698
Other comprehensive income for the year	15	-	-
Total comprehensive income for the year, net of tax		**1,369,654**	1,114,698
Attributable to:			
Owners of the parent		**1,175,285**	984,701
Non-controlling interests		**194,369**	129,997
		1,369,654	1,114,698

Consolidated statement of financial position

Year ended 31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**8,944,151**	7,394,884
Investment properties	17	**2,041**	-
Mining rights	18	**484,136**	431,262
Prepaid land lease payments	19	**475,902**	471,513
Intangible assets	20	**10,856**	15,643
Investments in associates	23	**654,693**	664,675
Available-for-sale investments	24	**600**	600
Deferred tax assets	25	**78,446**	63,697
		10,650,825	9,042,274
Current assets			
Inventories	26	**983,644**	798,003
Trade receivables	27	**105,705**	109,249
Bills receivable	28	**35,700**	53,440
Prepayments, deposits and other receivables	29	**296,649**	511,911
Loans receivable	30	-	50,000
Pledged bank deposits	31	**8,556**	13,068
Time deposits	31	**58,500**	123,720
Cash and cash equivalents	31	**2,387,092**	1,944,674
		3,875,846	3,604,065
Total assets		**14,526,671**	12,646,339

Consolidated statement of financial position (continued)

Year ended 31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
Equity and liabilities			
Equity attributable to owners of the parent			
Issued capital	32	**4,610,000**	4,610,000
Reserves		**5,541,238**	4,753,411
Proposed dividends		**414,900**	322,700
		10,566,138	9,686,111
Non-controlling interests		**1,355,866**	1,258,099
Total equity		**11,922,004**	10,944,210
Non-current liabilities			
Benefits liability	33	**57,607**	61,484
Interest-bearing bank borrowings	34	**335,700**	1,000
Other long-term liabilities		**113,200**	110,316
Deferred tax liabilities	25	**73,588**	76,955
		580,095	249,755
Current liabilities			
Trade payables	35	**222,684**	148,385
Other payables and accruals	36	**1,683,101**	1,279,993
Income tax payable		**118,787**	23,996
		2,024,572	1,452,374
Total liabilities		**2,604,667**	1,702,129
Total equity and liabilities		**14,526,671**	12,646,339

YANG Yexin
Director

FANG Yong
Director

Consolidated statement of changes in equity

Year ended 31 December 2010

	Notes	Attributable to owners of the parent		
		Issued capital	Capital reserve	Statutory surplus reserve
		RMB'000	RMB'000	RMB'000
As at 1 January 2010		**4,610,000**	**982,955**	**401,519**
Profit for the year		-	-	-
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	-	-
Acquisition of subsidiaries	38	-	-	-
Grant from the ultimate holding company		-	**31,880**	-
Capital contributions to non-controlling interests		-	**(5,110)**	-
Appropriation and utilisation of safety fund, net		-	-	-
Transfer from retained profits		-	-	**69,512**
Proposed 2010 final dividend	13	-	-	-
Dividend paid to non-controlling interests		-	-	-
Final 2009 dividend declared		-	-	-
As at 31 December 2010		**4,610,000**	**1,009,725***	**471,031***

* These reserve accounts comprise the consolidated reserves of RMB5,541,238,000 (2009: RMB4,753,411,000) in the consolidated statement of financial position.

	Note	Attributable to owners of the parent		
		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
Profit for the year		-	-	-
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	-	-
Deemed distribution to the ultimate holding company		-	(1,161,018)	-
Acquisition of a subsidiary		-	-	-
Grant from the ultimate holding company		-	5,776	-
Capital contributions by non-controlling interests		-	11,267	-
Transfer from retained profits		-	62,445	107,587
Proposed 2009 final dividend	13	-	-	-
Dividend paid to non-controlling 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 RMB4,753,411,000 in the consolidated statement of financial position.

Special reserve	Retained profits	Proposed dividend	Total	Non-controlling interests	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
-	**3,368,937**	**322,700**	**9,686,111**	**1,258,099**	**10,944,210**
-	**1,175,285**	**-**	**1,175,285**	**194,369**	**1,369,654**
-	**-**	**-**	**-**	**-**	**-**
-	**1,175,285**	**-**	**1,175,285**	**194,369**	**1,369,654**
-	**-**	**-**	**-**	**35,599**	**35,599**
-	**-**	**-**	**31,880**	**-**	**31,880**
-	**-**	**-**	**(5,110)**	**5,110**	**-**
672	**-**	**-**	**672**	**-**	**672**
-	**(69,512)**	**-**	**-**	**-**	**-**
-	**(414,900)**	**414,900**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(137,311)**	**(137,311)**
-	**-**	**(322,700)**	**(322,700)**	**-**	**(322,700)**
672*	**4,059,810***	**414,900**	**10,566,138**	**1,355,866**	**11,922,004**

Retained profits	Proposed dividend	Total	Non-controlling interests	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	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 cash flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Profit before tax		**1,685,666**	1,312,424
Adjustments for:			
Finance costs		**11,915**	14,525
Exchange gains, net		**4,179**	3,091
Share of losses/(profits) of associates		**374**	(14,836)
Finance income		**(11,324)**	(32,400)
Gain on disposal of unlisted investments	5	**(31,336)**	(25,912)
(Gain)/Loss on disposal of items of property, plant and equipment	5,8	**(4,733)**	2,031
Depreciation	8	**724,339**	709,846
Depreciation of investment properties	8	**45**	-
Amortisation of mining rights	8	**1,426**	1,310
Amortisation of intangible assets	8	**6,166**	5,592
Amortisation of prepaid land lease payments	8	**11,692**	12,299
Impairment of items of property, plant and equipment	8	-	1,188
Provision for bad and doubtful receivables	8	**1,500**	88
Write-back of provision for defined benefit plans	8	**(306)**	(400)
Write-down of inventories to net realisable value	8	-	2,413
		2,399,603	1,991,259
(Increase)/Decrease in inventories		**(109,128)**	35,868
Decrease/(Increase) in trade and bills receivable, prepayments, deposits and other receivables		**48,907**	(84,218)
(Decrease)/Increase in trade payables, other payables and accruals and other long-term liabilities		**(144,387)**	28,519
Cash generated from operations		**2,194,995**	1,971,428
Defined benefits paid	33	**(3,571)**	(4,529)
Income tax paid		**(236,441)**	(176,924)
Net cash flows from operating activities		**1,954,983**	1,789,975

Consolidated statement of cash flows (continued)

Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Cash flows from investing activities			
Interest received		**12,444**	32,400
Purchases of items of property, plant and equipment		**(1,414,277)**	(1,258,560)
Proceeds from disposal of items of property, plant and equipment		**12,288**	1,540
Additions to prepaid land lease payments		**(10,000)**	-
Additions of intangible assets		**(1,379)**	(5,528)
Purchases of mining rights		**(46,234)**	(20,000)
Investment in an associate		**-**	(637,000)
Purchase of unlisted investments		**(7,268,200)**	(10,244,876)
Disposal of unlisted investments		**7,300,296**	10,270,788
Net cash (outflow)/inflow from acquisition of a subsidiary	38	**(82,791)**	202
Business combination under common control		**-**	(1,161,018)
Decrease/(Increase) of loan receivables		**50,000**	(50,000)
Decrease in pledged bank deposits		**4,512**	1,178
Decrease/(Increase) in non-pledged time deposits with original maturity of three months or more when acquired		**65,220**	(123,720)
Net cash flows used in investing activities		**(1,378,121)**	(3,194,594)
Cash flows from financing activities			
Capital contributions by non-controlling interests		**-**	25,350
New bank and other borrowings		**335,150**	1,000
Repayment of bank and other borrowings		**(39,650)**	(359,102)
Cash received relating to other financing activities		**31,880**	-
Interest paid		**(1,813)**	(18,416)
Dividends paid		**(322,700)**	(437,950)
Dividends paid to non-controlling shareholders		**(137,311)**	(107,884)
Net cash flows used in financing activities		**(134,444)**	(897,002)
Net Increase/(Decrease) in cash and cash equivalents		**442,418**	(2,301,621)
Cash and cash equivalents at 1 January		**1,944,674**	4,246,295
Cash and cash equivalents at 31 December		**2,387,092**	1,944,674

Statement of financial position

Year ended 31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**2,840,433**	1,709,821
Investment properties		**16,074**	15,456
Prepaid land lease payments	19	**41,739**	38,087
Intangible assets	20	**3,575**	5,746
Interests in subsidiaries	21	**4,281,001**	4,657,311
Investment in a jointly-controlled entity	22	**105,882**	105,882
Investment in an associate		**637,000**	637,000
Deferred tax assets	25	**19,803**	7,238
		7,945,507	7,176,541
Current assets			
Inventories	26	**219,730**	159,269
Trade receivables	27	**42,694**	27,771
Bills receivable	28	**-**	9,510
Prepayments, deposits and other receivables	29	**91,470**	408,546
Loans receivable	30	**325,000**	157,000
Cash and cash equivalents	31	**1,331,624**	911,384
		2,010,518	1,673,480
Total assets		**9,956,025**	8,850,021
Equity and liabilities			
Equity			
Paid-up capital	32	**4,610,000**	4,610,000
Reserves		**3,971,161**	3,635,441
Proposed dividends		**414,900**	322,700
Total equity		**8,996,061**	8,568,141
Non-current liabilities			
Interest-bearing bank borrowings	34	**235,700**	1,000
Other long-term liabilities		**24,534**	20,295
		260,234	21,295
Current liabilities			
Trade payables	35	**90,263**	27,565
Other payables and accruals	36	**550,801**	193,458
Income tax payable		**58,666**	39,562
		699,730	260,585
Total liabilities		**959,964**	281,880
Total equity and liabilities		**9,956,025**	8,850,021

YANG Yexin
Director

FANG Yong
Director

Notes to the financial statements

31 December 2010

1 Corporate information

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

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

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

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

2.1 Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated units until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

Notes to the financial statements (continued)

31 December 2010

2.2 Changes in accounting policy and disclosures

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

31 December 2010

2.3 Issued but not yet effective IFRSs

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

31 December 2010

2.3 Issued but not yet effective IFRSs (continued)

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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 investment 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 investment 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 investments 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 investments 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.

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

Business combinations (continued)

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

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 in those expense categories consistent with the function of the impaired asset.

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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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)

31 December 2010

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.

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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

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.

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, including prepaid land lease payments under 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.

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 investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

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 by 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.

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; or
- 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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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 and all collateral has been realised or has been transferred to the Group.

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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

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.

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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.

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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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, associates and joint ventures, 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, associates and joint ventures, 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.

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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

31 December 2010

2.4 Summary of significant accounting policies (continued)

Employee benefits (continued)

Retirement benefits (continued)

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.

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.

Notes to the financial statements (continued)

31 December 2010

3 Significant accounting judgements and 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments-Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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.

Notes to the financial statements (continued)

31 December 2010

3 Significant accounting estimates (continued)

Estimation uncertainty (continued)

(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.

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:

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

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

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

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with 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.

Notes to the financial statements (continued)

31 December 2010

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 2010						
Segment revenue:						
Sales to external customers	**3,514,770**	**1,234,119**	**1,690,889**	**427,472**	**-**	**6,867,250**
Inter-segment sales	**24,793**	**1,121**	**25,871**	**132,741**	**[1](184,526)**	**-**
Total	**3,539,563**	**1,235,240**	**1,716,760**	**560,213**	**(184,526)**	**6,867,250**
Segment results	**1,517,790**	**234,179**	**662,108**	**58,028**	**[2](73,733)**	**2,398,372**
Depreciation and amortisation	**(478,394)**	**(84,831)**	**(149,749)**	**(30,694)**	**-**	**(743,668)**
Share of (losses)/profits of associates	**(823)**	**-**	**-**	**449**	**-**	**(374)**
Gain on disposal of unlisted investments	**24,840**	**1,753**	**3,779**	**964**	**-**	**31,336**
Segment profit before tax	**1,063,413**	**151,101**	**516,138**	**28,747**	**(73,733)**	**1,685,666**
As at 31 December 2010						
Operating assets	**5,334,868**	**1,811,115**	**3,395,500**	**3,052,335**	**[3]932,853**	**14,526,671**
Operating liabilities	**209,676**	**581,792**	**568,749**	**1,483,486**	**[4](239,036)**	**2,604,667**
Other segment information:						
Investments in associates	**653,230**	**-**	**-**	**1,463**	**-**	**654,693**
Capital expenditure *	**228,806**	**250,185**	**1,034,331**	**619,799**	**-**	**2,133,121**

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of a subsidiary.

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include unallocated administrative expenses (RMB102,612,000), finance income (RMB11,324,000), exchange losses on translation of foreign operations (RMB4,179,000), finance costs (RMB11,915,000), bank charges (RMB988,000), other income and gains (RMB26,626,000), other expenses (RMB28,190,000), and other unallocated revenues (RMB36,201,000).
3. Segment assets do not include interest receivables (RMB580,000), deferred tax assets (RMB78,446,000), available-for-sale financial assets (RMB600,000), cash and bank (RMB50,503,000), assets of centralised cost centre (RMB852,408,000), and inter-segment balances (RMB49,684,000).
4. Segment liabilities do not include interest payables (RMB635,000), long-term borrowings (RMB335,700,000), deferred tax liabilities (RMB73,588,000), liabilities of centralised cost centre (RMB897,000), and inter-segment balances (RMB649,856,000).

Notes to the financial statements (continued)

31 December 2010

4 Operating segment information (continued)

Business segments

	Urea	Phosphorus fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009						
Segment revenue:						
Sales to external customers	3,320,139	991,622	1,220,456	262,394	-	5,794,611
Inter-segment sales	19,403	-	19,229	95,669	[1](134,301)	-
Total	3,339,542	991,622	1,239,685	358,063	(134,301)	5,794,611
Segment results	1,422,205	177,617	381,769	52,582	[2](33,450)	2,000,723
Depreciation and amortisation	(461,060)	(92,018)	(143,601)	(32,368)	-	(729,047)
Share of profits of associates	14,745	-	-	91	-	14,836
Gain on disposal of unlisted investments	25,177	-	735	-	-	25,912
Segment profit before tax	1,001,067	85,599	238,903	20,305	(33,450)	1,312,424
As at 31 December 2009						
Operating assets	4,894,103	1,603,012	2,320,422	2,514,684	[3]1,314,118	12,646,339
Operating liabilities	497,236	520,779	188,934	931,522	[4](436,342)	1,702,129
Other segment information:						
Investments in associates	663,660	-	-	1,015	-	664,675
Capital expenditure	167,970	94,157	455,987	856,122	-	1,574,236

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include unallocated administrative expenses (RMB117,246,000), finance income (RMB32,400,000), exchange losses on translation of foreign operations (RMB3,091,000), finance costs (RMB14,525,000), bank charges (RMB1,492,000), other income and gains (RMB37,589,000), other expenses (RMB17,827,000), other unallocated expenses (RMB2,927,000), and other unallocated revenues (RMB53,669,000).
3. Segment assets do not include interest receivables (RMB1,700,000), loans receivable (RMB50,000,000), deferred tax assets (RMB63,697,000), available-for-sale financial assets (RMB600,000), cash and bank (RMB54,334,000), assets of centralised cost centre (RMB1,198,665,000), and inter-segment balances (RMB54,878,000).
4. Segment liabilities do not include interest payables (RMB69,000), long-term borrowings (RMB1,000,000), deferred tax liabilities (RMB76,955,000), liabilities of centralised cost centre (RMB70,521,000), and inter-segment balances (RMB584,887,000).

Notes to the financial statements (continued)

31 December 2010

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 2010 and 2009:

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

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:

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

6 Finance income

Finance income represents interest income earned for the years ended 31 December 2010 and 2009.

Notes to the financial statements (continued)

31 December 2010

7 Finance costs

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

8 Profit before tax

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold		**4,295,986**	3,882,243
Cost of services provided		**293,721**	193,055
Depreciation	16	**724,339**	709,846
Depreciation of investment properties	17	**45**	-
Amortisation of mining rights	18	**1,426**	1,310
Amortisation of prepaid land lease payments	19	**11,692**	12,299
Amortisation of intangible assets	20	**6,166**	5,592
Auditors' remuneration		**3,570**	3,500
Employee benefits expense (including directors' and supervisors' remuneration – note 9):			
Wages and salaries		**426,549**	355,947
Defined contribution pension scheme (note (i))		**52,015**	53,384
Early retirement benefits and post-employment allowances (note (ii))		**(306)**	(400)
Medical benefit costs (note (iii))		**19,124**	16,964
Cash-settled share option expense (note 37)		**1,064**	446
Housing fund (note (iv))		**22,694**	11,430
		521,140	437,771
Write-back of provision for bad and doubtful debts of trade receivables *		**(5)**	(15)
Provision for bad and doubtful debts of other receivables *		**1,505**	103
Write-down of inventories to net realisable value		-	2,413
Impairment of items of property, plant and equipment *		-	1,188
Loss on disposal of items of property, plant and equipment *		-	2,031

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

Notes to the financial statements (continued)

31 December 2010

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 2010 and 2009. The related pension costs are expensed as incurred.

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

(ii) Early retirement benefits and post-employment allowances

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

Notes to the financial statements (continued)

31 December 2010

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	
	2010	2009
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**1,226**	1,114
Discretionary bonuses	**839**	832
Cash-settled share option expense	**564**	237
Pension scheme contributions	**103**	95
	2,732	2,278

	Supervisors	
	2010	2009
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**175**	165
Discretionary bonuses	**125**	128
Pension scheme contributions	**22**	19
	322	312

Notes to the financial statements (continued)

31 December 2010

9 Directors' and supervisors' remuneration (continued)

The remuneration of each of the directors and supervisors of the Company for the year ended 31 December 2010 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Cash-settled share option expense	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Non-executive director					
Wu Mengfei	38	-	180	-	218
Executive directors					
Yang Yexin	237	306	152	38	733
Fang Yong	169	251	116	28	564
Chen Kai	220	282	116	37	655
	626	839	384	103	1,952
Independent non-executive directors					
Zhang Xinzhi	173	-	-	-	173
Tsui Yiu Wa, Alec	290	-	-	-	290
Li Yongwu *	12	-	-	-	12
Gu Zongqin *	87	-	-	-	87
	562	-	-	-	562
	1,226	839	564	103	2,732
Supervisors					
Yin Jihong **	5	-	-	-	5
Qiu Kewen **	14	-	-	-	14
Zhang Ping	86	125	-	22	233
Huang Jinggui	70	-	-	-	70
	175	125	-	22	322

* Li Yongwu resigned on 30 June 2010, and Gu Zongqin was appointed as an independent non-executive director on 4 June 2010.

** Yin Jihong resigned on 4 June 2010, and Qiu Kewen was appointed as a supervisor on the same date.

Notes to the financial statements (continued)

31 December 2010

9 Directors' and supervisors' remuneration (continued)

The remuneration 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 expense	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 was appointed as a supervisor on the same date.

Notes to the financial statements (continued)

31 December 2010

10 Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2010 and 2009 are analysed as follows:

	2010	2009
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 2010 and 2009 are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**363**	363
Discretionary bonuses	**510**	509
Cash-settled share option expense	**183**	77
Pension scheme contributions	**61**	55
	1,117	1,004

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 2010 and 2009.

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.

Notes to the financial statements (continued)

31 December 2010

11 Income tax expense

Major components of income tax expense for the years ended 31 December 2010 and 2009 are as follows:

	2010 RMB'000	2009 RMB'000
Current – PRC		
Charge for the year	**331,232**	180,040
Deferred (note 25)	**(15,220)**	17,686
Total tax charge for the year	**316,012**	197,726

(a) Corporate income tax ("CIT")

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

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

The Company, Hainan CNOOC Complex Fertiliser Co., Ltd. and Hainan CNOOC Plastic Company Limited ("CNOOC Plastic") are entitled to a transitional CIT rate of 22% for the current year.

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

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

CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") is a foreign investment enterprise and is entitled to an exemption from CIT for its first two profitable years and a 50% reduction in the applicable CIT rate for the subsequent three years. CNOOC Jiantao has elected to benefit from the tax holiday starting from the year ended 31 December 2007. This is the second year for CNOOC Jiantao to be entitled to the 50% reduction of the applicable CIT rate of 22%.

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

CNOOC (Hainan) E&P Gas Limited ("CNOOC E&P") is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. CNOOC E&P has elected to benefit from the tax holiday starting from the year ended 31 December 2008. This is the first year for CNOOC E&P to be entitled to the 50% reduction of the applicable CIT rate of 22%.

Notes to the financial statements (continued)

31 December 2010

11 Income tax expense (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 2010 and 2009.

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

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

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 2010 includes a profit of RMB718,067,000 (2009: RMB1,086,975,000) dealt with in the financial statements of the Company.

Notes to the financial statements (continued)

31 December 2010

13 Dividends

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

The proposed 2009 final dividend was approved at the annual general meeting on 4 June 2010. The proposed 2010 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2010 annual general meeting.

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

14 Earnings per share attributable to ordinary owners of the parent

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

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

Diluted earnings per share amounts for the years ended 31 December 2010 and 2009 have not been disclosed as no diluting events existed during these years.

15 Components of other comprehensive income

	2010 RMB'000	2009 RMB'000
Available-for-sale investments:		
Gains arising during the year	**31,798**	25,912
Less: Reclassification adjustments for gains included in the consolidated income statement	**(31,798)**	(25,912)
	–	–

Notes to the financial statements (continued)

31 December 2010

16 Property, plant and equipment

Group

	Land and 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 2010:							
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
Cost as at 1 January 2010, net of accumulated depreciation and impairment	1,912,133	3,632,228	57,506	98,541	71,822	1,622,654	7,394,884
Additions	2,642	15,458	1,423	6,306	890	2,161,243	2,187,962
Acquisition of subsidiaries (note 38)	7,253	-	2,103	159	1,245	82,439	93,199
Disposals	(4,604)	(2,539)	(12)	(266)	(134)	-	(7,555)
Transfers	153,408	1,709,857	596	23,750	7,224	(1,894,835)	-
Depreciation for the year	(137,671)	(527,388)	(13,569)	(38,360)	(7,351)	-	(724,339)
Cost as at 31 December 2010, net of accumulated depreciation and impairment	1,933,161	4,827,616	48,047	90,130	73,696	1,971,501	8,944,151
As at 31 December 2010:							
Cost	3,305,243	9,345,951	146,758	500,931	126,231	1,971,501	15,396,615
Accumulated depreciation and impairment	(1,372,082)	(4,518,335)	(98,711)	(410,801)	(52,535)	-	(6,452,464)
Net carrying amount	1,933,161	4,827,616	48,047	90,130	73,696	1,971,501	8,944,151

Notes to the financial statements (continued)

31 December 2010

16 Property, plant and equipment (continued)

Group (continued)

	Land and 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	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	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	-	-	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

As at 31 December 2010, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB41,902,000 (2009: RMB44,661,000).

Notes to the financial statements (continued)

31 December 2010

16 Property, plant and equipment (continued)

Company

	Land and 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 2010:							
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**
Cost as at 1 January 2010, net of accumulated depreciation	**337,791**	**986,808**	**4,193**	**10,233**	**39**	**370,757**	**1,709,821**
Additions	**6,949**	**1,625,295**	**8**	**17,110**	**219**	**(361,754)**	**1,287,827**
Disposals	**(643)**	**-**	**-**	**-**	**-**	**-**	**(643)**
Depreciation for the year	**(31,409)**	**(121,750)**	**(660)**	**(2,728)**	**(25)**	**-**	**(156,572)**
Cost as at 31 December 2010, net of accumulated depreciation	**312,688**	**2,490,353**	**3,541**	**24,615**	**233**	**9,003**	**2,840,433**
As at 31 December 2010:							
Cost	**535,729**	**3,296,163**	**20,409**	**46,111**	**2,012**	**9,003**	**3,909,427**
Accumulated depreciation	**(223,041)**	**(805,810)**	**(16,868)**	**(21,496)**	**(1,779)**	**-**	**(1,068,994)**
Net carrying amount	**312,688**	**2,490,353**	**3,541**	**24,615**	**233**	**9,003**	**2,840,433**
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	1,670,867	20,401	29,001	1,793	370,757	2,622,242
Accumulated depreciation	(191,632)	(684,059)	(16,208)	(18,768)	(1,754)	-	(912,421)
Net carrying amount	337,791	986,808	4,193	10,233	39	370,757	1,709,821

Notes to the financial statements (continued)

31 December 2010

17 Investment properties

Group

	2010 RMB'000	2009 RMB'000
Carrying amount at 1 January	-	-
Acquisition of a subsidiary (note 38)	**2,086**	-
Depreciation for the year	**(45)**	-
Carrying amount at 31 December	**2,041**	-

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

18 Mining rights

Group

	Mining rights RMB'000
Cost as at 1 January 2010, net of accumulated amortisation	**431,262**
Additions	**2,800**
Acquisition of a subsidiary (note 38)	**51,500**
Amortisation for the year	**(1,426)**
Cost as at 31 December 2010, net of accumulated amortisation	**484,136**
As at 31 December 2010:	
Cost	**490,141**
Accumulated amortisation	**(6,005)**
Net carrying amount	**484,136**
Cost as at 1 January 2009, net of accumulated amortisation	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

Notes to the financial statements (continued)

31 December 2010

19 Prepaid land lease payments

Group

	2010 RMB'000	2009 RMB'000
Carrying amount as at 1 January	**483,016**	432,190
Additions	**10,000**	7,420
Acquisition of a subsidiary (note 38)	**6,282**	55,705
Amortisation for the year	**(11,692)**	(12,299)
Carrying amount as at 31 December	**487,606**	483,016
Current portion included in prepayments, deposits and other receivables	**(11,704)**	(11,503)
Non-current portion	**475,902**	471,513

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

	2010 RMB'000
Long-term leases	**35,158**
Medium-term leases	**452,448**
	487,606

Company

	2010 RMB'000	2009 RMB'000
Carrying amount as at 1 January	**39,311**	40,535
Additions	**5,000**	-
Amortisation for the year	**(1,286)**	(1,224)
Carrying amount as at 31 December	**43,025**	39,311
Current portion included in prepayments, deposits and other receivables	**(1,286)**	(1,224)
Non-current portion	**41,739**	38,087

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

	2010 RMB'000
Long-term leases	**6,981**
Medium-term leases	**36,044**
	43,025

Notes to the financial statements (continued)

31 December 2010

20 Intangible assets

Group

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2010, net of accumulated amortisation	**15,272**	**371**	**15,643**
Additions	**1,379**	**-**	**1,379**
Amortisation for the year	**(6,049)**	**(117)**	**(6,166)**
Cost as at 31 December 2010, net of accumulated amortisation	**10,602**	**254**	**10,856**
As at 31 December 2010:			
Cost	**30,716**	**753**	**31,469**
Accumulated amortisation	**(20,114)**	**(499)**	**(20,613)**
Net carrying amount	**10,602**	**254**	**10,856**

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2009, net of accumulated amortisation	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	15,272	371	15,643
As at 31 December 2009 :			
Cost	29,337	753	30,090
Accumulated amortisation	(14,065)	(382)	(14,447)
Net carrying amount	15,272	371	15,643

Notes to the financial statements (continued)

31 December 2010

20 Intangible assets (continued)

Company

	Computer software RMB'000
Cost as at 1 January 2010, net of accumulated amortisation	**5,746**
Additions	**1,190**
Amortisation for the year	**(3,361)**
Cost as at 31 December 2010, net of accumulated amortisation	**3,575**
As at 31 December 2010:	
Cost	**16,683**
Accumulated amortisation	**(13,108)**
Net carrying amount	**3,575**
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

21 Interests in subsidiaries

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	**4,281,001**	4,167,311
Loans to subsidiaries	-	490,000
	4,281,001	4,657,311

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.

Notes to the financial statements (continued)

31 December 2010

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	160,000	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 sale 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

Notes to the financial statements (continued)

31 December 2010

21 Interests in subsidiaries (continued)

Company name	Place and date of establishment and operation	Registered capital	Percentage of equity interests attributable to the Company		Principal activities
		RMB'000			
CNOOC Hualu ShanXi Coal Chemical Co., Ltd. (中海油華鹿山西煤炭化工有限公司)	PRC 29 November 2005	61,224	Direct Indirect	51.00 -	Preparatory work for a methanol and dimethy lether project
Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限责任公司)	PRC 12 August 2005	1,005,624	Direct Indirect	83.97 -	Phosphate mining and processing, sale of MAP and DAP fertilisers
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	20,000	Direct Indirect	- 51.00	Trading of fertilisers
Guangxi Fudao Chemical Limited (廣西富島化工有限公司)	PRC 8 February 2006	3,000	Direct Indirect	- 45.90	Trading of fertilisers and chemicals
Guilin Fudao Agriculture Means of Production Limited (桂林富島農業生產資料有限公司)	PRC 10 March 2004	1,000	Direct Indirect	- 35.70	Trading of fertilisers
CNOOC Guangxi Fertilizer and Technology Limited (廣西中海肥業科技有限公司)	PRC 25 December 2009	2,000	Direct Indirect	- 51.00	Manufacture and sale of fertilisers
Hegang Huahe Coal Chemical Ltd. (鶴崗市华鹤煤化股份有限公司)	PRC 26 May 2006	100,000	Direct Indirect	80.00 -	Manufacture and sale of fertilisers

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

The English names of certain companies above represent the best efforts by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

22 Investments in a jointly-controlled entity

	2010	2009
	RMB'000	RMB'000
Unlisted investments, at cost	**105,882**	105,882

On 17 March 2009, the Company entered into an acquisition agreement with two other parties to acquire 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 is treated as an investment in a jointly-controlled entity.

Notes to the financial statements (continued)

31 December 2010

23 Investments in associates

Group

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**654,693**	664,675

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.

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			
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.

	2010 RMB'000	2009 RMB'000
Assets	**656,863**	809,584
Liabilities	**532,672**	657,310
Revenue	**1,609**	831,515
Profit for the year	**299**	59,375

24 Available-for-sale investments

Group

	2010 RMB'000	2009 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.

Notes to the financial statements (continued)

31 December 2010

25 Deferred taxation

The movements in deferred tax assets and liabilities of the Group and of the Company during the years ended 31 December 2010 and 2009 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 2010	**3,973**	**20,450**	**13,871**	**25,403**	**63,697**
Acquisition of a subsidiary (note 38)	-	-	-	**2,896**	**2,896**
Credited/(Charged) to the consolidated income statement	**11,866**	**(1,581)**	**1,541**	**27**	**11,853**
As at 31 December 2010	**15,839**	**18,869**	**15,412**	**28,326**	**78,446**
As at 1 January 2009	9,601	60,813	16,881	2,391	89,686
(Charged)/credited to the consolidated income statement	(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

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 2010	**73,842**	**2,010**	**1,103**	**76,955**
Credited to the consolidated income statement	**(1,080)**	**(1,184)**	**(1,103)**	**(3,367)**
As at 31 December 2010	**72,762**	**826**	-	**73,588**
As at 1 January 2009	75,616	3,629	3,013	82,258
Acquisition of a subsidiary	3,000	-	-	3,000
Credited to the consolidated income statement	(4,774)	(1,619)	(1,910)	(8,303)
As at 31 December 2009	73,842	2,010	1,103	76,955

Notes to the financial statements (continued)

31 December 2010

25 Deferred taxation (continued)

Company

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies	Provision for impairment of assets	Wages and salaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2010	**7,005**	**233**	**-**	**7,238**
Credited to the income statement	**10,477**	**278**	**1,810**	**12,565**
As at 31 December 2010	**17,482**	**511**	**1,810**	**19,803**
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

26 Inventories

Group

	2010	2009
	RMB'000	RMB'000
Raw materials and spare parts	**513,451**	457,725
Work in progress	**149,116**	102,733
Finished goods	**321,077**	237,545
	983,644	798,003

Company

	2010	2009
	RMB'000	RMB'000
Raw materials and spare parts	**188,443**	142,001
Work in progress	**31,257**	12,414
Finished goods	**30**	4,854
	219,730	159,269

Notes to the financial statements (continued)

31 December 2010

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.

Group

	2010 RMB'000	2009 RMB'000
Trade receivables	**107,717**	111,266
Impairment	**(2,012)**	(2,017)
	105,705	109,249

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

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

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

	2010 RMB'000	2009 RMB'000
At 1 January	**2,017**	2,032
Impairment losses recognised	**7**	-
Impairment losses reversed	**(12)**	(15)
At 31 December	**2,012**	2,017

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.

Notes to the financial statements (continued)

31 December 2010

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 balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2010, the amount due from CNOOC group companies included in the above trade receivable balances was RMB2,838,000 (2009: RMB5,566,000). The amount due from an associate included in the above trade receivable balances was RMB Nil (2009: RMB490,000). 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

	2010 RMB'000	2009 RMB'000
Trade receivables	**42,701**	27,771
Impairment	**(7)**	-
	42,694	27,771

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

	2010 RMB'000	2009 RMB'000
Within six months	**42,694**	27,771
Over six months but within one year	**-**	-
	42,694	27,771

As at 31 December 2010, the amounts due from subsidiaries of the Company and from CNOOC group companies included in the above trade receivable balances were RMB7,241,000 (2009: RMB4,947,000) and RMB227,000 (2009: RMB Nil) respectively. 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 2010 and 2009 all mature within six months.

Notes to the financial statements (continued)

31 December 2010

29 Prepayments, deposits and other receivables

Group

	2010 RMB'000	2009 RMB'000
Prepayments	**177,212**	398,714
Prepaid land lease payments	**11,704**	11,503
Deposits and other receivables	**107,733**	101,694
	296,649	511,911

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:

	2010 RMB'000	2009 RMB'000
Ultimate holding company	**2,250**	1,314
CNOOC group companies	**58,692**	24,888
An associate	**-**	575
	60,942	26,777

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

Company

	2010 RMB'000	2009 RMB'000
Prepayments	**5,107**	297,976
Prepaid land lease payments	**1,286**	1,224
Deposits and other receivables	**85,077**	109,346
	91,470	408,546

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:

	2010 RMB'000	2009 RMB'000
Ultimate holding company	**2,250**	1,314
CNOOC group companies	**15,562**	18,002
Subsidiaries	**26,408**	34,291
	44,220	53,607

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

Notes to the financial statements (continued)

31 December 2010

30 Loans receivable

Company

As at 31 December 2010, loans receivable of the Company represented the following:

-Entrusted loan with an amount of RMB315,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 4.860% per annum and is repayable on 24 October 2011;

-Entrusted loan with an amount of RMB10,000,000 which was provided to CNOOC E&P during the year and is unsecured, bears interest at a rate of 2.700% per annum and is repayable on 26 April 2011.

31 Cash and cash equivalents and pledged bank deposits

Group

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**2,454,148**	2,081,462
Less: Pledged bank deposits	**(8,556)**	(13,068)
Time deposits	**(58,500)**	(123,720)
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	**2,387,092**	1,944,674

As at 31 December 2010, the Group's pledged bank deposits of RMB8,556,000 (2009: RMB13,068,000) 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 2010 and 2009, except for amounts of RMB2,529,000 (2009: RMB76,916,000) which was translated from USD382,000 (2009: USD11,264,000); and RMB1,610,000 (2009: RMB2,881,000) which was translated from HKD1,892,000 (2009: HKD3,272,000).

Notes to the financial statements (continued)

31 December 2010

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 2010, included in the Group's cash and cash equivalents were RMB206,196,000 (2009: RMB249,626,000) 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

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**1,331,624**	911,384

The Company's cash and bank balances are denominated in RMB as at 31 December 2010 and 2009, except for amounts of RMB2,529,000 (2009: RMB65,188,000) which is translated from USD382,000 (2009: USD9,547,000); and RMB1,610,000 (2009: RMB2,881,000) which is translated from HKD1,892,000 (2009: HKD3,272,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2010, included in the Company's cash and cash equivalents were RMB78,531,000 (2009: RMB68,477,000) 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 '000	Nominal value 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 2010	4,610,000	4,610,000

Notes to the financial statements (continued)

31 December 2010

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 2010 and 2009 are as follows:

Group

	2010		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	-	**232**	**232**
Interest cost on benefits obligation	**543**	**586**	**1,129**
Net actuarial gain recognised for the year	**(835)**	**(832)**	**(1,667)**
Net benefits expense	**(292)**	**(14)**	**(306)**

	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)

Notes to the financial statements (continued)

31 December 2010

33 Benefits liability (continued)

The details of the benefits liability by each type of benefit as at 31 December 2010 and 2009 are as follows:

	2010		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	**14,157**	**14,614**	**28,771**
Unrecognised net actuarial gain	**26,545**	**2,291**	**28,836**
Benefits liability	**40,702**	**16,905**	**57,607**

	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

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 2009	48,201	18,212	66,413
Current service cost	-	278	278
Interest cost on benefit obligation	516	527	1,043
Write off of benefits liability	(886)	(835)	(1,721)
Benefits paid	(3,855)	(674)	(4,529)
As at 31 December 2009 and 1 January 2010	**43,976**	**17,508**	**61,484**
Current service cost	-	**232**	**232**
Interest cost on benefit obligation	**543**	**586**	**1,129**
Write off of benefits liability	**(835)**	**(832)**	**(1,667)**
Benefits paid	**(2,982)**	**(589)**	**(3,571)**
As at 31 December 2010	**40,702**	**16,905**	**57,607**

The Group expects to contribute RMB428,000 to its defined benefit pension plans in 2011.

Notes to the financial statements (continued)

31 December 2010

33 Benefits liability (continued)

The principal assumptions used in determining the early retirement benefits obligation and post-employment allowances of the Group as at 31 December 2010 are shown below:

	2010
Discount rate	**4.00 %**
Early retirement rate	**0.00 %**
Inflation rate	**2.00 %**

The management has reviewed the actuarial valuation as at 31 December 2010 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 2010.

34 Interest-bearing bank borrowings

Group

	Effective interest rate (%)	Maturity	2010 RMB'000	2009 RMB'000
Non-current				
Unsecured bank loans	5.35-5.76	2019-2020	**335,700**	1,000

	2010 RMB'000	2009 RMB'000
Analysed into:		
Bank loans repayable:		
Beyond five years	**335,000**	1,000

Company

	Effective interest rate (%)	Maturity	2010 RMB'000	2009 RMB'000
Non-current				
Unsecured bank loans	5.35-5.53	2019-2020	**235,700**	1,000

Notes to the financial statements (continued)

31 December 2010

35 Trade payables

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

Group

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

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

Company

	2010 RMB'000	2009 RMB'000
Within six months	**90,263**	27,565

As at 31 December 2010, the amounts due to CNOOC group companies included in the above trade payable balances were RMB89,838,000 (2009: RMB27,296,000).

Notes to the financial statements (continued)

31 December 2010

36 Other payables and accruals

Group

	2010 RMB'000	2009 RMB'000
Advances from customers	**489,308**	459,942
Accruals	**2,954**	3,466
Accrued payroll	**214,062**	191,487
Other payables	**110,708**	124,593
Long-term liabilities due within one year	**21,798**	40,712
Payable to government	**68,661**	67,915
Tax payables	**(218,838)**	(32,629)
Port construction fee payable	**166,982**	167,971
Payables in relation to the construction and purchase of property, plant and equipment	**789,011**	222,191
Due to the ultimate holding company	**10,418**	10,009
Due to CNOOC group companies	**28,037**	22,912
Due to an associate	**-**	1,424
	1,683,101	1,279,993

Company

	2010 RMB'000	2009 RMB'000
Advances from customers	**71,499**	11,274
Accrued payroll	**42,188**	32,629
Tax payables	**(119,661)**	(3,316)
Other payables	**26,803**	15,630
Payables in relation to the construction and purchase of property, plant and equipment	**421,276**	94,785
Due to the ultimate holding company	**6,418**	4,514
Due to CNOOC group companies	**13,765**	6,466
Due to subsidiaries	**88,513**	31,476
	550,801	193,458

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

Notes to the financial statements (continued)

31 December 2010

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 HKD5.10 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 2010, 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 2010 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 2010 was RMB2,394,000 (2009: RMB1, 330,000).

Notes to the financial statements (continued)

31 December 2010

38 Business combinations

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

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

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

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

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

Notes to the financial statements (continued)

31 December 2010

38 Business combination (continued)

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

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

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

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

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

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

Notes to the financial statements (continued)

31 December 2010

39 Operating lease arrangements

(i) As lessor

Group

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

As at 31 December 2010, the Group had total future minimum lease receivables from CNOOC New Energy (Hainan) Bio-energy & Chemical Co.,Ltd. and CNOOC Green Materials Ltd. under non-cancellable operating leases falling due as follows:

	2010 RMB'000
Within one year	**614**
In the second to fifth years, inclusive	**1,348**
After five years	**4,409**
	6,371

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 2010 and 2009, the Company had total future minimum lease receivables from its subsidiaries, CNOOC New Energy (Hainan) Bio-energy & Chemical Co.,Ltd. and CNOOC Green Materials Ltd. under non-cancellable operating leases falling due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	**1,123**	888
In the second to fifth years, inclusive	**4,491**	3,552
After five years	**7,511**	8,399
	13,125	12,839

(ii) As lessee

Group

	2010 RMB'000	2009 RMB'000
Within one year	**9,979**	6,406
In the second to fifth years, inclusive	**8,290**	10,145
After five years	**3,010**	2,695
	21,279	19,246

As at 31 December 2010 and 2009, the Company had no significant future minimum lease payments under non-cancellable operating leases.

Notes to the financial statements (continued)

31 December 2010

40 Commitments and contingent liabilities

Capital commitments

Group

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	**1,226,697**	1,150,930
Authorised, but not contracted for:		
- Acquisition of plant and machinery	**1,558,414**	1,111,767
	2,785,111	2,262,697

Company

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	**238,682**	562,920
Authorised, but not contracted for:		
- Acquisition of plant and machinery	**18,965**	859,768
	257,647	1,422,688

Notes to the financial statements (continued)

31 December 2010

41 Related party transactions

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

(1) Recurring

	Notes	2010 RMB'000	2009 RMB'000
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	**37,342**	18,632
Provision of transportation services	(ii)	**3,651**	3,705
Provision of packaging and assembling services	(iii)	**20,670**	17,268
Provision of logistics services	(iii)	**5,763**	1,546
Rental income	(iv)	**269**	-
(b) Associates			
Sale of goods	(i)	**207,549**	220,269
Provision of transportation services	(ii)	**8,300**	9,858
Finance income	(vii)	**-**	575
(B) Included in cost of sales and other expenses			
(a) CNOOC group companies			
Purchase of raw materials	(i)	**1,325,056**	876,638
Transportation services	(ii)	**14,697**	5,402
Lease of offices	(iv)	**30,613**	5,598
Construction and installation services	(v)	**54,953**	85,977
Labour services	(vi)	**90,641**	61,474
Network services	(vi)	**11,960**	13,366
Logistics services	(vi)	**7,739**	4,192
(b) Associates			
Purchase of raw materials	(i)	**-**	204
(C) Included in finance income/costs			
CNOOC Finance			
Finance income	(vii)	**1,333**	2,725
Finance costs	(vii)	**2,621**	-

Notes to the financial statements (continued)

31 December 2010

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) The transportation services provided were based on mutually agreed terms with reference to the market rate.

(iii) The income from these services was determined by mutually agreed terms.

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

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

(vi) These services were charged based on mutually agreed terms.

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

(2) Non-recurring

	Notes	2010 RMB'000	2009 RMB'000
Provision of utilities to CNOOC group companies	(i)	**9,232**	2,327
Fees and charges paid to CNOOC group companies	(ii)	**2,523**	1,558
Loans from CNOOC group companies	(iii)	**80,000**	-

Notes:

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

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

(iii) Interest on the loans was based on market interest rates.

Except for item A(b)(i), A(b)(ii) and C(vii), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the financial statements (continued)

31 December 2010

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 2010	31 December 2009	31 December 2010	31 December 2009
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	**2,250**	1,314	**10,418**	10,009
CNOOC group companies (excluding CNOOC Finance)	**61,468**	30,297	**177,554**	98,651
Associates	**-**	51,065	**-**	5,069
CNOOC Finance	**62**	157	**80,236**	88

Company

	Due from related parties		Due to related parties	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	**2,250**	1,314	**6,418**	4,514
CNOOC group companies (excluding CNOOC Finance)	**15,727**	18,002	**103,603**	33,762
CNOOC Finance	**62**	-	**-**	-

As at 31 December 2010, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	31 December 2010	31 December 2009
	RMB'000	RMB'000
Deposits placed by the Group with CNOOC Finance	**206,196**	249,626

Notes to the financial statements (continued)

31 December 2010

41 Related party transactions (continued)

(3) Balances with related parties (continued)

Company

	31 December 2010 RMB'000	31 December 2009 RMB'000
Deposit placed by the Company with CNOOC Finance	**78,531**	68,477

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

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**5,473**	4,351
Post-employment benefits	**335**	256
Total compensation paid to key management personnel	**5,808**	4,607

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)

31 December 2010

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:

2010	Group		
Financial assets			
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	-	**600**	**600**
Trade receivables	**105,705**	-	**105,705**
Bills receivable	**35,700**	-	**35,700**
Financial assets included in prepayments, deposits and other receivables	**107,733**	-	**107,733**
Pledged bank deposits	**8,556**	-	**8,556**
Timing deposits	**58,500**	-	**58,500**
Cash and cash equivalents	**2,387,092**	-	**2,387,092**
	2,703,286	**600**	**2,703,886**

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Interest-bearing bank borrowings	**335,700**
Trade payables	**222,684**
Financial liabilities included in other payables and accruals	**966,359**
Due to the ultimate holding company (Note 36)	**10,418**
	1,535,161

Notes to the financial statements (continued)

31 December 2010

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):

2009	Group		
Financial assets			
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	-	600	600
Trade receivables	109,249	-	109,249
Bills receivable	53,440	-	53,440
Financial assets included in prepayments, deposits and other receivables	101,694	-	101,694
Loans receivable	50,000	-	50,000
Pledged bank deposits	13,068	-	13,068
Timing deposits	123,720	-	123,720
Cash and cash equivalents	1,944,674	-	1,944,674
	2,395,845	600	2,396,445

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Interest-bearing bank borrowings	1,000
Trade payables	148,385
Financial liabilities included in other payables and accruals	625,098
Due to the ultimate holding company (Note 36)	10,009
	784,492

Notes to the financial statements (continued)

31 December 2010

43 Fair Value

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Available-for-sale investments	**600**	600	**600**	600
Trade receivables	**105,705**	109,249	**105,705**	109,249
Bills receivable	**35,700**	53,440	**35,700**	53,440
Financial assets included in prepayments, deposits and other receivables	**107,733**	101,694	**107,733**	101,694
Loans receivable	-	50,000	-	50,000
Pledged bank deposits	**8,556**	13,068	**8,556**	13,068
Timing deposits	**58,500**	123,720	**58,500**	123,720
Cash and cash equivalents	**2,387,092**	1,944,674	**2,387,092**	1,944,674
	2,703,886	2,396,445	**2,703,886**	2,396,445

Financial liabilities				
Interest-bearing bank borrowings	**335,700**	1,000	**335,700**	1,000
Trade payables	**222,684**	148,385	**222,684**	148,385
Financial liabilities included in other payables and accruals	**966,359**	625,098	**966,359**	625,098
Due to the ultimate holding company (Note 36)	**10,418**	10,009	**10,418**	10,009
	1,535,161	784,492	**1 ,535,161**	784,492

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Trade receivables, bills receivable, financial assets included in prepayments, deposits and other receivables, loans receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, financial liabilities included in other payables and accruals, an amount due to the ultimate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

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.

Notes to the financial statements (continued)

31 December 2010

43 Fair Value (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets and liabilities measured at fair value:

Group

	Level 1 RMB'000	Level 2 RMB '000	Level 3 RMB '000	Total RMB '000
As at 31 December 2010				
Liability in relation to cash-settled share-based payment	-	**2,394**	-	**2,394**

	Level 1 RMB'000	Level 2 RMB '000	Level 3 RMB '000	Total RMB '000
As at 31 December 2009				
Liability in relation to cash-settled share-based payment	-	1,330	-	1,330

Company

The Company did not have any financial liabilities measured at fair value as at 31 December 2010 and 31 December 2009.

Notes to the financial statements (continued)

31 December 2010

44 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 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 2010, the Group's bank and other borrowings bearing variable interest rates amounted to RMB335,700,000 (2009: RMB1,000,000), or 100% (2009: 100%) 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 17% (2009: 15%) 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.

(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 31 December for 2009 and 2010, there were no trade receivables due from the Group's largest customer and the five largest customers.

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

Notes to the financial statements (continued)

31 December 2010

44 Financial risk management objectives and policies (Continued)

(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 2010, none 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.

(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 2010 and 2009.

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:

	2010 RMB'000	2009 RMB'000
Interest-bearing loans	**335,700**	1,000
Total capital	**11,922,004**	10,944,210
Capital and net debt	**12,257,704**	10,945,210
Gearing ratio	**2.74%**	0.01%

45 Approval of the financial statements

The financial statements were approved and authorised for issuance by the board of directors on 26 March 2011.

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
Address of headquarter	Kaikang CNOOC Mansion, No.15, Sanqu, Anzhenxili, Chaoyang District, Beijing, 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
Company Secretary	QUAN Changsheng
Authorized representatives	YANG Yexin No. 301, Building 5,12 Yongan Road, Basuo Town, Dongfang City Hainan Province, the PRC QUAN Changsheng Flat 1803,Builiding No.18 Zone 2, Yuhuili, Chaoyang District, Beijing
Alternate authorized representative	ZHONG Yingxin 8D, Manrich Court 33, St. Francis Street, Wanchai, Hong Kong
Principal banker	Bank of China, Hainan Branch
Auditor	Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre, 8 Finance Street, Central Hong Kong
Hong Kong & US law legal adviser	Baker & McKenzie 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
Investor Relations/Public Relations	
Hong Kong	Tel: (852) 22132502 Fax: (852) 25259322
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Website	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983