Annual Report 2012

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, 1,000,000 tonnes of phosphate fertilisers, 1,600,000 tonnes of methanol and 60,000 tonnes of POM. On 29 September 2006, China BlueChem was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

China BlueChem is one of the largest listed companies in terms of production volume of fertilisers and methanol in China. As a subsidiary of China National Offshore Oil Corporation ("CNOOC"), the competitive advantages owned by China BlueChem laid a solid foundation for its robust development of mineral fertilisers and chemical businesses.

The production facilities in Inner Mongolia

The production facilities in Hainan

The production facilities in Hubei

CONTENTS

Financial Highlights

Selected Consolidated Income Statement Data

For the year ended 31 December, RMB'million

	2008 (As previously reported)	2008 (Restated) (Note)	2009	2010	2011	2012
Revenue	5,518.2	6,811.8	5,794.6	6,867.3	9,756.3	10,739.2
Cost of sales	(3,250.0)	(4,505.4)	(4,075.3)	(4,678.5)	(6,488.7)	(7,432.9)
Gross profit	2,268.2	2,306.4	1,719.3	2,188.7	3,267.6	3,306.3
Other income and gains	127.8	138.3	69.3	67.3	127.9	121.1
Selling and distribution costs	(82.5)	(101.5)	(132.8)	(147.8)	(169.4)	(218.1)
Administrative expenses	(280.8)	(380.3)	(349.4)	(382.6)	(418.3)	(432.8)
Other expenses	(28.7)	(32.5)	(23.6)	(34.8)	(32.1)	(32.8)
Finance income	25.5	26.5	32.4	11.3	16.0	15.6
Finance costs	(12.1)	(22.9)	(14.5)	(11.9)	(18.0)	(12.5)
Exchange gains/ (losses), net	14.9	14.7	(3.1)	(4.2)	2.3	(7.5)
Share of profits/ (losses) of associates	4.7	4.7	14.8	(0.4)	0.1	0.1
Impairment of property, plant and equipment	–	–	–	–	–	(131.7)
Profit before tax	2,037.0	1,953.4	1,312.4	1,685.7	2,776.1	2,607.7
Income tax expense	(176.1)	(131.8)	(197.7)	(316.0)	(556.4)	(624.1)
Profit for the year	1,860.9	1,821.6	1,114.7	1,369.7	2,219.7	1,983.6
Profit attributable to equity holders of the parent	1,635.3	1,608.5	984.7	1,175.3	1,985.8	1,810.5
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	0.35	0.35	0.21	0.25	0.43	0.39

Selected Consolidated Statement of Financial Position Data

As at 31 December, RMB'million

	2008 (As previously reported)	2008 (Restated) (Note)	2009	2010	2011	2012
Assets						
Non-current assets	6,668.8	7,696.9	9,042.3	10,650.8	11,198.0	11,945.8
Current assets	5,030.8	5,494.2	3,604.1	3,875.8	5,270.7	5,185.7
Total assets	11,699.6	13,191.1	12,646.4	14,526.7	16,468.7	17,131.5
Equity and liabilities						
Total equity	10,326.8	11,333.1	10,944.2	11,922.0	13,567.7	14,626.7
Non-current liabilities	410.0	473.4	249.8	580.1	680.0	275.0
Current liabilities	962.7	1,384.6	1,452.4	2,024.6	2,221.1	2,229.8
Total equity and liabilities	11,699.6	13,191.1	12,646.4	14,526.7	16,468.7	17,131.5

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 *(%)*		
		2012	2011	Change *(%)*	2012	2011	Change
Fertilisers							
Urea	Fudao Phase I	525,481	552,689	(4.9)	101.1	106.3	(5.2)
	Fudao Phase II	766,063	904,914	(15.3)	95.8	113.1	(17.3)
	CNOOC Tianye	566,117	450,094	25.8	108.9	86.6	22.3
	Group total	1,857,661	1,907,697	(2.6)	101.0	103.7	(2.7)
Phosphate Fertilisers	DYK MAP	52,917	39,950	32.5	35.3	26.6	8.7
	DYK DAP Phase I	400,724	395,352	1.4	114.5	113.0	1.5
	DYK DAP Phase II (Note 1)	176,915	-	-	84.9	-	-
	Group total	630,556	435,302	44.9	89.0	87.1	1.9
Chemical Products							
Methanol	Hainan Phase I	651,100	652,226	(0.2)	108.5	108.7	(0.2)
	Hainan Phase II	774,818	776,325	(0.2)	96.9	97.0	(0.1)
	CNOOC Tianye	166,001	141,790	17.1	83.0	70.9	12.1
	Group total	1,591,919	1,570,341	1.4	99.5	98.1	1.4
POM	CNOOC Tianye POM (Note 2)	28,831	10,104	185.3	48.1	67.4	(19.3)
	Group total	28,831	10,104	185.3	48.1	67.4	(19.3)

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

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

Sales volume of the Group's various plants

Unit: tonne

		For the year ended 31 December 2012	For the year ended 31 December 2011	Change *(%)*
Fertilisers				
Urea	Fudao Phase I	543,678	528,363	2.9
	Fudao Phase II	792,353	865,747	(8.5)
	CNOOC Tianye	544,687	473,310	15.1
	Group total	1,880,718	1,867,420	0.7
Phosphate Fertilisers	DYK MAP	54,161	35,687	51.8
	DYK DAP Phase I	425,540	394,346	7.9
	DYK DAP Phase II	84,978	-	-
	Group total	564,679	430,033	31.3
Chemical Products				
Methanol	Hainan Phase I	638,615	655,951	(2.6)
	Hainan Phase II	801,255	738,829	8.4
	CNOOC Tianye	128,697	98,156	31.1
	Group total	1,568,567	1,492,936	5.1
POM	CNOOC Tianye POM	33,308	6,491	413.1
	Group total	33,308	6,491	413.1

Chairman's Statement

Dear Shareholders,

In 2012, the worldwide grain planting stimulated the global demand for fertilizers. In China, the demand for methanol has been further driven by the development of alternative energies and expansion on methanol-to-olefin. With the favorable fertilizer and methanol market conditions, your Company achieved sound results in the year 2012, even though unstable global economy and slowed domestic economic growth did cause some difficulties to the Company's business. During the year, the Company's production capacity of phosphate fertilizers increased to 1 million tones per annum, making your Company one of the top 5 manufacturers of phosphate fertilizers in China.

In 2012, your Company realized a net profit attributable to the owners of the parent of RMB1,810.5 million. To reward our shareholders, the Board has recommended the payment of a final dividend of RMB0.15 per share for 2012 (tax inclusive), with pay-out ratio steadily increased to 38%.

In the election of directors in the third session held in June 2012, it was my honor to be re-elected as Chairman of the Company. Mr. Zhang Xinzhi, Mr. Tsui Yiu Wa, Alec, Mr. Fang Yong and Mr. Chen Kai retired from the Board of Directors of the Company. On behalf of the Board, I would like to express my sincere appreciation to them for their outstanding dedication and significant contribution to the Company's development during their term of directorships with the Company. Directors in new session have considerable expertise and experience in their respective fields of chemical fertilisers and chemical products, business management, financial management, internal control as well as legal and regulatory matters. I am confident that the new session of directors will devise a better development strategy for the Company.

In 2012, the Board refined its corporate governance system in accordance with the provisions set out in the revised Listing Rules and Corporate Governance Code. The rules of procedures for the board committees of the Company have been amended for further clarifying and regulating the responsibilities and operating procedures of each committee, in a bid to enhance their effectiveness of decision-making support as well as supervisory functions.

Looking forward to 2013, global demand for grain will grow steadily. To secure domestic food supply, the PRC central government will continue to forge ahead the increase in grain production. Thus, the international and domestic demand for chemical fertilizers will grow steadily. Furthermore, the demand for methanol in China will be driven by the rapid development of methanol as an alternative energy and methanol-to-olefin. As a leading manufacturer of chemical fertilizers and methanol in China, your Company will strive to improve its management and enhance its operational efficiency, so as to create higher value to our shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders for your care and support as well as to our management and staff for their hard work.

LI Hui

Chairman

CEO's Report

Dear Shareholders,

Your Company accomplished sound operating results in 2012. As CEO and President, I am pleased to take this opportunity to report to you the company's operational performance in 2012 and its development plan moving forward.

Review of 2012

In 2012, your Company's revenue exceeded RMB 10 billion for the first time, reaching a historical record and representing approximately 10% increase year over year. Our net profit attributable to owners of the parent was RMB1.81 billion. The slightly decrease in net profit was attributable to the serious undersupply of natural gas during the first quarter for CNOOC Tianye in Inner Mongolia, the overhauls of three plants in Hainan and a sluggish domestic POM market amid the slowdown in domestic as well as international economic growth.

During the first half of 2012, the company's production encountered several unfavorable situations: the production of urea and methanol of CNOOC Tianye in Inner Mongolia were suspended for 25 and 83 days, respectively, as a result of serious undersupply of natural gas attributable to strong demand for residential heating during the winter season and the construction of the second natural gas pipeline yet-to-be completed by then. Meanwhile, the Company's Fudao Phase I and Phase II Urea Plants and Hainan Phase II Methanol Plant conducted overhauls during the period. As a result of the foregoing, the utilisation rates of our urea and methanol plants declined substantially as compared to the first half of the previous year. During the second half of 2012, the Company ensured safe and stable operation at all major plants through refined production management as well as solid and effective HSE management. For the full year of 2012, the overall utilisation rate of the Company's urea plants exceeded 100% and methanol plants'untilisation rate reached 99.5%.

One of our key priorities for 2012 was to ensure that the DYK phosphate fertiliser expansion and upgrade project entered into commercial production successfully. With diligent efforts in equipment calibration as well as preparations for production, DYK phosphate fertiliser expansion and upgrade project went through a successful trial run and produced qualified products in April. After passing the functional tests, the DYK phosphate project commenced commercial operation in August. Thus, our annual production capacity of phosphate fertilisers was substantially increased to 1 million tonnes, making your company one of the top 5 domestic manufacturers of phosphate fertilisers. Since the commencement of commercial operation, the production processes have been optimised continuously through ongoing improvements of equipment functions and production process flow, resulting in rising utilisation rates on a month-on-month basis. By the end of the year, production of the plant had accomplished the designed requirements and the production cost of DAP had been lowered to reasonable level.

Owing to the sluggishness of the domestic POM market, the selling prices of mid-to-low end POM products remained lower than their costs in 2012. Therefore, the Company controlled its POM production volume to align with the market demand during the year.

With solid sales network and brand advantage, the sales of our urea and methanol products in 2012 went smoothly and the sales volume increased slightly compared with previous year. Regarding phosphate fertilisers, it had already been the low season for domestic market when our new phosphate fertiliser facility commenced commercial operation, and the market prices started to decline since the fourth quarter due to the export window being closed at the end of September. As a result, the sales of the Company's phosphate fertilisers have been under pressure and the profitability of the company's phosphate fertiliser business has also been affected.

Our coal-based urea project in Hegang, Heilongjiang was progressing smoothly. Currently, civil works have almost been completed. We expect that the project be put into trial production in the fourth quarter of 2014. Regarding the ancillary coal mine, its geological exploration report had been approved by the government.

During the second half of 2012, we initiated management improvement plan on all fronts focusing on the themes of "safe production, cost control and refined management." Through diligent work in industry benchmarking and self-assessment, problems in management were identified and rectification measures were formulated based on individual analyses of such issues. Thus, the Company's fundamental management has been further enhanced.

The Company has always placed a strong emphasis on environmental protection. By strengthening control over the production process, conducting preventive equipment maintenance and procuring stable operation, we had accomplished our goals in energy saving and emission reduction. The Company saved energy equivalent to 19,000 tonnes of standard coal by national statistical standards. Our emission had been in compliance with national standards. Thus, there had been no incident of environmental pollution in the company's operation.

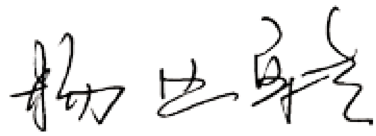
In 2012, we continued to actively engage in charitable activities, making contributions to foster social harmony by providing schooling and education assistance and relief for the underprivileged.

Outlook for 2013

Looking forward to 2013, global demand for urea is expected to increase steadily. However, capacity expansion of phosphate fertilisers will put the market under pressure. In China, the expansion of the methanol-to-olefin industry will drive domestic demand for methanol, while the oversupply of mid-to-low end products in the domestic POM market is expected to be alleviated.

To address the challenges as well as opportunities, we will continue to ensure safe and stable operation of our major plants by strengthening HSE management and refined production management in 2013, optimise production techniques of POM plants on a continued basis to stabilise and improve product quality, and stringently control cost and expense. Furthermore, to accomplish our annual sales targets, we will track market trends closely, enhance the sales management, further optimise our products distribution channels, and fully leverage on favorable export policies of urea and phosphate fertilisers to be adopted in 2013. We will also actively proceed our projects under construction and under feasibility study, and will continue to look out for merger and acquisition opportunities in China and overseas that fit the Company's development strategy.

In 2013, my colleagues and I will continue to work diligently under the leadership of the Board of Directors, striving to add value for shareholders with firm commitment and dedicated efforts.



YANG Yexin

CEO & President

Management Discussion and Analysis

Sector Review and Outlook

Fertiliser Industry

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

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

(1) Urea

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

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

(2) Phosphate fertilisers

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

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

Chemical Industry

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

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

(1) Methanol

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

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

(2) POM

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

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

Business Review

Production Management

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

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

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

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

Note: 1. The DYK DAP Phase II Plant went into commercial operation on 1 August 2012. Its production volume in 2012 was included from the date of the commencement of commercial operation;
2. CNOOC Tianye POM Plant went into commercial operation on 1 October 2011. Its production volume in 2011 was included from the date of the commencement of commercial operation.

Sales Management

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

Urea

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

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

Phosphate Fertilisers

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

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

Methanol

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

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

POM

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

BB fertilisers

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

Sea-land logistics services

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

Financial Review

Revenue

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

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

During the reporting period, the Group's external revenue from phosphate fertilisers was RMB1,759.9 million, an increase of RMB410.1 million or 30.4% from RMB1,349.8 million in 2011. The increase was primarily attributable to (1) the commencement of commercial operation of DYK Chemical Phase II in Hubei in August 2012 which contributed to an increase in the sales volume of and revenue from phosphate fertilisers by 134,646 tonnes and RMB408.6 million, respectively; (2) an increase in revenue by RMB34.1 million over 2011 due to an increase in the export volume of phosphate fertilisers by 65,167 tonnes which were partly offset by (3) a decrease in the selling price of phosphate fertilisers by RMB75.5 per tonne, contributing to a decrease in revenue by RMB32.6 million.

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

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

Cost of sales

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

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

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

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

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance income and finance costs

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

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

Asset impairment losses

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

Exchange losses, net

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

Share of profit of an associate

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

Income tax expense

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

Net profit for the year

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

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

Dividends

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

The proposed final dividend for 2012 will be subject to the approval of the shareholders of the Company at the 2012 annual general meeting.

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of acquisition, property, plant and equipment and prepaid land lease payments amounted to RMB1,608.1 million. Capital expenditure primarily included: (1) RMB502.6 million for the DYK Chemical DAP Expansion Project; (2) RMB638.6 million for the Huahe 520,000 tonnes/year Urea Project; (3) RMB267.3 million for expansion and improvement of Basuo Port; and (4) RMB199.6 million for upgrades and equipment purchases for production plants as well as other projects.

Pledge of assets

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

Capital management

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

Cash and cash equivalents

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

Human resources and training

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

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

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

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

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

Inflation and currency risk

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

Liquidity risk

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

Post balance sheet events and contingent liabilities

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

Material litigation and arbitration

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

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

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

Sector Outlook

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

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

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

Our Key Tasks in 2013

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

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

Quality, Health, Safety and Environmental Protection

The Company has accomplished its HSE management objectives for 2012 and ensured strong alignment of shareholders' value, customers' interests, employees' health and social responsibility, as it carried out vigorous investigation and rectification of hazards and assessment of significant danger sources with a special emphasis on the prevention of significant risks in a move to enhance HSE management, in continued adherence to the safety management philosophy of "Safety First and Focus on Prevention.

Quality

The Company ensures the attainment of its targets in quality assurance through the stringent and consistent implementation of the quality control management system.

During the reporting period, the Company's urea products attained a superior quality rate of 99.15% with a 100% pass rate on net weight of single packet and a 94% customer saisfaction rate, methanol products attained a superior quality rate of 100% with a 97.2% of customer satisfaction rate; and DAP products attained a superior quality rate of 100%. Our "Fudao" granular urea manufactured at the Hainan production base was again awarded the title of "Famous Brand of Hainan."

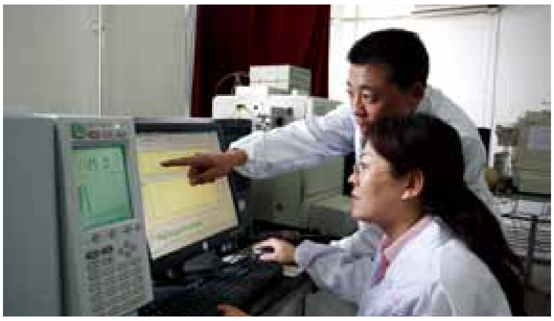
Health, Safety and Environmental Protection (HSE)

In 2012, the Company continued to improve its HSE system by updating the occupational health management system and emergency setup, as well as introducing a HSE incentive system.

In 2012, the Company strengthened its management of contractors and procured contractors to improve their safety management standards by setting pre-conditions for the award of contracts, exercising ongoing control during contract works and conducting assessments on a continuous basis. The Company continued to carry out HAZOP (hazard and operability analysis) at the bases in order to systematically identify potential risks existing in the chemical production units and enhance staff skills in handling and operating hazardous tasks.

The Company has always placed a strong emphasis on environmental protection. By strengthening control over the production procedures, introducing preventive maintenance for equipment and procuring stable production at the plants, our targets in energy conservation have been achieved in a satisfactory manner.

In 2012, the Company achieved excellent results in HSE management. No major incident of responsibility or occupational hazards occurred during the year. The OSHA index of recordable incident was 0.



Human Resources

In adherence to our personnel management principle of being "people-oriented and employee-caring" and with a strong focus on enhancing awareness for execution, emphasizing team building and driving optimisation of the employment and remuneration system, the Company is fully committed to improving its human resource management standards to provide a solid base and secured availability of high-calibre staff.

Remuneration and Benefits

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

In 2012, the Company further improved and standardised subsidy policy for offsite work based on the actual conditions of its subsidiaries to offer support for its project development and procure staff stability.

Performance Appraisal

The Company has established a scientific and reasonable performance appraisal scheme and an effective incentive and binding mechanism to assure mutual development for the Company and its employees in all aspects.

In 2012, the Company developed a sales incentive regime to fulfill its requirements in centralised sales, in close tandem with its annual tasks and objectives and in adherence to the principles of "Objectivity, Equity, Fairness and Thoroughness."

Training Management

In 2012, the Company streamlined and standardised its training and management regime and amended its Rules for the Appraisal of Training Management. The effectiveness of training has been enhanced as internal trainers and teaching materials have been selected within the Company on a merit basis.

In 2012, our staff participated in the Fifth Occupational Skill Competition for Clamp Workers of Chemical Machinery of the National Petrochemical Industry and won a first-class award for team contest, 1 individual gold medal and 2 individual silver medals. In 2012, the Company was presented with the "11th National Outstanding Contribution Award for the Training of Skilled Personnel" by the Ministry of Human Resources and Social Security.

As at the end of 2012, the Company held 3,143 training courses for a total of 99,870 participants, spanning over 680,139 hours in aggregate.


安全生产

Corporate Governance Report

The Company believes that a sound and solid corporate governance system and structure is an important cornerstone to the Company's sustainable development and the enhancement of shareholders' value. The Company is committed to the implementation of high-standard corporate governance practices and procedures, as well as open communications with and fair information disclosure for all stakeholders, so as to create greater value to shareholders.

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

Since its listing, the Company has established a well-balanced and independently-operated modern corporate governance structure , comprising the general meetings, the board of directors (the "Board"), the supervisory committee of the Company (the "Supervisory Committee") and senior management of the Company in accordance with the laws and regulations, such as the Company Law of the People's Republic of China (the "Company Law"), rules and guidelines of domestic and overseas regulatory bodies, and the requirements of the provisions of the Listing Rules and Appendix 14 thereto.

Tasks accomplished by the Company during the reporting period in connection with the implementation of the high-standard corporate governance primarily include: (1) a comprehensive streamlining of the Company's corporate governance system in accordance with the amended Listing Rules and the Corporate Governance Code set out in Appendix 14 thereto and modification of the rules of procedures for three committees under the Board to ensure that the duties and operating procedures of the specialised committees of the Board are consistent with the amended Listing Rules and corresponding code provisions in Appendix 14 thereto; (2) recommendations by the Board on addition of legal professionals and increasing the number of non-executive Directors during the election of new session of the Board , based on careful assessment of the structure, headcount and composition of the Board, resulting in the third session of the Board officially taking office on 5 June 2012 following consideration and approval by the general meeting, and adjustment of the composition of the Board committees on the same day; (3) optimisation of the governance system and framework of each of the Group's subsidiaries, resulting in further improvements to governance standards of the Group.

Corporate governance of the Company during the reporting period is summarised as follows:

1 General meetings

Duties of general meetings

The general meeting, which is the organ of authority of the Company, shall exercise in accordance with the law the following authorities:

- to decide on operating strategies, investment plans, proposals for annual financial budgets and final accounts, and proposals for profit allocations and losses recovery of the Company;
- to elect and replace directors and supervisors who are not employee representative supervisors and to fix the remunerations of directors and supervisors;
- to consider and approve reports of the Directors and the Supervisory Committee, respectively;
- to pass resolutions on matters such as changes in registered capital, mergers, demergers, changes in corporate form, dissolution and liquidation of the Company;
- to pass resolutions on issuance of bonds and other securities and listing of the Company;
- to pass resolutions on appointment, removal or non-reappointment of the accounting firm;
- to consider and approve major guarantees and acquisitions or disposals of major assets of the Company;
- to amend the articles of association of the Company (the "Articles");
- to consider and approve new motions proposed by shareholders, either individually or collectively, holding three percent or more of the shares of the Company carrying the right to vote;
- to consider and approve share incentive schemes;
- to deal with matters authorised or delegated by the general meetings to the Board;
- other matters which are required by laws, administrative regulations and the Articles to be resolved by the general meeting.

Information on General Meetings

During the reporting period, the Annual General Meeting of the Company was held, at which 17 resolutions in respect of the financial statements, the report of the Directors, the report of the Supervisory Committee and the profit allocation proposal of 2011, the budget proposal of 2012 and the candidates for directors of the Board and supervisors of the Supervisory Committee of the third session were considered and passed. All Directors of the Company attended the Annual General Meeting.

The general meeting is the organ for the shareholders of the Company to exercise their authority. The procedures for the holding and the approval of resolutions of the above general meetings have complied with the relevant laws and regulations and the relevant provisions of the Articles and have thereby effectively safeguarded the interests of all shareholders.

Shareholders' Rights

Pursuant to the provisions of the Articles, specific rights of the shareholders of the Company in the following three aspects are as follows:

Requisition of extraordinary general meetings

When shareholders, individually or collectively, holding ten per cent or more of the issued and outstanding shares of the Company carrying the right to vote, request in writing to convene an extraordinary general meeting, the Board shall convene an extraordinary general meeting within 2 months and include the proposals put forward by the requisitioner(s) in the agenda of the meeting.

Procedures for putting forward proposals at general meetings

Where a general meeting is being convened by the Company, shareholders individually or collectively holding three per cent or more of the shares of the Company carrying the right to vote, shall be entitled to put forward and submit new proposals in writing ten days before the date of the general meeting to the convenor of the general meeting, who shall issue a supplementary notice of the general meeting within two days after receipt of the same to all other shareholders and include the proposals that fall within the scope of duties of a general meeting in the meeting agenda and table them for consideration by the general meeting.

Proposals for a general meeting shall satisfy the following conditions: (1) the contents of the proposals shall not contravene the provisions of law and regulations and shall fall within the scope of business of the Company and the duties of a general meeting; (2) the proposal shall have clear topics for discussion and specific matters to be resolved upon; and (3) the proposals shall be submitted to or lodged with the Board in writing.

The said proposals and written requests from the aforesaid requisitioner(s) calling for the convening of an extraordinary general meeting may be lodged with the Board or the Company Secretary through personal delivery, mail or courier at the following address: Unit 1707, Kaikang CNOOC Mansion, No.15, Sanqu, Anzhenxili, Chaoyang District, Beijing.

Procedures for making enquiries to the Board and information available thereon

Shareholders of the Company shall receive a copy of the Articles after payment of fees at cost in accordance with the provisions of the Articles; shall be entitled, after payment of reasonable fees, to inspect and photocopy of the following information, including the registers of members, personal information of the directors, supervisors, president and other senior management of the Company; the status of share capital of the Company; the report of the total nominal value, numbers, highest and lowest prices of every class of shares repurchased by the Company and all expenses paid by the Company thereon since the previous accounting year; minutes of general meetings, resolutions of Board meetings and the Supervisory Committee meetings; and counterfoils of corporate bonds and financial reports of the Company.

Shareholders of the Company may raise their concerns with or make enquiries about the aforesaid information to the Board via the email address, postal address and telephone numbers posted on the Company's website.

2 Board of Directors

The Board, which is the decision-making body within the Company's corporate governance structure, is accountable to the general meeting. The Directors formulate business strategies and oversee the affairs of the Company on a collective basis.

Duties of the Board

While it delegates authorities and responsibilities to the management for the purposes of implementing business strategies and managing day-to-day business operations of the Group, the Board is jointly responsible for formulating business strategies and policies, operating 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 allocations and losses recovery, appointing or removing senior management of the Company and fixing their remunerations, deciding on the establishment of the Company's internal management structure, formulating the Company's basic management regime, and exercising proprietary powers to, inter alia:

- Convene the general meeting, report general meetings and implement the resolutions of the general meetings;
- formulate the operating plans, investment proposals, proposals for annual financial budgets and final accounts, and proposals for profit allocations and losses recovery of the Company;
- formulate proposals for increase or reduction of the registered capital, issuance of bonds and other securities and listing of the Company;
- formulate proposals for mergers, demergers, changes in corporate form and dissolution of the Company;
- decide on the establishment of the Company's internal management structure, appoint or remove the President of the Company, appoint or remove other senior management based on the nomination of the President and fix their remunerations;
- formulate proposals for amendments to the Articles and basic management regime of the Company;
- put forward proposals to the general meetings for the appointment, re-appointment or dismissal of accounting firms providing auditing services to the Company;
- exercise other authorities stipulated in the Articles or conferred by general meetings.

Directors

The Board currently consists of seven Directors, including one executive Director, three non-executive Directors and three independent non-executive Directors. No relationship (including financial, business, family or other significant or relevant relationship) exists among the members of the Board. The profiles of the Directors are set out on pages 31 to 32 of this annual report. A list setting out the names, duties and functions of all Directors has been published on the websites of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange') and the Company respectively in accordance with Code Provision A.3.2 of the Corporate Governance Code.

In addition to compliance with the provisions of the Company Law and the Listing Rules, the composition and structure of the Board has also catered to the needs of the Company's actual operating conditions and development, as a result of which the Company has established an efficient internal balancing mechanism. The current members of the Board are set out as follows:

Board member	Position	Date of Appointment
Li Hui	Chairman and non-executive Director	5 June 2012
Yang Yexin	Executive Director	5 June 2012
Yang Shubo	Non-executive Director	5 June 2012
Zhu Lei	Non-executive Director	5 June 2012
Gu Zongqin	Independent non-executive Director	5 June 2012
Lee Kit Ying	Independent non-executive Director	5 June 2012
Lee Kwan Hung	Independent non-executive Director	5 June 2012

Note: The term of office for the above Directors is three years. Each Director of the Company is eligible for re-election upon the expiry of his/her term of office. Mr. Fang Yong (former Executive Director), Mr. Chen Kai (former Executive Director), Mr. Zhang Xinzhi (former independent non-executive Director) and Mr. Tsui Yiu Wa, Alec (former independent non-executive Director) were Directors of the Company for the period from 1 January 2012 to 5 June 2012.

The Board complied with the requirements of the Listing Rules of having at least three independent non-executive Directors whose qualifications were in full compliance with the provisions of the Listing Rules and at least one independent non-executive Director whose qualifications were in full compliance with Rule 3.10 (2), namely, having appropriate professional qualifications or appropriate accounting or relevant financial management expertise. In addition, the Company has received annual confirmation letters from each of its independent non-executive Directors 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 have executive duties 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 perform a vital balancing function in the decision-making process of the Board and play a key role in corporate governance. During the reporting period, the independent non-executive Directors expressed their views and advice on matters concerning the interests of shareholders and the Company at the Board meetings.

Each of the non-executive Director and independent non-executive Directors entered into a service contract with the Company for a term of three years from 5 June 2012 or until a new Director is elected at the general meeting held by the Company in the year when his/her term of office expires. If, however, non-executive Directors and independent non-executive Directors are not re-elected promptly when their term 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, discharge their duties as non-executive Directors and independent non-executive Directors prior to the election at the general meeting held by the Company in the year when their term of office expire.

Information of Board Meetings

During the reporting period, the Board held five regular meetings, which were held in compliance with the provisions of the relevant laws and regulations and the Articles. 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 to be 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.

Details of attendance of Board members at Board meetings for the year ended 31 December 2012 are as follows:

Director	Number of meetings attended / held	Attendance rate (%)
Li Hui	5/5	100
Yang Yexin	5/5	100
Yang Shubo(Note 1)	3/3	100
Zhu Lei(Note 1)	3/3	100
Gu Zongqin	5/5	100
Lee Kit Ying (Note 1)	3/3	100
Lee Kwan Hung (Note 1)	3/3	100
Fang Yong (Note 2)	2/2	100
Chen Kai (Note 2)	2/2	100
Zhang Xinzhi (Note 2)	2/2	100
Tsui Yiu Wa, Alec (Note 2)	2/2	100

Note:

(1) Mr. Yang Shubo, Mr. Zhu Lei, Ms. Lee Kit Ying and Mr. Lee Kwan Hung were appointed Directors on 5 June 2012. Three Board meetings were held from 5 June 2012 to 31 December 2012.

(2) Mr. Fang Yong, Mr. Chen Kai, Mr. Zhang Xinzhi and Mr. Tsui Yiu Wa, Alec did not offer themselves for re-election to the third session of the Board owing to other work commitments. Two Board meetings were held from 1 January 2012 to 5 June 2012.

During the reporting period, in compliance with relevant provisions of the amended Listing Rules and Appendix 14 thereto, the Board further enhanced the Company's corporate governance standards by revising the rules of procedures of the specialised committees under the Board and effectively fulfilled its corporate governance functions . The Board has fully played its role as a decision-maker in all aspects of strategy formulation, production and operation, project investment and corporate management, effectively driving up the level of standardisation in corporate governance and the efficiency of its operation.

Training for Directors

In accordance with Code Provision A.6.5 of the Corporate Governance Code, all Directors should take part in continuous professional development to develop and upgrade their knowledge and skills so as to ensure continued contributions to the Board in a comprehensively informed and relevant manner. During the reporting period, all Directors participated in a number of training sessions held in various formats, which included, specifically, internal training organised by the Company, training provided by other organisations and individual study of relevant documents. All Directors (including Li Hui, Yang Yexin, Yang Shubo, Zhu Lei, Gu Zongqin, Lee Kit Ying and Lee Kwan Hung) participated in the on-site training sessions organised by the Company on 5 June 2012 and 22 December 2012, covering topics such as the Listing Rules and its amendments, directors' responsibilities, the new legislation on obligations for the disclosure of inside information and the Model Code for Securities Transactions by Directors of Listed Issuers. On 23 October 2012, the Directors also received from the Company via mail documentation such as "Guide for Directors" and "Guidelines for Independent Non-executive Directors," and the Directors completed this training by reading through such information. In addition, Mr. Zhu Lei, Mr. Gu Zongqin, Ms. Lee Kit Ying and Mr. Lee Kwan Hung have also participated in on-site trainings by visiting some production bases of the Company so as to better understand the Company's business.

Corporate Governance Functions

The Board is responsible for carrying out the corporate governance functions and has fulfilled their duties and responsibilities, as set out in Code Provision D.3.1 of the Corporate Governance Code, to formulate and review the Company's corporate governance policy and practices, review and monitor the training and continuous professional development of Directors and senior management, review the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and disclosures in the Corporate Governance Report.

3 Committees of the Board

There are four subordinate committees under the Board, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Review Committee, the terms of reference of each of which have been defined in writing and approved by the Board covering its duties, powers and functions. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee have been defined by reference to terms recommended by the Corporate Governance Code and published on the websites of the Hong Kong Stock Exchange and the Company respectively. Each committee has adequate resources to perform its duties, and shall report, raise issues, and provides valuable recommendations to the Board regularly to assist the Board in making decisions.

Audit Committee

The Audit Committee currently consists of five members, including independent non-executive Directors Ms. Lee Kit Ying, Mr. Gu Zongqin and Mr. Lee Kwan Hung and non-executive Directors Mr. Yang Shubo and Mr. Zhu Lei. Ms. Lee Kit Ying is the Chairman. The qualifications of the chairman of the Audit Committee are in compliance with the requirements under Rule 3.21 of the Listing Rules.

The primary duties of the Audit Committee are to review and supervise the integrity and preparation procedures of the financial statements 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 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 procedures of the Company to ensure efficiency of business operation and achievement 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 three meetings during the reporting period and the work it performed is summarised as follows:

- Reviewed the 2011 financial statements and the 2012 interim financial statements, in particular, focusing on their compliance with accounting standards, the Listing Rules and other regulations, and provided recommendations and advice to the Board;
- Reviewed the 2013 operating and financial budgets of the Company;
- Reviewed the statutory audit plan of the external auditor and the nature and scope of their audit prior to the commencement of the audit, met and further discussed the internal financial audit with the external auditor;
- Reviewed the internal audit findings and recommendations for 2011 and 2012 and approved the internal audit plan for 2012 and 2013;
- Reviewed the effectiveness of the internal control system of the Company;
- Approved the audit fees and the terms of engagement of the external auditor, and reviewed the independence of the external auditor and provided recommendations to the Board on re-appointment of the external auditor.

Details of attendance of members of Audit Committee at committee meetings during the reporting period are set out as follows:

Audit Committee member	Number of meetings attended / held	Attendance rate (%)
Lee Kit Ying (Chairman) (Note 1)	2/2	100
Gu Zongqin	3/3	100
Lee Kwan Hung (Note 1)	2/2	100
Yang Shubo (Note 1)	2/2	100
Zhu Lei (Note 1)	2/2	100
Tsui Yiu Wa, Alec (Note 2)	1/1	100
Zhang Xinzhi (Note 2)	1/1	100

Note:

(1) Ms. Lee Kit Ying, Mr. Lee Kwan Hung, Mr. Yang Shubo and Mr. Zhu Lei were appointed members of the Audit Committee on 5 June 2012. During the period from 5 June 2012 to 31 December 2012, two meetings of the Audit Committee were held.

(2) One meeting of the Audit Committee was held during the period from 1 January 2012 to 5 June 2012 during which Mr. Tsui Yiu Wa, Alec and Mr. Zhang Xinzhi were members of the Audit Committee.

Remuneration Committee

The Remuneration Committee currently consists of three members, including independent non-executive Directors Mr. Lee Kwan Hung and Ms. Lee Kit Ying, and non-executive Director Mr. Li Hui. Mr. Lee Kwan Hung is the Chairman. The qualifications of the chairman of the Remuneration Committee are in compliance with the requirements under Rule 3.25 of the Listing Rules.

The Remuneration Committee is primarily responsible for studying, reviewing and formulating the remuneration policies and proposals, including the standards, procedures and major regimes of performance appraisal, and major proposals and system of rewards and penalties, for the Directors, Supervisors and senior management of the Company, and making recommendations thereon to the Board. The Remuneration Committee shall, with delegated responsibility from the general meeting and the Board, fix the remuneration of the executive Director, Supervisors and senior management. It is also responsible for monitoring the implementation of the Company's remuneration system. In discharging its duties, the Remuneration Committee may consult the Chairman, President and other executive Directors.

Remuneration policy

- The remuneration package policy for executive Director is designed to peg the executive Director's remuneration and his/her performance with the Company's corporate objectives and operating results, while taking into account market conditions, in order to provide performance incentives to and retain executive Director.
- The remuneration of non-executive Directors (including independent non-executive Directors), which is subject to approval by the Company's general meeting, is mainly fixed after taking into consideration the complexity of the matters to be handled by them and their responsibilities. Pursuant to the service contracts 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 (including independent non-executive Directors) are reimbursable by the Company.

The Directors are not entitled to decide upon and approve their own remuneration. Details of the remuneration of each Director for the year ended 31 December 2012 are set out in Note 9 to the financial statements.

Three meetings of the Remuneration Committee were held during the reporting period. The Remuneration Committee was delegated by the Board with the responsibility for fixing the remuneration for the executive Director, Supervisors of the third session and senior management of the Company and making recommendations to the Board regarding the fixing of remuneration for the non-executive Directors (including independent non-executive Directors), and also reviewed the performance appraisal results and the exercise of rights proposal of the grantees of the 2011 H-Share Appreciation Rights. In addition, the Remuneration Committee has signed, by way of communications, a written resolution of the Remuneration Committee in respect of the fixing of remuneration for the employee representative supervisor of the Company.

Details of attendance of members of the Remuneration Committee at committee meetings during the reporting period are set out as follows:

Remuneration Committee member	Number of meetings attended / held	Attendance rate(%)
Lee Kwan Hung (Chairman) (Note 1)	1/1	100
Lee Kit Ying (Note 1)	1/1	100
Li Hui	3/3	100
Zhang Xinzhi (Note 2)	2/2	100
Tsui Yiu Wa, Alec (Note 2)	2/2	100

Note:

(1) Mr. Lee Kwan Hung and Ms. Lee Kit Ying were appointed members of the Remuneration Committee on 5 June 2012. During the period from 5 June 2012 to 31 December 2012, one meeting of the Remuneration Committee was held.

(2) Two meetings of the Remuneration Committee were held during the period from 1 January 2012 to 5 June 2012 during which Mr. Tsui Yiu Wa, Alec and Mr. Zhang Xinzhi were members of the Remuneration Committee.

Nomination Committee

The Nomination Committee currently consists of three members, including independent non-executive Directors Mr. Gu Zongqin and Mr. Lee Kwan Hung and executive Director Mr. Yang Yexin. Mr. Gu Zongqin is the Chairman. The qualifications of the chairman of the Nomination Committee are in compliance with the requirements under Code Provision A.5.1 of the Corporate Governance Code.

The Nomination Committee is primarily responsible for making recommendations to the Board in respect of appointments, re-appointments and succession 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 of the members of the Board based on certain standards adopted by the Committee, which standards 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.

The nomination procedure for a director candidates is available on the website of the Company, and the specific procedures are: shareholders will recommend candidates for directorship to the Company for consideration; the Nomination Committee will conduct examination of such candidates for directorship and then make recommendations to the Board; following consideration and approval of the Board, the Board will convene a general meeting to which the candidates for directorship will be submitted for consideration.

Three meetings of the Nomination Committee were held during the reporting period, at which the Nomination Committee reviewed the structure, headcount and composition of the Board, and provided relevant advice to the Board on candidates for the third session of the Board and candidates for senior management appointment .

Details of attendance of members of the Nomination Committee at committee meetings during the reporting period are set out as follows:

Nomination Committee member	Number of meetings attended / held	Attendance rate (%)
Gu Zongqin	3/3	100
Lee Kwan Hung (Note 1)	2/2	100
Yang Yexin	3/3	100
Zhang Xinzhi (Note 2)	1/1	100

Note:

(1) Mr. Lee Kwan Hung was appointed member of the Nomination Committee on 5 June 2012. During the period from 5 June 2012 to 31 December 2012, two meetings of the Nomination Committee were held.

(2) One meeting of the Nomination Committee was held during the period from 1 January 2012 to 5 June 2012 during which Mr. Zhang Xinzhi was member of the Nomination Committee.

Investment Review Committee

The current Investment Review Committee consists of six members, including independent non-executive Directors Mr. Gu Zongqin and Ms. Lee Kit Ying, non-executive Director Mr. Li Hui, Mr. Yang Shubo and Mr. Zhu Lei, and executive Director Mr. Yang Yexin. Mr. Gu Zongqin is the Chairman.

The Investment Review Committee is primarily responsible for reviewing investment projects beyond the scope of decision-making authority delegated to the senior management by the Board and making recommendations on decisions to the Board.

Two meetings were held by the Investment Review Committee during the reporting period, at which major investment projects of the Company for the reporting period were reviewed and its recommendations on decisions were reported to the Board.

Details of attendance of members of the Investment Review Committee at committee meetings during the reporting period are set out as follows:

Investment Review Committee member	Number of meetings attended / held	Attendance rate (%)
Gu Zongqin (Chairman) (Note 1)	1/1	100
Lee Kit Ying (Note 1)	1/1	100
Li Hui	2/2	100
Yang Shubo (Note 1)	1/1	100
Zhu Lei (Note 1)	1/1	100
Yang Yexin	2/2	100
Zhang Xinzhi (Note 2)	1/1	100
Tsui Yiu Wa, Alec (Note 2)	1/1	100

Note:

(1) Mr. Gu Zongqin, Ms. Lee Kit Ying, Mr. Yang Shubo and Mr. Zhu Lei were appointed members of the Investment Review Committee on 5 June 2012. One meeting of the Investment Review Committee was held from 5 June 2012 to 31 December 2012.

(2) One meeting of the Investment Review Committee was held during the period from 1 January 2012 to 5 June 2012 during which Mr. Zhang Xinzhi and Mr. Tsui Yiu Wa, Alec were members of the Investment Review Committee.

3 Supervisory Committee

The Supervisory Committee is accountable to the general meeting and exercises in accordance with the law the following authorities:

- To review the financial matters of the Company;
- To oversee the behaviours of Directors and senior management when performing their duties for the Company and make recommendations of dismissal of personnel who have violated the laws, administrative regulations and the Articles;
- To order the Directors, President and other senior management to rectify any improper behaviours that would be detrimental to the interests of the Company;
- To verify financial information, such as financial reports, business reports and profit allocation proposals, to be submitted by the Board to the general meeting, and to authorise certified public accountants or practising auditors to re-examine the same in the name of the Company in case of doubt;
- To propose the convening of extraordinary general meetings, to convene and preside over general meetings when the Board fails to fulfil its duty under the Articles to do so;
- To put forward proposals to the general meeting;
- To lodge litigation against the Directors, President and other senior management of the Company in accordance with the Company Law; and
- To exercise other authorities stipulated in the Articles.

The Supervisory Committee currently consists of three members, two of them are external supervisors (as shareholder's representative supervisor and independent supervisor, respectively) and one of them is the employees' representative supervisor of the Company.

For details of the work performed by the Supervisory Committee, please refer to the Report of the Supervisory Committee on page 49 of this annual report.

4 Senior Management

The senior management consists of the Chief Executive Officer, President, Executive Vice President, Chief Financial Officer, Vice President and Board Secretary (Company Secretary). Together with other senior management, the Chief Executive Officer/President of the Company organises and carries out operational and managerial activities of the Company in accordance with the laws and regulations, and the Articles within the powers delegated by the Board, and exercise the following principal duties and powers:

- To oversee the management of production and operation of the Company and to organise and implement the resolutions of the Board;
- To organise and implement the annual operating plans and investment proposals of the Company;
- To propose the establishment of the Company's internal management structure;
- To propose basic management regime of the Company and formulate basic rules of the Company;
- To recommend the appointment or dismissal of the Executive Vice President, Chief Financial Officer or Vice President of the Company and 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 authorities conferred by the Articles and the Board.

The members of the senior management of the Company implement the development strategies and business management plans formulated by the Board. They have extensive expertise and management experience in the respective fields of which they are put in charge and delegated to and formed a management team which worked closely to ensure the efficient conduct of the day-to-day operation of the Company.

Moreover, the management furnishes the management accounts of the Company (including internal financial statements) to members of the Board every month as well as such background or explanatory information relating to matters to be discussed by the Board as may be necessary, so that the Directors may fully understand the progress of any material events and the latest business updates of the Company.

The Company has set up the Investment Review Committee, the Personnel Committee, the Budget Management Committee and the Science and Technology Committee. Each of the resolution of these specialised committees is passed by way of a poll, providing full assurance for scientific and meticulous decision-making in the operations and investments of the Company.

The range of the remuneration of members of senior management for the year ended 31 December 2012 are set out in Note 9 to the financial statements.

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 making specific inquiries with the Directors and Supervisors, all Directors and Supervisors have confirmed that during the reporting period, they have strictly complied with the requirements of the Model Code.

The Board will examine the corporate governance and operations 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

Mr. LI Hui acts as the Chairman of the Company and Mr. YANG Yexin acts as the Chief Executive Officer/President of the Company, which is in accordance with A.2.1 of the Corpotate Governance Code, the roles of Chairman and Chief Executive Officer should be seperated and not be held by the same individual. The Chairman is responsible for providing leadership over the effective operation of the Board, while the Chief Executive Officer/President is responsible for the day-to-day business operation of the Group and reports to the Board on the overall operation of the Company.

7 Company Secretary

Our Company Secretary, Mr. Quan Changsheng ("Mr. Quan"), is also the Chief Financial Officer/Vice President of the Company who is familiar with the day-to-day affairs of the Company. All Directors of the Company are entitled to the advice and services of Mr. Quan to ensure their compliance with Board procedures and all applicable laws, rules and regulations.

Upon enquiry by the Board, Mr. Quan has confirmed his compliance with all requirements stipulated in the Listing Rules in relation to qualifications, experience and training.

8 Communications with Investors

The Board recognises the importance of good and effective communication with shareholders as a whole. In addition to the publication of information, announcements and circulars, the Company has also created a section titled "Investors Relations" on its website www.chinabluechem.com.cn where shareholders may access relevant information.

Pursuant to the provisions and requirements of the regulatory authorities, the Company is proactive in maintaining a good relationship with investors and making proper information disclosure , as well as maintaining continuous communication with shareholders, which includes, specifically, annual results presentation roadshows, participation in investors' forum organized by investment banks, invitation of investors/analysts to visit our sites, as well as interviews or teleconferences with investors.

There has been no change to the Articles during the reporting period. The latest full version of the Company's Articles has been published on the websites of the Stock Exchange and the Company respectively.

9 Internal control

Pursuant to the requirements of the Corporate Governance Code under the Listing Rules, the Board is responsible for ensuring that the Company's internal monitoring and control mechanism operates soundly, stably and effectively, so as to safeguard the investment benefits of shareholders and the assets of the Company. During the reporting period, the Company maintains a good internal control and risk management system which takes into account the practical circumstances of the Company and strictly complies with the relevant requirements of the Listing Rules and the Basic Internal Control Norms for Enterprises.

In 2012, the Company continued to optimise and improve its intra-Group internal control system and its internal control and management standard has been enhanced thanks to strengthened implementation of measures through internal audit and internal control inspection and evaluation. To vigorously safeguard against its development and operations risks, the Company built a risk management platform taking into account its development strategy and actual operations management, whereby major risks faced by the Company were identified and assessed and relevant measures were formulated and implemented in a rigorous manner.

At the end of 2012, the Audit Committee conducted a comprehensive review of the effectiveness and results of the internal control system of the Company and its subsidiaries, covering important controls over all aspects of financial, operational and compliance control and risk management functions, and reported to the Board in detail. Following the review, the Board has confirmed the effectiveness of the internal control system of the Group.

10 Auditors and Fees

Ernst & Young and Ernst & Young Hua Ming are the international and domestic auditors of the Company respectively. The audit fees for 2012 was RMB3.90 million, which has been approved by the Audit Committee.

For the year ended 31 December 2012, the auditors of the Company and their affiliated entities have not provided any non-audit services to the Company and no non-audit service fee has been incurred.

The responsibility statement of the Company's external auditor on the consolidated financial statements is set out on page 51 of this annual report.

11 2012 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 businesses 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 20 March 2013, the Company and CNOOC held the 2012 annual review on non-competition.

At the meeting, there was a review of the investment opportunities obtained during the reporting period 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.

12 Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for the Group's financial statements, and that they should assess the Company's financial position, results, cash flow position and prospects for the period in a balanced, lucid 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 event or condition of uncertainty which may significantly affect the Company's ability to continue as a going-concern.

Directors, Supervisors and Senior Management

6 5 4 1 2 7 3

Non-Executive Director

❶ **Mr. LI Hui,** was born in 1963 and graduated from the University of International Business and Economics with a bachelor's degree in 1987. He is a senior professor in international business with wide-ranging experience in the international trade sector and profound understanding in the operation of the international trade and capital markets. Mr. Li served in a number of positions in China National Metals & Minerals Import & Export Corporation from August 1987 to January 2000, including deputy general manager of its trade unit (五礦貿易有限公司) and president of its South American unit (南美五礦有限公司) ; deputy general manager of Beijing Economic-Technological Development Area from September 1998 to January 2000; assistant general manager and deputy director of the oil group of China National Chemicals Import & Export Corporation (which was renamed as Sinochem Group in October 2003, hereinafter referred to as "Sinochem") from January 2000 to July 2001; vice president of Sinochem, director of its oil group and general manager of Sinochem International Oil Company from July 2001 to August 2009; and vice president of Sinochem and general manager of Sinochem Petroleum Exploration and Production Co., Ltd. from September 2009 to May 2010. Since May 2010, Mr. Li has been the vice president of China National Offshore Oil Corporation. Mr. Li was appointed non-executive Director of the Company in July 2011.

❷ **Mr. YANG Shubo,** was born in 1956 and graduated from the department of Mechanics of East China Petroleum Institute in 1982 with a bachelor's degree in Engineering majoring in Petroleum Mechanics. In June 2000, he obtained a master of business administration degree from Tianjin University. Mr. Yang served as deputy division head of the production technology department, head of the operations division, head of the quality management division and deputy manager at the platform manufacturing plant of China Offshore Oil Bohai Corporation (中國海洋石油渤海公司平台製造廠) from January 1982 to November 1994; deputy general manager of China Offshore Oil Platform Manufacturing Company (中海石油平台製造公司) and, concurrently, general manager of Chiwan Shengbaowang Engineering Company (赤灣勝寶旺工程公司) from November 1994 to May 1999; deputy general manager of China Offshore Oil Ocean Engineering Company (中海石油海洋工程公司) and concurrently managing director of Chiwan Shengbaowang Engineering Company (赤灣勝寶旺工程公司) from May 1999 to September 2001; executive deputy general manager and managing director of Offshore Oil Engineering Co., Ltd. from September 2001 to October 2005; general manager of the CNOOC Engineering and Construction Department and concurrently general manager of the Engineering and Construction Department of CNOOC Limited from October 2005 to February 2007; assistant to general manager for CNOOC's Rainbow Project from February 2007 to December 2007; deputy general manager of CNOOC Gas & Power Group and concurrently head of its Technology R&D Centre from December 2007 to April 2009; and deputy general manager of CNOOC Refinery & Petrochemicals and Sales Division from May 2009 to December 2011. Since December 2011, he has been general manager of CNOOC Refinery & Petrochemicals and Sales Department. Mr. Yang was appointed non-executive Director of the Company in June 2012.

❸ **Mr. ZHU Lei,** was born in 1969 and graduated from the department of Petroleum Construction Engineering of Southwest Petroleum University in 1991 with a bachelor's degree in Engineering majoring in Petroleum Storage and Transportation. He has worked in CNOOC Group for over 20 years. He was a quality controller at China Offshore Oil Platform Manufacturing Company (中海石油平台製造公司) from September 1991 to October 1995; equipment management personnel with the CNOOC Operations Department and Planning Department, respectively, from October 1995 to May 2003; head of the Planning and Statistics Office of the CNOOC Planning Department from May 2003 to January 2009; and deputy general manager of the CNOOC Planning Department from January 2009 to December 2011. Since January 2012 he has been deputy general manager of the CNOOC Strategy and Planning Department and deputy general manager of the Strategy and Planning Department of CNOOC China Limited. Mr. Zhu was appointed non-executive Director of the Company in June 2012.

Executive Directors

❹ **Mr. YANG Yexin,** born in 1956, is an executive Director, the Chief Executive Officer and President of the Company. He graduated from Wuhan Communication Technology University in 1978 majoring in Vessel Engineering, obtained a master's degree in Business Management from China University of Petroleum (Beijing) in 2004 and obtained his qualification as a senior engineer (professor-grade) of CNOOC in early 2012. He joined the CNOOC Group in 1978 and had served as mechanical engineer and deputy head of the mechanics division of China Offshore Oil Southern Drilling Company. He served as deputy general manager of CNOOC Nanhai West CPEC (Shekou) Company in 1992; chief officer of the equipment division of CNOOC Nanhai West Corporation in 1993; deputy general manager of China Offshore Oil Southern Drilling Company from 1994 to 1999; general manager of China Offshore Oil Southern Shipping Company from 1999 to 2001; general manager of CNOOC Shipping Company Limited from 2001 to 2002; and director and executive vice president of China Oilfield Services Limited from August 2002 to September 2003. Mr. Yang joined the Company in August 2003 and was appointed chairman of CNOOC Fudao Limited. He was appointed as director in September 2003 and general manager of the Company in October 2005. He has been chairman of CNOOC Kingboard Chemical Limited since its incorporation. Mr. Yang was appointed executive Director of the Company in April 2006.

Independent Non-Executive Directors

❺ **Mr. GU Zongqin,** was born in 1955 and graduated from Nanjing Chemical Engineering Institute in February 1982 majoring in Inorganic Chemical Engineering. He worked in the Chemical Fertilizer Division of the Planning Institute of the Ministry of Chemical Industry from February 1982 to June 1991 and served as deputy director of the Chemical Fertilizer Division between July 1991 and June 1993. From July 1993 to October 1994, Mr. Gu was assistant to the president of the Planning Institute of Ministry of Chemical Industry and from November 1994 to January 2000, he served as vice president of the Planning Institute of Ministry of Chemical Industry. He has been president and Chinese Communist Party ("CCP") Committee secretary of the China National Petroleum and Chemical Planning Institute since February 2000 and deputy president of China Petroleum and Chemical Industry Association since April 2006. Mr. Gu has been independent director of Shaanxi Xinghua Chemical Co., Ltd. (陝西興化化學股份有限公司) (a company listed on Shenzhen Stock Exchange) since May 2007 and independent director of Guizhou Chitianhua Co. Ltd. (貴州赤天化股份有限公司) (a company listed on Shanghai Stock Exchange) since April 2008. Mr. Gu was appointed independent non-executive Director of the Company in June 2010.

❻ **Ms. LEE Kit Ying,** Karen was born in 1948 and obtained a bachelor's degree from City of London Polytechnic, U.K. (now known as London Metropolitan University) in 1979 majoring in Accountancy and a master's degree from City University of Hong Kong in 1998 majoring in Financial Engineering. She was previously chief financial officer of Hong Kong Exchanges and Clearing Limited and is currently chairman of Virtus Foundation Limited. Ms. Lee has over 20 years' experience in derivative products and the operation, supervision and risk management of securities markets. She has previously held a number of senior positions in Hong Kong Futures Exchange, the Stock Exchange and Hong Kong Exchanges and Clearing Limited. Ms. Lee is a fellow of the Institute of Chartered Accountants in England and Wales. Ms. Lee has been independent non-executive director of Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Main Board of the Stock Exchange and Shanghai Stock Exchange) since 18 December 2009. Ms. Lee was appointed independent non-executive Director of the Company in June 2012.

❼ **Mr. LEE Kwan Hung,** Eddie was born in 1965 and received his Law (LL.B (Honours)) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997 and is a practising lawyer. Mr Lee was senior manager of the Listing Division of The Stock Exchange between 1993 and 1994. Mr. Lee currently holds the position of independent non-executive director respectively at Yuexiu REIT Asset Management Limited, Embry Holdings Limited, NetDragon Websoft Inc., Asia Cassava Resources Holdings Limited, Futong Technology Development Holdings Limited, Walker Group Holdings Limited, Newton Resources Ltd, Tenfu (Cayman) Holdings Company Limited and Far East Holdings International Limited, the shares of all of which are listed on the Stock Exchange. Mr. Lee was appointed independent non-executive Director of the Company in June 2012.

Supervisors

8 **Mr. QIU Kewen,** was born in 1955 and graduated from the Department of Mathematics and Mechanics of Sun Yat-sen University in 1982 majoring in Automatic Control. He enrolled in Management Science and Engineering program at China University of Petroleum at Beijing between September 1997 and July 1999 and obtained a master's degree in Management. Mr. Qiu served as the port supervisor of Guangzhou Maritime Bureau from March 1976 to March 1978; lecturer of Sun Yat-sen University from January 1982 to June 1985; 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 June 1985 to December 1999; vice president and branch secretary of the CCP Committee of CNOOC Research Center, Nan Hai East Institute from January 2000 to April 2004; deputy secretary of CCP Committee, secretary of Discipline Inspection Committee and chairman of the labour union of CNOOC Nanhai East Corporation from May 2004 to July 2009 and concurrently chairman of the Supervisory Committee of CNOOC Huizhou Petrochemicals Service Co., Ltd from June 2004 to May 2006; and secretary of Discipline Inspection Committee and chairman of the labour union of Petroleum Administration of CNOOC Nanhai East Corporation from July to November 2009. 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. Mr. Qiu was appointed Supervisor of the Company in June 2010.

9 **Mr. HUANG Jinggui,** born in 1963, is a specialist entitled to the State Council's special allowance. Mr. Huang is a university professor with more than 20 years' faculty experience. He graduated from Wuhan University with a bachelor's degree in economics in 1986 and pursued postgraduate studies in Economics at 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 head of the university's Master of Business Administration Education Centre. He is currently the dean of Hainan Vocational College of Economics and Business, vice president of the Hainan Federation of Industrial Economics, vice president of Hainan Consumers Association, vice president of Hainan Economics Society and 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 independent Supervisor of the Company in April 2006.

10 **Ms. LIU Lijie,** was born in 1970 and obtained a bachelor's degree from China Finance Institute (now known as School of Banking and Finance, University of International Business and Economics) in 1993 majoring in International Finance. Ms. Liu currently holds the title of senior accountant and is also a certified public accountant in China. Ms. Liu worked with the Finance Department of China National Chemical Construction Corporation ("CNCCC") from August 1993 to February 2003. She was head of the import and export accounting division under the Finance Department of CNCCC from March 2003 to June 2006; deputy manager of the Finance Department of CNCCC Fine Chemical Industry Co., Ltd. (中化建精細化工有限責任公司) from July 2006 to May 2007; assistant to the general manager of the Finance Department of CNCCC from June 2007 to June 2008; assistant to the general manager of the Financial Management Department of the Company from July 2008 to August 2009; and deputy general manager of the Treasury Management Department of the Company from September 2009 to August 2012. She has been the general manager of the Audit & Supervising Department of the Company since September 2012. Ms. Liu was appointed Supervisor of the Company in September 2012.

Supervisors

8

9

10

Senior Management

11

12

13

Senior Management

11 **Mr. FANG Yong,** born in 1960, is an executive vice president of the Company. Mr. Fang graduated from Shandong TV University in 1984 majoring 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 head of the contract management division under the ethylene management office. Since 1992, he had been head of foreign affairs, assistant to general manager and manager of the sales office of CNOOC Fudao Limited (which was acquired by the Company in 2001) before being appointed deputy general manager of CNOOC Chemical Limited in April 2001 and director and president of CNOOC Fudao Limited in December 2001. He was appointed Director of the Company in November 2003 and deputy general manager in October 2005. Mr. Fang was an executive Director of the Company from April 2006 to June 2012.

12 **Mr. CHEN Kai,** born in 1957, is an executive vice president of the Company. Mr. Chen graduated from the Department of Philosophy of Sun Yat-sen University in 1982 majoring in philosophy. He joined the CNOOC Group in 1982 and had served as deputy director of the cultural centre, head of the promotions division, office director, and CCP Committee secretary of CNOOC Nanhai West Corporation as well as CCP Committee secretary of CNOOC Shipping Limited. He was vice president of China Oilfield Services Limited from August 2002 to October 2005; and general manager of Tianye Chemical (which was acquired by the Company in 2006) from July 2004 to January 2009. Mr. Chen has been a deputy general manager of the Company since October 2005 and chairman of Tianye Chemical since February 2006. Mr. Chen was an executive Director of the Company from April 2006 to June 2012.

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

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

14

15 **Mr. MIAO Qian,** born in 1963, is a vice president of the Company. Mr. Miao graduated from Fuzhou University majoring in Civil Construction in 1983. He then joined the CNOOC Group and had served as deputy head of the engineering management division of CNOOC Nanhai West Corporation, head of the engineering management division of CNOOC Nanhai West Real Estate Company and manager of CNOOC Nanhai West Jianyuan Company. He joined the Company in May 2002 and served in the methanol project department as assistant to the general manager of the Company. In October 2005, he was appointed deputy general manager of the Company. In September 2010, he was appointed chairman of Hegang Huahe Coal Chemical Ltd.

15

16 **Mr. WANG Weimin,** born in 1965, is a vice president of the Company. Mr. Wang graduated from the Department of Chemical Engineering of Hebei Polytechnic Institute in 1989 majoring in organic chemistry. He obtained an MBA degree from the School of Management of Tianjin University in March 2001 and an EMBA degree from China Europe International Business School in July 2001. He was technician at Qinhuangdao Sino-Arab Chemical Fertilizer Corp. (秦皇岛中阿化肥配套总公司) from July 1989 to January 1990; shift leader of process workshop, section leader of finished product workshop and head of finished product workshop of Sino-Arab Chemical Fertilizers Co. Ltd. from January 1990 to June 1994; assistant to general manager and CCP committee member of Sino-Arab Chemical Fertilizers Co. Ltd. from June 1994 to December 1995; production plant manager and CCP Committee member of Sino-Arab Chemical Fertilizers Co. Ltd. from December 1995 to June 1998; deputy general manager and CCP Committee member of Sino-Arab Chemical Fertilizers Co. Ltd. from June 1998 to November 2002; deputy general manager and CCP Committee member of Sino-Arab Chemical Fertilizers Co. Ltd. and leader of the on-site initiation team of the mineral-fertiliser integration project at Dayukou, Hubei from November 2002 to August 2005; general manager and CCP Committee secretary of Hubei Dayukou Chemical Co., Ltd. (which was acquired by the Company in 2009) from August 2005 to July 2008; assistant to president of the Company; and general manager and CCP committee secretary of Hubei Dayukou Chemical Co., Ltd. from July 2008 to July 2012. He was appointed vice president of the Company in August 2012,. He has been chairman of Hubei Dayukou Chemical Co., Ltd. since November 2012.

16

17 **Mr. ZHOU Renlin,** born in 1962, is a vice president of the Company. Mr. Zhou graduated from Nanjing Marine School in 1983 majoring in vessel driving. He obtained his undergraduate qualifications from Jianghan Petroleum University in June 2002 majoring in business administration. He served as crewman, helmsman, captain and deputy manager of business department of China Offshore Oil Southern Shipping Company from September 1983 to April 2000; manager of the Marine Technology Services Company of China OffshoreOil Southern Shipping Company from April 2000 to November 2001; deputy manager of the Crew Services Company of CNOOC Shipping Company Limited from November 2001 to October 2002; deputy general manager of Zhanjiang Branch of China Oilfield Services Limited from October 2002 to September 2004; general manager of the terminal project team of CNOOC Chemical Limited from September 2004 to May 2006; general manager of Hainan Basuo Port Limited from May 2006 to March 2007; assistant to president of the Company and general manager of Hainan Basuo Port Limited from March 2007 to April 2010; and assistant to president of the Company and executive deputy general manager of [Hainan Base] from April 2010 to July 2012. Mr. Zhou is also chairman of Hainan Basuo Port Limited. Mr. Zhou was appointed vice president of the Company in August 2012.

17

Report of Directors

The Directors are pleased to present the audited financial statements for the year ended 31 December 2012 of the Company and the Group.

Principal Activities

The Company and its subsidiaries (the "Group") and associates are principally engaged in the manufacture and sale of fertilisers (mainly urea and phosphate fertilisers) and chemical products (mainly methanol and POM) during the prior years.

Results

Profit of the Group for the year ended 31 December 2012 and the financial position of the Company and the Group as at that date are set out on pages 52 to 60 of the financial statements.

Dividends

The Board recommended the payment of a final dividend of RMB0.15 per share (tax inclusive) for 2012, aggregating RMB691.5 million. The proposed final dividend for 2012 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 mid-price of the average official exchange rate of Renminbi and Hong Kong Dollar, as quoted 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 major subsidiaries of the Company as at 31 December 2012 are set out in Note 20 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 of this report. 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 2012, 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, 25,000,122 shares were unlisted foreign Shares, and the remaining 1,771,000,000 shares were H shares, accounting for approximately 61.04%, 0.54% and 38.42% respectively of the total issued share capital.

Details of the share capital structure of the Company as at 31 December 2012 are set out in Note 31 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.

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 2012.

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 2012, the reserves available for distribution of the Company was RMB5,399.3 million.

Charitable Donations

During the year, the Group made charitable donations of RMB5.65 million in total.

Major Customers and Suppliers

During the reporting period, sales to the Group's five largest customers accounted for 14% of the total sales for the year and sales to the largest customer included therein amounted to 3% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 44% of the total purchases for the year and purchases from the largest supplier accounted for 30% 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 "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 as at 31 December 2012 were:

Executive Director:	
YANG Yexin	Re-appointed on 5 June 2012
Non-executive Directors:	
LI Hui	Re-appointed on 5 June 2012
YANG Shubo	Appointed on 5 June 2012
ZHU Lei	Appointed on 5 June 2012
Independent Non-executive Directors:	
GU Zhongqin	Re-appointed on 5 June 2012
Lee Kit Ying	Appointed on 5 June 2012
Lee Kwan Hung	Appointed on 5 June 2012
Supervisors:	
QIU Kewen	Re-appointed on 5 June 2012
HUANG Jinggui	Re-appointed on 5 June 2012
LIU Lijie	Appointed on 29 September 2012

Note: Due to other work commitments, Mr. FANG Yong, Mr. CHEN Kai, Mr. ZHANG Xinzhi and Mr. TSUI Yiu Wa, Alec did not offer themselves for re-election of the members of the third session of the Board of the Company upon the expiry of their term on 5 June 2012.

In addition, the Company convened a meeting of the employee representatives in which Ms. LIU Lijie was elected as the Supervisor representing employees of the Company. Mr. ZHANG Ping ceased to be the employee supervisor of the Company due to other work commitments.

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 discharge 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 laws, regulations and the Articles promptly, save that the 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 31 to 35 of this annual report.

Service Contracts of Directors and Supervisors

At the AGM of the Company held on 5 June 2012, 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 has entered into a service contract with the Company for a term of office of three years from 5 June 2012 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, and may serve consecutive terms upon re-election.

A meeting of the employee representatives was convened on 29 September 2012 by the Company in which Ms. LIU Lijie was elected as the Supervisor representing the Company's employees of the third session of the Supervisory Committee of the Company, who has entered into a service contract with the Company and shall hold office until a new Supervisor representing the employees is elected at the meeting of the employee representatives of the Company to be held in the year in which the term of office expires.

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

Remunerations of Directors and Supervisors

Details of the remunerations of current and past 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 2012 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 passed by the extraordinary general meeting of the Company 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 Nonexecutive 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, the grantees are not permitted to exercise their share appreciation rights in the two years following the shareholders' approval of the Scheme, and 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 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 preceding financial year, until the end of the immediate preceding financial year of the Company.

Pursuant to the Scheme, the Scheme is 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 of 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 of 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 2012, the following Directors, Supervisors 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 (%)
YANG Yexin	Executive Director, Chief Executive Officer and President	891,000	0.05	0.02
FANG Yong	Executive Vice President	681,000	0.04	0.01
CHEN Kai	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
MIAO Qian	Vice President	616,000	0.03	0.01
LIANG Mingchu (Note 1)		616,000	0.03	0.01

Note:

(1) Effective from 23 February 2012, Mr. LIANG Mingchu ceased to be the Vice President of the Company. During his term he was granted 616,000 H-Share Appreciation Rights.

(2) Mr. WU Mengfei resigned as the Chairman and a Non-executive Director of the Company on 29 July 2011. During his term he was granted 1,053,000 H-Share Appreciation Rights.

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

Pursuant to the H-Share Appreciation Rights Scheme mentioned above, as at 31 December 2012, the share appreciation rights granted by the Company to the Directors, Supervisors and chief executive of the Company were as follows:

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 (%)
YANG Yexin	Beneficial owner	891,100 (L)(Note 2)	H Shares	0.05 (L)	0.02 (L)
FANG Yong(Note 1)	Beneficial owner	681,000 (L)(Note 3)	H Shares	0.04 (L)	0.01 (L)
CHEN Kai(Note 1)	Beneficial owner	681,000 (L)(Note 4)	H Shares	0.04 (L)	0.01 (L)

Notes: The letter (L) denotes long position.

(1) With effect from 5 June 2012 Mr. Fang Yong and Mr. Chen Kai ceased to be executive directors of the Company.

(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, as at 31 December 2012, to the best knowledge of the Directors and chief executives of the Company, none of the Directors, Supervisors, chief executives and their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or the associated corporations (within the meaning of Part XV of the SFO) which were required 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 to have or taken to have under such provisions of the SFO), or to be entered into the register kept pursuant to Section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules.

Interests of Substantial Shareholders

As at 31 December 2012, to the best knowledge of any of the Directors and chief executives of the Company, 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 substantial shareholders and other persons (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 (%)
China National Offshore Oil Corporation(Note 1)	Beneficial owner; security interests in shares held through a controlled corporation	2,788,999,756 (L) (Note 2)	Domestic Shares	99.11(L)	60.50(L)
Commonwealth Bank of Australia	Interests in controlled corporation	177,804,000(L) (Note 3)	H Shares	10.04(L)	3.86(L)
Blackrock, Inc.	Interest in controlled corporation	141,865,985(L) 5,384,688(S)	H Shares	8.01(L) 0.30(S)	3.08(L) 0.12(S)
JP Morgan Chase & Co.	Beneficial owner; Investment manager; custodian /approved lending agent	118,199,067(L) 0(S) 115,133,067(P) (Note 5)	H Shares	6.67(L) 0.00(S) 6.50(P)	2.56(L) 0.00(S) 2.50(P)
Government of Singapore Investment Corporation Pte Ltd	Investment manager	106,479,765(L)	H Shares	6.01(L)	2.31(L)
Mondrian Investment Partners Limited	Investment manager	89,810,000(L)	H Shares	5.07(L)	1.95(L)
The Bank of New York Mellon Corporation	Interests in controlled corporation	88,751,779(L) 87,533,339(P) (Note 6)	H Shares	5.01(L) 4.94(P)	1.93(L) 1.90(P)

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

(1) Mr. LI Hui, the Chairman and Non-executive Director of the Company, is also the deputy general manager of China National Offshore Oil Corporation ("CNOOC").

(2) Out of the 2,788,999,756 domestic shares, 2,738,999,512 shares are held as beneficial owner and 50,000,244 shares are held as having security interests in shares through a controlled corporation, CNOOC Finance Corporation Limited ("CNOOC Finance").

(3) These shares are held directly by a number of controlled corporations of Commonwealth Bank of Australia, which are First State Investments (Hong Kong) Ltd, and First State Investment Management (UK) Limited.

(4) These shares are held directly by a number of controlled corporations of BlackRock, Inc., which are BlackRock Investment Management, LLC., BlackRock Financial Management, Inc., BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Advisors, LLC., BlackRock International Holdings Inc., BlackRock Asset Management Canada Limited, BlackRock Japan Co. Ltd., BlackRock Investment Management (Australia) Limited, BlackRock Asset Management Australia Limited, BlackRock Asset Management North Asia Limited, Blackrock Advisors UK Limited, BlackRock (Netherlands) B.V., BlackRock (Luxembourg) S.A., BlackRock Asset Management Ireland Limited, BlackRock Investment Management (UK) Limited, BlackRock Fund Managers Limited and BlackRock International Limited.

(5) These shares are held directly by a number of controlled corporations of JP Morgan Chase & Co., which are JP Morgan Chase Bank N.A., J.P. Morgan Whitefriars Inc, J.P. Morgan Investment Management Inc. and JP Morgan Asset Management (UK) Limited.

(6) These shares are held directly by a controlled corporation of The Bank of New York Mellon Corporation, which is The Bank of New York Mellon.

Save as disclosed above, to the best knowledge of any of the Directors and chief executives of the Company, as at 31 December 2012, no person (other than a Director, Supervisor and chief executive of the Company or their respective associates) had 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 which required reporting and annual review in 2012 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 of the Company pursuant to Rule 14A.11 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, and also a connected person of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

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

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

CNOOC Gas & Power Group ("CNOOC Gas & Power") is a wholly-owned subsidiary of CNOOC and CNOOC Gas Pipelining Limited ("CNOOC Gas Pipeline") is a non-wholly-owned subsidiary of CNOOC Gas & Power. CNOOC Pipelining Fuel & Chemical (Hainan) Limited ("CNOOC Ranhua") is a wholly-owned subsidiary of CNOOC Gas Pipeline. CNOOC Gas & Power, CNOOC Gas Pipeline and CNOOC Ranhua are associates of CNOOC pursuant to Rule 19A.04 of the Listing Rules, and therefore connected persons of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

2 **Kingboard Investment Limited ("Hong Kong Kingboard") and its Associates**

The Company holds 60% of the equity interests in CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") while Hong Kong Kingboard, a subsidiary of the Kingboard Chemical Group, holds the remaining 40% equity interests. CNOOC Jiantao was previously a jointly-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., the Kingboard Chemical Group) are also connected persons of the Company.

3 **Zhejiang AMP Incorporation ("Zhejiang AMP") and its Associates**

On 11 July 2010, CNOOC Fudao Limited ("CNOOC Fudao"), a wholly-owned subsidiary of the Company, entered into a purchase agreement with Zheijiang AMP, under which CNOOC Fudao agreed to purchase and Zheijiang AMP agreed to sell the 21% equity interests in Guangxi Fudao Agricultural Means of Production Limited ("Guangxi Fudao AMP"). Upon completion of the acquisition, the equity interests of Guangxi Fudao AMP are held as to 51% by CNOOC Fudao and as to 49% by Zheijiang AMP, as result of which Guangxi Fudao AMP became a non-wholly-owned subsidiary of the Company, while Zheijiang AMP became a substantial shareholder of Guangxi Fudao AMP. Accordingly, Zheijiang AMP is a connected person of the Company pursuant to Rules 1.01 and 14A.11(1) of the Listing Rules.

Continuing Connected Transactions

1 **Properties Leasing Agreement**

The Company leases certain properties from CNOOC in its ordinary and usual course of business. The Company entered into a properties leasing agreement on 1 September 2006 with CNOOC (as supplemented by a supplementary agreement dated 5 November 2008) and the agreement expired on 31 December 2011.

On 9 November 2011, the Company re-entered into a properties leasing framework agreement with CNOOC (the "Properties Leasing Agreement") on normal commercial terms, pursuant to which the Group may lease properties and land use rights from CNOOC and its associates ("CNOOC Group").

The term of the Properties Leasing Agreement will commence on 1 January 2012 and expire on 31 December 2014, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The rent and/or property management fee for each lease should be agreed by the relevant parties by entering into separate agreements, taking into account such factors as the location and the state of the properties, and shall not be higher than the market rent and property management fees of similar properties.

In the financial year 2012, the rents paid by the Group for these properties were RMB27,195,000.

2 **COSL Transportation Agreement**

The Company needs to utilize sea transportation services provided by COSL for its products in the ordinary and usual course of its business. The Company and COSL entered into a transportation services framework agreement on 1 September 2006 (as supplemented by a first supplemental agreement dated 5 November 2008) and the agreement expired on 31 December 2011).

The Company entered into a second supplemental agreement to the transportation services framework agreement on 9 November 2011 with COSL (together with transportation services framework agreement dated 1 September 2006, the "COSL Transportation Agreement").

Pursuant to this, (i) the terms of the transportation services framework agreement with COSL dated 1 September 2006 remain unchanged, and (ii) the term of the COSL Transportation Agreement has been extended to commence on 1 January 2012 and expire on 31 December 2014 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The actual aggregate expenses incurred by the Group in relation to the transactions under the COSL Transportation Agreement in the financial year 2012 amounted to RMB179,961,000.

3 **Natural Gas Sale and Purchase Agreements**

During the year, the Group continued to purchase natural gas pursuant to the three long-term agreements (collectively known as the "Natural Gas Sale and Purchase Agreements") entered into with CNOOC China, a wholly-owned subsidiary of CNOOC Limited:

(1) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between CNOOC China and the Company dated 28 July 2003, under which CNOOC China Limited 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.

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

(3) the Natural Gas Sale and Purchase Framework Agreement between CNOOC China and the Company dated 1 September 2006, under which CNOOC China has committed to supply natural gas for the Company's future plants. This agreement does not include the transactions conducted under the two preexisting agreements mentioned above. Under this framework agreement, CNOOC China will sell natural gas to the Company and/or the Company's subsidiaries at a price which is determined on a fair and reasonable basis (including by reference to the prices of four major types of crude oil in the international markets) and in accordance with normal commercial customs. The term of the agreement is of 20 years commencing on the date of the agreement. CNOOC China and the Company or the Company's relevant subsidiaries will enter into separate agreements which will set out the specific terms and conditions for natural gas sales and purchases according to the principles laid down by this framework agreement.

On 26 March 2010, CNOOC China and the Company entered into the "Ledong Natural Gasfields Natural Gas Sale and Purchase Agreement" under the Natural Gas Sale and Purchase Framework Agreement dated 1 September 2006, 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.

In 2012, the aggregate expenses of the Group on purchases of natural gas from CNOOC China in 2012 amounted to RMB1,906,659,000.

4 **Comprehensive Services and Product Sales Agreement**

The Company entered into a comprehensive services and product sales framework agreement with CNOOC on 1 September 2006 (as supplemented by a supplemental agreement dated 5 November 2008) and the agreement expired on 31 December 2011.

On 9 November 2011, the Company re-entered into a comprehensive services and product sales framework agreement with CNOOC (the "Comprehensive Services and Product Sales Agreement"), which was approved by the Shareholders at the extraordinary general meeting held on 30 December 2011, pursuant to which:

(a) the CNOOC Group may provide services and supplies to the Group (such as telecommunication and network services, engineering services, construction services, agency services, equipment leasing and maintenance, project management services, labour services, materials/equipment procurement services, transportation services, technical training services, catering, hospital and vehicle rental);

(b) the Group may provide services and supplies to the CNOOC Group (such as provision of offices and facilities, vehicle rental, logistics management and services, accommodation/conference services/business services/catering services and transportation); and

(c) the Group may sell products to the CNOOC Group and the CNOOC Group may sell products to the Group.

The term of the Comprehensive Services and Product Sales Agreement will commence on 1 January 2012 and expire on 31 December 2014, 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 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) where there is a government-prescribed price (including that prescribed by local governments) or a government guidance price, at the government-prescribed price or the government guidance price;

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

(iii) where neither of the above (i) and (ii) is applicable, the price will be determined based on the cost plus a gross margin of up to 10% on cost (before tax).

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services and products, and the terms and conditions of providing such services and the sale and purchase of such products according to the principles laid down by the Comprehensive Services and Product Sales Agreement.

The annual costs of services, supplies and products obtained by the Group from CNOOC Group in 2012 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB282,338,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB262,549,000.

5 Financial Services Agreement

The Group utilizes from time to time financial services provided by CNOOC Finance and, therefore, entered into a financial services framework agreement with CNOOC Finance on 1 September 2006 (as supplemented by a first supplemental agreement dated 3 November 2008) and the agreement expired on 31 December 2011.

The Company entered into a second supplemental agreement to the financial services framework agreement dated 1 September 2006 with CNOOC Finance on 9 November 2011, (together with the financial services framework agreement dated 1 September 2006, the "Financial Services Agreement") which was approved by shareholders at the extraordinary general meeting held on 30 December 2011. Pursuant to this, (i) the terms of the financial service framework agreement with CNOOC Finance dated 1 September 2006 remain unchanged, (ii) the term of the Financial Service Agreement has been extended to commence on 1 January 2012 and expire on 31 December 2014, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transaction are complied with.

Pursuant to this, 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 notes discounting services;

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

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

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

(a) provision of loans to the Company: 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 reduced where the relevant laws and regulations allow;

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

(c1) bank notes 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 notes discounting is borne by the relevant parties presenting the notes;

(c2) arrangement of entrustment loans between our Company and our 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 Company shall have a 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 Company, the Company will be able to offset the amount due to the Company from CNOOC Finance against the amounts outstanding from the Company to CNOOC Finance. CNOOC Finance shall not have any offset right. CNOOC Finance and the Company may, from time to time when the situation requires, enter into separate agreements which set out the specific scope of services, terms and conditions of providing such financial services according to the principles laid down by the financial services framework agreement dated 1 September 2006.

In 2012, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB599,634,000. Annual expenses of the Group on category (c1), (c2) and (c3) services provided by CNOOC Finance amounted to RMB6,629,000.

6 Natural Gas Sale and Purchase Agreement with CNOOC Ranhua

The Company has been informed by CNOOC Gas Pipelining on 22 March 2012 that pursuant to the reorganisation, Hainan Haikong Fuel & Chemical Co., Ltd. ("Hainan Haikong"), an independent third party, will be absorbed and merged into CNOOC Gas Pipelining and will be deregistered upon completion of the reorganisation. Under the reorganisation, the natural gas business of Hainan Haikong has been assumed by CNOOC Ranhua, a wholly-owned subsidiary of CNOOC Gas Pipelining. Prior to the reorganisation, the Group has been conducting the transactions contemplated under the Natural Gas Sale and Purchase Agreement with Hainan Haikong. In contemplation of the completion of the reorganisation, CNOOC Ranhua, CNOOC Gas Pipelining and Hainan Haikong have requested CNOOC Fudao, and CNOOC Fudao confirmed on 28 March 2012, that the obligations and duties of Hainan Haikong under the Natural Gas Sale and Purchase Agreement would be assumed by CNOOC Ranhua with effect from the same date (known as the "Natural Gas Sale and Purchase Agreement with CNOOC Ranhua" below). Therefore, with effect from 28 March 2012, the transactions will continue to be conducted between CNOOC Fudao and CNOOC Ranhua on a regular and continuing basis, until the expiration of the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua in 2016. Pursuant to Rule 14A.41 of the Listing Rules, the transactions under the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua between the Company and CNOOC Ranhua are subject to the applicable reporting, annual review and disclosure requirements of Chapter 14A of the Listing Rules.

Details of the transactions are set out in the announcement published on 28 March 2012 by the Company.

Pursuant to the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua, CNOOC Ranhua has committed to supply CNOOC Fudao with natural gas as feedstock required for part of the Company's production in Hainan on a take-or-pay basis. Under the take-or-pay arrangement in the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua, CNOOC Ranhua is obliged to supply and CNOOC Fudao is obliged to purchase a minimum quantity of natural gas each year. Under the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua, the prices at which natural gas is supplied to our production facilities in Hainan are determined by the following mechanism:

(a) the prices are subject to upward or downward adjustments on a quarterly basis; and

(b) the applicable quarterly price is determined by reference to the prevailing crude oil price quoted by Platts Crude Oil Marketwire (the crude oil prices are the West Texas Intermediate crude oil price, Dubai crude oil price, Brent crude oil price and Minas crude oil price).

From 28 March 2012, the expenses incurred by the Group from purchases of natural gas from CNOOC Ranhua under Natural Gas Sale and Purchase Agreement with CNOOC Ranhua were RMB166,295,000.

7 Kingboard Product Sales and Services Agreement

The Company entered into a product sales and related services framework agreement with Hong Kong Kingboard on 22 August 2006 (as supplemented by a first supplemental agreement dated 5 November 2008) and the agreement expired on 31 December 2011.

The Company entered into a second supplemental agreement to the product sales and related services framework agreement with Hong Kong Kingboard on 9 November 2011 (together with the product sales and related services framework agreement dated 22 August 2006, the "Kingboard Product Sales and Services Agreement"), which was approved by the Shareholders at the extraordinary general meeting held on 30 December 2011, pursuant to which (i) the terms of the product sales and related services framework agreement dated 22 August 2006 remain unchanged, and (ii) the term of Kingboard Product Sales and Services Agreement has been extended to commence on 1 January 2012 and expire on 31 December 2014 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with. Hong Kong Kingboard (and/or its associates) and the Company may, from time to time when the situation requires, enter into separate agreements which set out the specific products and scope of services, terms and conditions of selling products or providing services according to the principles laid down by the product sales and related services framework agreement dated 22 August 2006.

Pursuant to the agreement, the Company agreed to sell products produced by the Group and to provide related services such as transportation services to Hong Kong Kingboard and its associates.

According to the Kingboard Product Sales and Services Agreement, the transactions would be conducted on normal commercial terms and conditions which shall not be less favorable than those offered to third parties and priced in accordance with the following pricing principles.

(i) price prescribed by the PRC government;

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

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

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

The aggregate revenue of the Group in 2012 from the sales of products and provision of related services to Hong Kong Kingboard and its associates amounted to RMB439,528,000.

8 Connected Transactions with Zhejiang AMP

In 2012, the Group continued to enter into transactions in relation to mutual provision of products and services with Zhejiang AMP and its associates under the terms and conditions of the framework agreement with Zhejiang AMP in 2006, the term of which was from 22 August 2006 to 31 December 2008 and was subsequently extended to 31 December 2015 by the parties to the framework agreement. Such transactions were conducted on normal continuing basis in the ordinary and usual course of business of the Group.

For 2012, the total revenue for the provision of products and services to Zhejiang AMP and its associates by the Group amounted to RMB85,710,000; and the total expenses for the acquisition of products and services from Zhejiang AMP and its associates by the Group amounted to RMB29,767,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2012 are set out below:

	Annual cap amounts for 2012 (RMB '000)	Actual transaction amounts for 2012 (RMB '000)
A. Continuing connected transactions with CNOOC and its associates		
(1) Leasing of properties and land use rights by the Group from the CNOOC Group under the Properties Leasing Agreement	29,208	27,195
(2) Provision of transportation services by COSL to the Group under the COSL Transportation Agreement	205,800	179,961
(3) Purchases of natural gas by the Group from CNOOC China under the Natural Gas Sale and Purchase Agreements	2,520,000	1,906,659
(4) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by the CNOOC Group to the Group	806,411	282,338
(b) Provision of services, supplies and sales of products by the Group to the CNOOC Group	426,777	262,549
(5) Financial Services Agreement		
(b) Deposits placed in CNOOC Finance by the Group (Note 1)	600,000	599,634
(c) Category (c1), (c2) and (c3) services provided by CNOOC Finance to the Group	_	6,629
(6) Purchases of natural gas by CNOOC Fudao from CNOOC Ranhua under the Natural Gas Sale and Purchase Agreement with CNOOC Ranhua	_	166,295
B. Continuing connected transactions with Hong Kong Kingboard and its associates		
Sales of products and provision of services to Hong Kong Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	776,558	439,528
C.Continuing connected transactions with Zhejiang AMP and its associates		
(1) Sales of products and provision of services to Zhejiang AMP and its associates by the Group	209,469	85,710
(2) Purchase of products and acceptance of services from Zhejiang AMP and its associates by the Group	92,400	29,767

Note:

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

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 associates (if applicable);
2. the transactions were conducted on normal commercial terms or terms which (if no comparable terms are available) were no less favourable than those offered to or by independent third parties; and
3. the transactions were conducted in accordance with the relevant agreements governing the transactions and all terms were fair and reasonable to the independent shareholders and 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 agreements governing such transactions; and

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

One-off Connected Transaction

On 24 December 2012, CNOOC Fudao, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Shanghai Shenxin Real Estate Co., Ltd ("Shanghai Shenxin"), pursuant to which CNOOC Fudao has agreed to purchase, and Shanghai Shenxin has agreed to sell, a 9.074% equity interest in Shanghai Qionghua Trading Co., Ltd. ("Shanghai Qionghua") with a total consideration of RMB3,714,500 (equivalent to approximately HK$4,578,115.76).

Before signing the Equity Transfer Agreement, the equity interest of Shanghai Qionghua was owned as to 90.926% by CNOOC Fudao and as to 9.074% by Shanghai Shenxin. Following the completion of the acquisition, Shanghai Qionghua became a wholly-owned subsidiary of CNOOC Fudao.

Shanghai Shenxin is a wholly-owned subsidiary of ZhongHai Investment and Management Co., Ltd. ("ZhongHai Investment"), 95% of equity interest in which is owned by the Company's ultimate parent company, CNOOC. As such, Shanghai Shenxin is a connected person of the Company. The Acquisition will constitute a connected transaction for the Company. As the highest applicable percentage ratio exceeds 0.1% but is less than 5%, the acquisition is only subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Details of the connected transaction are set out in the announcement published by the Company on 24 December 2012.

Save as disclosed above, none of the transactions disclosed as related party transactions in note 40 to the Financial Statements is a connected transaction or a continuing connected transaction for the Company as defined under the Listing Rules or they are connected transactions or continuing connected transactions for the Company exempt from the reporting requirements under the Listing Rules. The Company has complied with the disclosure requirements governing connected transactions under the Listing Rules.

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 2012 and up to the date of this annual 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 2012, 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 2012 annual results of the Company have been reviewed by the Audit Committee of the Board. The Committee has reviewed the accounting principles and practices adopted by the Company, and also discussed the auditing, internal control and financial reporting matters, including the review of the 2012 audited annual results with the management. There is no disagreement between the Audit Committee and Ernst & Young, the independent auditor, in relation to the accounting methods adopted in the preparation of the annual results during the reporting period.

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

The Company has adopted 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 ethical codes in respect of the securities transactions of the Directors and Supervisors. After making specific enquiries with all Directors and Supervisors, all Directors and Supervisors confirmed that they have strictly complied with the required standards as set out in the Model Code during the reporting period.

Auditors

The financial statements of the year have been audited by Ernst & Young who will retire at the forthcoming AGM, at which a resolution will be proposed by the Company for the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu Certified Public Accountants as the domestic and the international auditors of the Company for the year 2013. The Company did not change its auditor in any of the preceding three years.

For and on behalf of the Board

LI Hui

Chairman

Shenzhen, the PRC, 21 March 2013

Report of the Supervisory Committee

In 2012, all the members of the Supervisory Committee earnestly performed their supervisory functions in accordance with the relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules. The Supervisory Committee supervises the performance of our Directors by attending general meetings and Board meetings of the Company. The Supervisory Committee also inspects regularly the Company's major production and operation and the financial position of the Company, and conducts site inspections as and when required, in order to inform themselves of and supervise the performance of duties by the Company's senior management. The Supervisory Committee has adequately performed its supervisory functions to safeguard the interests of the Company and the shareholders.

1. Meetings of the Supervisory Committee and change of employee representative supervisors

(1) The 2012 First Meeting of the Supervisory Committee was held in Shenzhen, Guangdong on 27 March 2012 at which the 2011 Report of the Supervisory Committee of China BlueChemical Ltd. and the candidates for non-employee representative supervisors of the new session of the Company's Supervisory Committee were considered and passed, the 2011 financial reports was reviewed and the key tasks of the Supervisory Committee in 2012 were discussed.

(2) The 2012 Second Meeting of the Supervisory Committee was held in Beijing on 5 June 2012, at which the Chairman of the third session of the Supervisory Committee of the Company was elected.

(3) The 2012 Third Meeting of the Supervisory Committee was held in Shenzhen, Guangdong on 19 August 2012, at which the 2012 interim financial report of the Company was reviewed.

(4) On 29 September 2012, the assembly of employee representatives of the Company was convened in Beijing, at which Ms Liu Lijie was elected employee representative supervisor of the third session of the Supervisory Committee for a term until the election of a new employee representative supervisor at the next the assembly of employee representatives. Mr. Zhang Ping, the former employee representative supervisor, ceased to be an employee representative supervisor of the Company with effect from 29 September 2012 due to other work commitments.

2. Principal Inspection and Supervision Work of the Supervisory Committee in 2012

(1) Members of the Supervisory Committee supervised and inspected the financial position of the Company and its internal control systems, such as the financial management system, including regular inspections of the financial reports and budgets and reviews of information from time to time, such as the Company's accounting books, documents and their related contracts.

(2) Members of the Supervisory Committee attended the annual general meeting. Mr. Qiu Kewen, Chairman of the Supervisory Committee acted as scrutineer for the voting on various resolutions at the annual general meeting.

(3) The Supervisory Committee attended 5 Board meetings and exercised supervision over the legal and procedural compliance of Board proceedings and Board implementation of resolutions of general meetings.

(4) In 2012, investigations and researches were conducted by the Supervisory Committee at various sites, including bases in Hainan, Guizhou, Hubei and Inner Mongolia. The Supervisory Committee conducted key inspections of production operations, with special attention on cost management and control.

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

(1) Operation and management of the Company

During the reporting period, the Company managed to achieve satisfactory results in areas of production and operation, project construction, internal management and team building and meet the annual targets for production and operations. The management of the Company focused on the optimization and on-going improvement of our internal controls, and the level of corporate governance has been further enhanced as a result.

The management of the Company has performed 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

Members of the Supervisory Committee have conducted supervision and inspection of the Company's financial management system and financial conditions and reviewed the relevant financial information, such as the financial reports and profit distribution plans, proposed to be tabled at the general meeting by the Board. After due examination, the Supervisory Committee is of the opinion that the Company has 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 Supervisory Committee has reviewed the unqualified audited reports in respect of the financial position and operating results of the Company for 2012 audited by Ernst & Young Huaming, Certified Public Accountants and Ernst & Young, Certified Public Accountants pursuant to the PRC and International Accounting Standards, respectively, and had no objection to the report.

(3) Connected transactions

The Supervisory Committee conducted random examination of the connected transactions between the Company and its subsidiaries and connected persons from time to time during the reporting period, and is of the opinion that the Company complied with the relevant provisions of the Listing Rules, and the pricing of the connected transactions was reasonable, negotiated in a transparent manner and fair and there has not been any matter prejudicial to the interests of the shareholders and the Company.

(4) Implementation of the resolutions of general meetings

The Supervisory Committee had no objection to the reports and motions tabled at the general meetings for consideration and the Board had earnestly implemented the resolutions approved by the general meetings.

In 2013, the Supervisory Committee will continue to closely monitor the regulatory compliance and operations of the Company and supervise the actions of the Directors and senior management in their performance of duties, and pay close attention to any significant development of the Company and continue to strengthen procedural supervision over the Company's investment projects so as to facilitate growth in the Company's economic return 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.

By Order of the Supervisory Committee

Qiu Kewen

Chairman of the Supervisory Committee

Shenzhen, the PRC, 19 March 2013

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 52 to 130, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 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 disclosure requirements of 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, 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 2012, 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 Hong Kong Companies Ordinance.

Certified Public Accountants

22nd /F CITIC Tower

1 Tim Mei Avenue, Central

Hong Kong

21 March 2013

Consolidated income statement

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	5	10,739,211	9,756,314
Cost of sales		(7,432,872)	(6,488,688)
Gross profit		3,306,339	3,267,626
Other income and gains	5	121,069	127,861
Selling and distribution expenses		(218,101)	(169,381)
Administrative expenses		(432,778)	(418,259)
Other expenses		(32,784)	(32,057)
Finance income	6	15,621	15,966
Finance costs	7	(12,534)	(18,005)
Exchange (losses) /gains, net		(7,489)	2,327
Share of profits of associates		86	62
Impairment of property, plant and equipment	8	(131,694)	-
Profit before tax	8	2,607,735	2,776,140
Income tax expense	11	(624,115)	(556,398)
Profit for the year		1,983,620	2,219,742
Attributable to:			
Owners of the parent	12	1,810,463	1,985,777
Non-controlling interests		173,157	233,965
		1,983,620	2,219,742
Earnings per share attributable to ordinary equity holders of the parent			
- Basic for the year (RMB)	14	0.39	0.43
- Diluted for the year (RMB)		0.39	0.43

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 2012

	Note	2012 RMB'000	2011 RMB'000
Profit for the year		1,983,620	2,219,742
Other comprehensive income for the year, net of tax	15	-	-
Total comprehensive income for the year		1,983,620	2,219,742
Attributable to:			
Owners of the parent		1,810,463	1,985,777
Non-controlling interests		173,157	233,965
		1,983,620	2,219,742

Consolidated statement of financial position

As at 31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	10,031,001	9,347,634
Mining rights	17	481,304	482,868
Prepaid land lease payments	18	514,211	472,695
Intangible assets	19	124,905	129,685
Investments in associates	22	654,433	654,347
Available-for-sale investments	23	600	600
Deferred tax assets	24	139,319	110,198
		11,945,773	11,198,027
Current assets			
Inventories	25	1,672,210	1,473,422
Trade receivables	26	97,830	147,272
Bills receivable	27	83,890	81,196
Prepayments, deposits and other receivables	28	723,822	730,989
Available-for-sale investments	23	11,610	-
Pledged bank deposits	30	3,995	1,711
Time deposits	30	13,500	32,850
Cash and cash equivalents	30	2,578,880	2,803,266
		5,185,737	5,270,706
Total assets		17,131,510	16,468,733

Consolidated statement of financial position (continued)

As at 31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
Equity and liabilities			
Equity attributable to owners of the parent			
Issued capital	31	4,610,000	4,610,000
Reserves	32	7,907,868	6,789,415
Proposed dividends	32	691,500	737,600
		13,209,368	12,137,015
Non-controlling interests		1,417,305	1,430,653
Total equity		14,626,673	13,567,668
Non-current liabilities			
Benefit liability	33	48,590	53,411
Interest-bearing bank borrowings	34	-	425,000
Other long-term liabilities		153,598	129,802
Deferred tax liabilities	24	72,870	71,796
		275,058	680,009
Current liabilities			
Trade payables	35	405,282	318,689
Bills payable	35	23,100	8,550
Other payables and accruals	36	1,654,907	1,765,424
Income tax payable		146,490	128,393
		2,229,779	2,221,056
Total liabilities		2,504,837	2,901,065
Total equity and liabilities		17,131,510	16,468,733
Net current assets		2,955,958	3,049,650
Total assets less current liabilities		14,901,731	14,247,677
Net assets		14,626,673	13,567,668

YANG Yexin
Director

Lee Kit Ying
Director

Consolidated statement of changes in equity

Year ended 31 December 2012

	Notes	Attributable to owners of the parent		
		Issued capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2012		4,610,000	1,009,725	611,377
Profit for the year		-	-	-
Total comprehensive income for the year		-	-	-
Acquisition of non-controlling interests		-	(510)	-
Capital contribution by non-controlling interests		-	-	-
Appropriation and utilisation of safety fund, net		-	-	-
Transfer from retained profits		-	-	140,980
Proposed 2012 final dividend	13	-	-	-
Dividend paid to non-controlling shareholders		-	-	-
Final 2011 dividend declared		-	-	-
As at 31 December 2012		4,610,000	1,009,215*	752,357*

* These reserve accounts comprise the consolidated reserves of RMB7,907,868,000 (2011: RMB6,789,415,000) in the consolidated statement of financial position.

	Note	Attributable to owners of the parent		
		Issued capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2011		4,610,000	1,009,725	471,031
Profit for the year		-	-	-
Total comprehensive income for the year		-	-	-
Appropriation and utilisation of safety fund, net		-	-	-
Transfer from retained profits		-	-	140,346
Proposed 2011 final dividend	13	-	-	-
Dividend paid to non-controlling shareholders		-	-	-
Final 2010 dividend declared		-	-	-
As at 31 December 2011		4,610,000	1,009,725*	611,377*

* These reserve accounts comprise the consolidated reserves of RMB6,789,415,000 in the consolidated statement of financial position.

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
10,939	5,157,374	737,600	12,137,015	1,430,653	13,567,668
-	1,810,463	-	1,810,463	173,157	1,983,620
-	1,810,463	-	1,810,463	173,157	1,983,620
-	-	-	(510)	(23,751)	(24,261)
-	-	-	-	25,836	25,836
(7,594)	7,594	-	-	-	-
-	(140,980)	-	-	-	-
-	(691,500)	691,500	-	-	-
-	-	-	-	(188,590)	(188,590)
-	-	(737,600)	(737,600)	-	(737,600)
3,345*	6,142,951*	691,500	13,209,368	1,417,305	14,626,673

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
672	4,059,810	414,900	10,566,138	1,355,866	11,922,004
-	1,985,777	-	1,985,777	233,965	2,219,742
-	1,985,777	-	1,985,777	233,965	2,219,742
					-
10,267	(10,267)	-	-	-	-
-	(140,346)	-	-	-	-
-	(737,600)	737,600	-	-	-
-	-	-	-	(159,178)	(159,178)
-	-	(414,900)	(414,900)	-	(414,900)
10,939*	5,157,374*	737,600	12,137,015	1,430,653	13,567,668

Consolidated statement of cash flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Profit before tax		2,607,735	2,776,140
Adjustments for:			
Finance costs	7	12,534	18,005
Exchange losses/(gains), net		-	(2,327)
Share of profits of associates		(86)	(62)
Finance income		(15,621)	(15,966)
Gain on disposal of unlisted investments	5	(80,258)	(93,456)
Losses on disposal of items of property, plant and equipment	5,8	2,776	3,275
Depreciation	8	760,998	841,077
Amortisation of mining rights	8	1,564	1,385
Amortisation of prepaid land lease payments	8	12,243	12,176
Amortisation of intangible assets	8	11,189	8,841
Write-back of bad and doubtful receivables	8	(2)	(31)
Provision of impairment of items of property, plant and equipment	8	131,694	-
Write-back of provision for defined benefit plans	8	(295)	(428)
Provision of inventories to net realisable value	8	33,759	46,001
		3,478,230	3,594,630
Increase in inventories		(232,547)	(535,780)
Decrease/(increase) in trade receivables and bills receivable, prepayments, deposits and other receivables		25,222	(162,672)
(Decrease)/increase in trade payables, other payables and accruals and other long-term liabilities		(37,745)	518,409
Cash generated from operations		3,233,160	3,414,587
Defined benefits paid	33	(4,526)	(3,768)
Income tax paid		(634,065)	(580,336)
Net cash flows from operating activities		2,594,569	2,830,483

Consolidated statement of cash flows (continued)

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from investing activities			
Interest received		16,039	18,329
Purchases of items of property, plant and equipment		(1,507,319)	(1,919,447)
Proceeds from disposal of items of property, plant and equipment		85	376
Additions to prepaid land lease payments	18	(54,862)	(9,174)
Additions of intangible assets	19	(6,409)	(127,670)
Purchases of mining rights	17	-	(117)
Dividends received		-	408
Purchase of available-for-sale investments		(7,424,956)	(11,742,857)
Disposal of available-for-sale investments		7,493,550	11,836,313
Acquisition of non-controlling interests		(14,261)	-
Decrease in pledged bank deposits		(2,284)	6,845
Decrease in non-pledged time deposits with original maturity of three months or more when acquired		19,350	25,650
Net cash flows used in investing activities		(1,481,067)	(1,911,344)
Cash flows from financing activities			
Capital contribution by non-controlling interests		25,836	-
New bank borrowings		65,960	617,707
Repayment of bank and other borrowings		(490,960)	(528,407)
Interest paid		(12,534)	(18,187)
Dividends paid		(737,600)	(414,900)
Dividends paid to non-controlling shareholders		(188,590)	(159,178)
Net cash flows used in financing activities		(1,337,888)	(502,965)
Net (decrease)/increase in cash and cash equivalents		(224,386)	416,174
Cash and cash equivalents at 1 January		2,803,266	2,387,092
Cash and cash equivalents at 31 December		2,578,880	2,803,266

Statement of financial position

As at 31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	2,316,043	2,596,235
Investment properties		14,366	15,232
Prepaid land lease payments	18	74,295	45,681
Intangible assets	19	1,602	1,286
Investments in subsidiaries	20	4,388,845	4,281,0 01
Investments in jointly-controlled entities	21	122,258	122,189
Investment in an associate	22	637,000	637,000
Deferred tax assets	24	20,802	21,893
		7,575,211	7,720,517
Current assets			
Inventories	25	226,514	310,274
Trade receivables	26	26,879	32,149
Bills receivable	27	-	11,890
Prepayments, deposits and other receivables	28	110,156	117,626
Loans receivable	29	1,885,000	797,500
Cash and cash equivalents	30	1,468,379	1,653,204
		3,716,928	2,922,643
Total assets		11,292,139	10,643,160
Equity and liabilities			
Equity			
Paid-up capital	31	4,610,000	4,610,000
Reserves	32	5,399,274	4,667,598
Proposed dividends	32	691,500	737,600
Total equity		10,700,774	10,015,198
Non-current liabilities			
Other long-term liabilities		17,437	18,673
		17,437	18,673
Current liabilities			
Trade payables	35	152,415	53,090
Other payables and accruals	36	323,804	473,162
Income tax payable		97,709	83,037
		573,928	609,289
Total liabilities		591,365	627,962
Total equity and liabilities		11,292,139	10,643,160

Notes to the financial statements

31 December 2012

1 Corporate information

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

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sale of urea, methanol, phosphorus fertilisers which include mono-ammonium phosphate ("MAP") and di-ammonium phosphate ("DAP") fertilisers, and polyoxymethylene ("POM").

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

2.1 Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the owners of the parent and to the non-controlling interest even if it results in a deficit balance.

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

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

Notes to the financial statements (continued)

31 December 2012

2.2 Changes in accounting policy and disclosures

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

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

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

2.3 Issued but not yet effective international financial standards

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

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

Notes to the financial statements (continued)

31 December 2012

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

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

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

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

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

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

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

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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

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

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

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

Notes to the financial statements (continued)

31 December 2012

2.3 Issued but not yet effective international financial standards (continued)

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

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

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

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

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

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

The Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows::

(a) IAS 1 Presentation of Financial Statements: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

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

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

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies

Subsidiaries

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

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

Jointly-controlled entities

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 investments in its jointly-controlled entities are 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 financial statements on a line-by-line basis. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are 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. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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.

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

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 is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

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:

Land and 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.

Mining rights

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value 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.

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

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 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 lessor 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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the 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 financial assets at fair value through profit or loss, 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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..

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 costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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 revaluation 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it 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.

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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 income statement, is removed from other comprehensive income and recognised in the income statement.

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

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. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the 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 financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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, net of directly attributable transaction costs.

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

Subsequent measurement

The subsequent measurement of loans and borrowing is as follows:

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 amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

Inventories

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

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

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

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that 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 the deposits within three months, but excluding time deposits over three months which are disclosed as a separate single line on the consolidated statement of financial position.

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 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.

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:

- when 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, when 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.

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any 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:

- when 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

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;

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

(b) from the rendering of services, on the percentage of completion basis:

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

(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 over 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 payments

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 model; 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.

Other employee benefits

Retirement benefits

The Group, its jointly-controlled entities and associates participate in a government–regulated defined contribution pension scheme, under which the Group, its jointly-controlled entities 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 pays 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 actuarial valuation 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. When the net cumulative actuarial gains and losses exceed ten percent of the present value of the defined benefit obligation, the portion of actuarial gains and losses which excess that fell outside the 10% 'corridor' at the end of the previous reporting period, is recognised in the consolidated income statement over the expected average remaining working lives of the employees participating in that plan.

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

Notes to the financial statements (continued)

31 December 2012

2.4 Summary of significant accounting policies(continued)

Medical benefit costs

The Group, its jointly-controlled entities and associates participate in government–organised defined contribution medical benefit plans, under which the Group, its jointly-controlled entities 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 this plan by the Group are expensed as incurred. Details of the housing fund plan 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 such 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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5% and 13% has been applied to the expenditure on the individual assets.

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 entities 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 entities and associates.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates 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 arising on settlement or translation of money items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item.

Notes to the financial statements (continued)

31 December 2012

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.

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 described 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 involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the inventories and the write-down charge/write-back in the period in which these estimates have been changed.

(c) Provision for bad and doubtful receivables

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

Notes to the financial statements (continued)

31 December 2012

3 Significant accounting judgements and estimates (continued)

(d) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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

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

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

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

Notes to the financial statements (continued)

31 December 2012

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

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

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

Notes to the financial statements (continued)

31 December 2012

4 Operating segment information (continued)

Business segments (continued)

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

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

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include unallocated administrative expenses (RMB96,339,000), finance income (RMB15,966,000), exchange gains on translation of foreign operations (RMB2,327,000), finance costs (RMB18,005,000), bank charges (RMB2,078,000), other income and gains (RMB28,412,000), other expenses (RMB29,979,000) and other unallocated revenues (RMB16,582,000).
3. Segment assets do not include deferred tax assets (RMB110,198,000), available-for-sale financial assets (RMB600,000), cash and bank balances (RMB1,688,306,000), assets of centralised cost centre (RMB850,473,000) and inter-segment balances (RMB63,990,000).
4. Segment liabilities do not include interest payables (RMB452,000), deferred tax liabilities (RMB71,796,000), liabilities of centralised cost centre (RMB897,000) and inter-segment balances (RMB1,478,042,000).

Notes to the financial statements (continued)

31 December 2012

4 Operating segment information (continued)

Geographic information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

5 Revenue, other income and gains

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

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

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

Notes to the financial statements (continued)

31 December 2012

6 Finance income

Finance income represents interest income earned for the years ended 31 December 2012 and 2011.

7 Finance costs

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

8 Profit before tax

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		6,880,383	5,858,462
Cost of services provided		338,573	299,744
Depreciation	16	760,998	841,077
Amortisation of mining rights	17	1,564	1,385
Amortisation of prepaid land lease payments	18	12,243	12,176
Amortisation of intangible assets	19	11,189	8,841
Auditors' remuneration		3,900	3,900
Employee benefit expense (including directors' and supervisors' remuneration – note 9):			
Wages and salaries		494,848	446,644
Defined contribution pension scheme		69,640	58,989
Early retirement benefits and post-employment allowances (note 33)		(295)	(428)
Medical benefit costs		33,519	28,712
Cash-settled share option expense (note 37)		-	1,003
Housing fund		31,922	27,069
		629,634	561,989
Write-back of provision for bad and doubtful debts of other receivables*		(2)	(31)
Loss on disposal of items of property, plant and equipment *		3,152	3,461
Provision of inventories to net realisable value		33,759	46,001
Impairment of property, plant and equipment		131,694	-

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

Notes to the financial statements (continued)

31 December 2012

9 Key management personnel's remuneration

(i) 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 International Companies Ordinance are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	1,644	1,432
Discretionary bonuses	1,080	927
Cash-settled share option expense	-	534
Pension scheme contributions	118	110
	2,842	3,003

During the past years, certain directors and supervisors 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 in 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 supervisors' remuneration disclosures.

Notes to the financial statements (continued)

31 December 2012

9 Key management personnel's remuneration (continued)

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2012 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 directors					
Li Hui	45	-	-	-	45
Yang Shubo[1]	27	-	-	-	27
Zhu Lei[1]	27	-	-	-	27
	99	-	-	-	99
Executive directors					
Yang Yexin (Chief Executive)	321	320	-	43	684
Fang Yong[2]	222	368	-	34	624
Chen Kai[2]	289	392	-	41	722
	832	1,080	-	118	2,030
Independent non-executive directors					
Zhang Xinzhi[3]	78	-	-	-	78
Tsui Yiu Wa, Alec[3]	127	-	-	-	127
Gu Zongqin	171	-	-	-	171
Lee Kit Ying[3]	167	-	-	-	167
Lee Kwan Hung[3]	170	-	-	-	170
	713	-	-	-	713
	1,644	1,080	-	118	2,842
Supervisors					
Qiu Kewen	24	-	-	-	24
Zhang Ping[4]	131	149	-	18	298
Huang Jinggui	84	-	-	-	84
Liu Lijie[4]	31	46	-	6	83
	270	195	-	24	489

1 Yang Shubo and Zhu Lei were appointed as non-executive directors on 5 June 2012.

2 Fang Yong and Chen Kai resigned as executive directors on 5 June 2012.

3 Zhang Xinzhi and Tsui Yiu Wa, Alec resigned on 5 June 2012, and Lee Kit Ying and Lee Kwan Hung were appointed as independent non-executive directors on 5 June 2012.

4 Zhang Ping resigned on 29 September 2012, and Liu Lijie was appointed as a supervisor on 29 September 2012.

Notes to the financial statements (continued)

31 December 2012

9 Key management personnel's 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 directors					
Li Hui*	36	-	-	-	36
Wu Mengfei*	21	-	170	-	191
	57	-	170	-	227
Executive directors					
Yang Yexin (Chief Executive)	254	343	144	40	781
Fang Yong	181	276	110	32	599
Chen Kai	264	308	110	38	720
	699	927	364	110	2,100
Independent non-executive directors					
Zhang Xinzhi	193	-	-	-	193
Tsui Yiu Wa, Alec	308	-	-	-	308
Gu Zongqin	175	-	-	-	175
	676	-	-	-	676
	1,432	927	534	110	3,003
Supervisors					
Qiu Kewen	29	-	-	-	29
Zhang Ping	122	125	-	23	270
Huang Jinggui	89	-	-	-	89
	240	**125**	-	**23**	**388**

* Wu Mengfei resigned on 29 July 2011, and Li Hui was appointed as a non-executive director on 28 July 2011.

Notes to the financial statements (continued)

31 December 2012

9 Key management personnel's remuneration (continued)

(ii) Other key management personnel's (excluding 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 International Companies Ordinance are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	831	811
Discretionary bonuses	1,149	1,087
Cash-settled share option expense	-	370
Pension scheme contributions	123	106
	2,103	2,374

The remuneration of other key management personnel (excluding directors and supervisors) fell within the band from nil to HKD1,000,000 for the years ended 31 December 2012 and 2011.

During the past years, certain other key management personnel (excluding directors and supervisors) 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 in 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 non-directors' and highest paid employees' remuneration disclosures.

10 Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2012 and 2011 are analysed as follows:

	2012	2011
Directors and supervisors	3	3
Non-director and non-supervisor employees	2	2
	5	5

Details of the remuneration of non-director and non-supervisor highest paid employees during the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, housing benefits, other allowances and benefits in kind	446	372
Discretionary bonuses	510	534
Cash-settled share option expense	-	172
Pension scheme contributions	66	61
	1,022	1,139

Notes to the financial statements (continued)

31 December 2012

The remuneration of non-director and non-supervisor highest paid employees fell within the band from nil to HKD1,000,000 for the years ended 31 December 2012 and 2011.

During the past years, certain non-director and non-supervisor highest paid employees 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 in 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 non-directors' and highest paid employees' remuneration disclosures.

11 Income tax expense

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

	2012 RMB'000	2011 RMB'000
Current – PRC		
Charge for the year	652,162	589,942
Deferred (note 24)	(28,047)	(33,544)
Total tax charge for the year	624,115	556,398

(a) Corporate income tax ("CIT")

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

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

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

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

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

CNOOC (Hainan) E&P Gas Limited ("CNOOC E&P"), a subsidiary of the Company, is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. The year of 2008 is the first tax profitable year. The year of 2012 is the third year for CNOOC E&P to enjoy the 50% reduction in the applicable CIT rate of 25%.

Notes to the financial statements (continued)

31 December 2012

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 2012 and 2011.

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:

	2012 RMB'000	2011 RMB'000
Profit before tax	2,607,735	2,776,140
Tax at the statutory tax rate of 25%	651,934	694,035
Lower tax rates for specific provinces/districts or concessions	(40,855)	(146,500)
Adjustments in respect of current tax of previous period	8,292	6,708
Expenses not deductible for tax	4,744	2,155
Income tax expense reported in the consolidated income statement	624,115	556,398
The Group's effective income tax rate	23.9%	20.0%

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 2012 includes a profit of RMB1,423,176,000 (2011: RMB1,434,037,000) dealt with in the financial statements of the Company (note 32).

13 Dividends

	2012 RMB'000	2011 RMB'000
Proposed final dividend– RMB0.15 (2011: RMB0.16) per ordinary share	691,500	737,600

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

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

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

Notes to the financial statements (continued)

31 December 2012

14 Earnings per share attributable to ordinary equity holders of the parent

	2012 RMB'000	2011 RMB'000
Earnings		
Profit for the year attributable to equity holders of the parent	1,810,463	1,985,777

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

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

15 Components of other comprehensive income

Movements of other comprehensive income before tax

	2012 RMB'000	2011 RMB'000
Available-for-sale investments:		
Gains arising during the year	80,258	93,456
Less: Reclassification adjustment for gains included in the consolidated income statement – gains on disposal	(80,258)	(93,456)
	-	-

Tax effect of components of other comprehensive income

	2012 RMB'000	2011 RMB'000
Available-for-sale investments:		
Gains arising during the year	20,064	23,364
Less: Reclassification adjustment for gains included in the consolidated income statement	(20,064)	(23,364)
	-	-

Notes to the financial statements (continued)

31 December 2012

16 Property, plant and equipment

Group

	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 2012:							
Cost	3,597,641	10,425,237	182,726	730,616	129,270	1,569,089	16,634,579
Accumulated depreciation and impairment	(1,516,575)	(5,164,368)	(106,119)	(442,378)	(57,505)	-	(7,286,945)
Net carrying amount	2,081,066	5,260,869	76,607	288,238	71,765	1,569,089	9,347,634
Cost as at 1 January 2012, net of accumulated depreciation and impairment	2,081,066	5,260,869	76,607	288,238	71,765	1,569,089	9,347,634
Additions	2,137	11,482	5,043	10,149	1,759	1,548,691	1,579,261
Disposals	(1,816)	(701)	(378)	(300)	(7)	-	(3,202)
Transfers	762,497	575,760	1,312	316,416	40,311	(1,696,296)	-
Impairment	-	(110,115)	-	(21,579)	-	-	(131,694)
Depreciation for the year	(114,183)	(551,665)	(10,468)	(78,28 9)	(6,393)	-	(760,998)
Cost as at 31 December 2012, net of accumulated depreciation and impairment	2,729,701	5,185,630	72,116	514,635	107,435	1,421,484	10,031,001
As at 31 December 2012:							
Cost	4,384,228	10,969,701	184,894	1,061,210	171,257	1,421,484	18,192,774
Accumulated depreciation and impairment	(1,654,527)	(5,784,071)	(112,778)	(546,575)	(63,822)	-	(8,161,773)
Net carrying amount	2,729,701	5,185,630	72,116	514,635	107,435	1,421,484	10,031,001

Notes to the financial statements (continued)

31 December 2012

16 Property, plant and equipment (continued)

Group (continued)

	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 2011:							
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
Cost as at 1 January 2011, net of accumulated depreciation and impairment	1,933,161	4,827,616	48,047	90,130	73,696	1,971,501	8,944,151
Additions	639	15,623	1,958	7,775	731	1,219,831	1,246,557
Disposals	-	(2,798)	(370)	(859)	(11)	-	(4,038)
Transfers	289,086	1,070,605	36,145	224,862	1,545	(1,622,243)	-
Transfers from investment properties	2,041	-	-	-	-	-	2,041
Depreciation for the year	(143,861)	(650,177)	(9,173)	(33,670)	(4,196)	-	(841,077)
Cost as at 31 December 2011, net of accumulated depreciation and impairment	2,081,066	5,260,869	76,607	288,238	71,765	1,569,089	9,347,634
As at 31 December 2011:							
Cost	3,597,641	10,425,237	182,726	730,616	129,270	1,569,089	16,634,579
Accumulated depreciation and impairment	(1,516,575)	(5,164,368)	(106,119)	(442,378)	(57,505)	-	(7,286,945)
Net carrying amount	2,081,066	5,260,869	76,607	288,238	71,765	1,569,089	9,347,634

As at 31 December 2012, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB853,493,000 (2011: RMB306,725,000).

Notes to the financial statements (continued)

31 December 2012

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 2012:							
Cost	536,322	3,301,515	20,626	47,731	2,190	16,884	3,925,268
Accumulated depreciation	(253,830)	(1,029,169)	(17,430)	(26,758)	(1,846)	-	(1,329,033)
Net carrying amount	282,492	2,272,346	3,196	20,973	344	16,884	2,596,235
Cost as at 1 January 2012, net of accumulated depreciation	282,492	2,272,346	3,196	20,973	344	16,884	2,596,235
Additions	1,682	1,463	-	2,022	528	(28,967)	(23,272)
Transfers	165,218	(259,375)	-	45,101	1,752	47,304	-
Disposals	-	-	(112)	(12)	-	-	(124)
Depreciation for the year	(31,552)	(218,736)	(584)	(5,830)	(94)	-	(256,796)
Cost as at 31 December 2012, net of accumulated depreciation	417,840	1,795,698	2,500	62,254	2,530	35,221	2,316,043
As at 31 December 2011:							
Cost	729,166	3,004,947	19,512	101,667	4,470	35,221	3,894,983
Accumulated depreciation	(311,326)	(1,209,249)	(17,012)	(39,413)	(1,940)	-	(1,578,940)
Net carrying amount	417,840	1,795,698	2,500	62,254	2,530	35,221	2,316,043
As at 1 January 2011:							
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
Cost as at 1 January 2011, net of accumulated depreciation	312,688	2,490,353	3,541	24,615	233	9,003	2,840,433
Additions	153	3,451	378	1,111	178	10,729	16,000
Transfers	440	1,900	-	508	-	(2,848)	-
Disposals	-	-	(160)	-	-	-	(160)
Depreciation for the year	(30,789)	(223,358)	(563)	(5,261)	(67)	-	(260,038)
Cost as at 31 December 2011, net of accumulated depreciation	282,492	2,272,346	3,196	20,973	344	16,884	2,596,235
As at 31 December 2011:							
Cost	536,322	3,301,515	20,626	47,731	2,190	16,884	3,925,268
Accumulated depreciation	(253,830)	(1,029,169)	(17,430)	(26,758)	(1,846)	-	(1,329,033)
Net carrying amount	282,492	2,272,346	3,196	20,973	344	16,884	2,596,235

Notes to the financial statements (continued)

31 December 2012

17 Mining rights

Group

	Mining rights RMB'000
Cost as at 1 January 2012, net of accumulated amortisation	482,868
Amortisation for the year	(1,564)
Cost as at 31 December 2012, net of accumulated amortisation	481,304
As at 31 December 2012:	
Cost	490,258
Accumulated amortisation	(8,954)
Net carrying amount	481,304
Cost as at 1 January 2011, net of accumulated amortisation	484,136
Additions	117
Amortisation for the year	(1,385)
Cost as at 31 December 2011, net of accumulated amortisation	482,868
As at 31 December 2011:	
Cost	490,258
Accumulated amortisation	(7,390)
Net carrying amount	482,868

Notes to the financial statements (continued)

31 December 2012

18 Prepaid land lease payments

Group

	2012 RMB'000	2011 RMB'000
Carrying amount as at 1 January	484,604	487,606
Additions	54,862	9,174
Amortisation for the year	(12,243)	(12,176)
Carrying amount as at 31 December	527,223	484,604
Current portion included in prepayments,deposits and other receivables	(13,012)	(11,909)
Non-current portion	514,211	472,695

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

	2012 RMB'000	2011 RMB'000
Long-term leases	86,843	34,121
Medium-term leases	440,380	450,483
	527,223	484,604

Company

	2012 RMB'000	2011 RMB'000
Carrying amount as at 1 January	47,096	43,025
Additions	31,233	5,628
Amortisation for the year	(2,017)	(1,557)
Carrying amount as at 31 December	76,312	47,096
Current portion included in prepayments, deposits and other receivables	(2,017)	(1,415)
Non-current portion	74,295	45,681

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

	2012 RMB'000	2011 RMB'000
Long-term leases	36,557	6,466
Medium-term leases	39,755	40,630
	76,312	47,096

Notes to the financial statements (continued)

31 December 2012

19 Intangible assets

Group

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2012, net of accumulated amortisation	6,424	123,261	129,685
Additions	6,409	-	6,409
Amortisation for the year	(3,981)	(7,208)	(11,189)
Cost as at 31 December 2012, net of accumulated amortisation	8,852	116,053	124,905
As at 31 December 2012:			
Cost	38,514	127,034	165,548
Accumulated amortisation	(29,662)	(10,981)	(40,643)
Net carrying amount	8,852	116,053	124,905

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2011, net of accumulated amortisation	10,602	254	10,856
Additions	1,389	126,281	127,670
Amortisation for the year	(5,567)	(3,274)	(8,841)
Cost as at 31 December 2011, net of accumulated amortisation	6,424	123,261	129,685
As at 31 December 2011:			
Cost	32,105	127,034	159,139
Accumulated amortisation	(25,681)	(3,773)	(29,454)
Net carrying amount	6,424	123,261	129,685

Notes to the financial statements (continued)

31 December 2012

19 Intangible assets (continued)

Company

	Computer software RMB'000
Cost as at 1 January 2012, net of accumulated amortisation	1,286
Additions	6,340
Amortisation for the year	(6,024)
Cost as at 31 December 2012, net of accumulated amortisation	1,602
As at 31 December 2012:	
Cost	23,848
Accumulated amortisation	(22,246)
Net carrying amount	1,602
Cost as at 1 January 2011, net of accumulated amortisation	3,575
Additions	825
Amortisation for the year	(3,114)
Cost as at 31 December 2011, net of accumulated amortisation	1,286
As at 31 December 2011:	
Cost	17,508
Accumulated amortisation	(16,222)
Net carrying amount	1,286

20 Investments in subsidiaries

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	4,388,845	4,281,001

The Company's trade receivables, other receivables, loans receivable, trade payables and bills payable and other payable balances with its subsidiaries are disclosed in notes 26, 28, 29, 35 and 36 to the financial statements, respectively.

Notes to the financial statements (continued)

31 December 2012

20 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 interest 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 BB 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 liquidised 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, methanol,and POM
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	150,000	Direct Indirect	51.00 -	Phosphate mining and processing, 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	- 100.00	Trading 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 -	Manufacture and 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 ofoverseas shipping services
CNOOC Hualu ShanXi Coal Chemical Co., Ltd.(中海油华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 dimethyl ether project
Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限责任公司)	PRC 12 August 2005	1,050,624	Direct Indirect	83.97 -	Phosphate mining and processing,manufacture and sale of MAP and DAP fertilisers

Notes to the financial statements (continued)

31 December 2012

20 Interests in subsidiaries (continued)

Company name	Place and date of establishment and operation	Registered capital	Percentage of equity interest attributable to the Company		Principal activities
		RMB'000			
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 and chemicals
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 Agricultural 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 and chemicals
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
CNOOC Huahe Coal Chemical Co., Ltd. (中海石油华鹤煤化有限公司)	PRC 26 May 2006	100,000	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan Basuo Port Labor Service Limited (海南八所港務有限責任公司勞動服務公司)	PRC 14 March 2007	600	Direct Indirect	- 100.00	Provision of overseas shipping services

CNOOC Jincheng Coal Chemical Industry Co., Ltd. is in the process of getting liquidated since August 31st 2012, as its shareholder, CNOOC Chemical Limited and Jincheng State-owned Assets Supervision and Administration Commission, decided to terminate the company, considering that it failed to obtain from the local government the mining right required for its operation.

The subsidiaries of the Company listed in the above table are all limited liability companies which, in the opinion of management, affected 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.

21 Investment in jointly-controlled entities

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	122,258	122,189

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 unilateral control over Guizhou Jinlin, the investment is treated as an investment in a jointly-controlled entity.

On 20 July 2011, the Company entered into an agreement with four other parties to set up a limited liability company, Yantai Port Fertilizer Logistics Co., Ltd. ("Yantai Port"). According to the agreement, there are three majority shareholders, including the Company, each of them holds a 27% equity interest, respectively, and none of them has unilateral control over Yantai Port. Hence the investment is treated as an investment in a jointly-controlled entity.

Notes to the financial statements (continued)

31 December 2012

21 Investment in jointly-controlled entities (continued)

Particulars of the jointly-controlled entities 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			
Guizhou Jinlin Chemical Co., Ltd. (贵州锦麟化工有限责任公司)	PRC 12 April 2007	235,294	Direct Indirect	45.00 -	Phosphate mining and processing, manufacture and sale of phosphate ore and chemical products
Yantai Port Fertilizer Logistics Co., Ltd. (煙台港化肥物流有限公司)	PRC 20 July 2011	122,500	Direct Indirect	27.00 -	Cargo handling, warehousing, packaging and domestic freight forwarding

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2012 RMB'000	2011 RMB'000
Share of the jointly-controlled		
entities' assets and liabilities:	69,959	89,843
Current assets	75,370	40,018
Non-current assets	(22,662)	(8,775)
Current liabilities	(1,512)	-
Non-current liabilities		
Net assets	121,155	121,086
Share of the jointly-controlled entities' results:		
Revenue	-	-
Other income	471	14
	471	14
Total expenses	(298)	(244)
Tax	(95)	-
Net gain / (losses)	78	(230)

Notes to the financial statements (continued)

31 December 2012

22 Investments in associates

Group

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	654,433	654,347

The Group's other receivables with its associates are disclosed in note 28 to the financial statements.

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 -	Mining and sale of coal
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 summarised financial information of the Group's associates extracted from their management accounts or financial statements:

	2012 RMB'000	2011 RMB'000
Assets	546,283	568,946
Liabilities	596,405	518,397
Revenue	1,639	1,535
Profit for the year	242	122

Shanxi HuaLu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal"), an associate of the Company who holds 49% equity interest, was unable to resume production since its suspension of work in March 2010. Pursuant to the requirements of IAS 28 and IAS36, where an indication of impairment exists, the asset's recoverable amount is estimated. Zhonglian Asset Appraisal Group Limited was appointed by the Company to conduct an appraisal of Yangpoquan Coal as at 31 December 2012 and issued an appraisal report which stated that the estimated recoverable amount of Yangpoquan Coal as at 31 December 2012 was RMB1,345,157,000. Accordingly, the recoverable amount of the investment, calculated by the management on a pro rata basis, was higher than its carrying value of RMB653,200,000.

Notes to the financial statements (continued)

31 December 2012

23 Available-for-sale investments

Group

	2012 RMB'000	2011 RMB'000
Current		
Unlisted investments, at fair value	11,610	-
Non-current		
Unlisted equity investments, at cost	600	600

The current unlisted investments consist of placements in structured deposits. The fair value of unlisted investments has been estimated using a valuation technique which requires management to make estimates about the expected future cash flows discounted at current rates.

The non-current 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.

24 Deferred taxation

The movements in deferred tax assets and liabilities of the Group and of the Company during the years ended 31 December 2012 and 2011 are as follows:

Group

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Provision for impairment of assets RMB'000	Wages and salaries RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2012	18,873	30,057	14,763	46,505	110,198
Credited/(charged) to the consolidated income statement	(2,234)	31,873	(1,805)	1,287	29,121
As at 31 December 2012	16,639	61,930	12,958	47,792	139,319
As at 1 January 2011	15,839	18,869	15,412	28,326	78,446
Credited/(charged) to the consolidated income statement	3,034	11,188	(649)	18,179	31,752
As at 31 December 2011	18,873	30,057	14,763	46,505	110,198

Notes to the financial statements (continued)

31 December 2012

24 Deferred taxation (continued)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2012	70,656	1,140	-	71,796
(Credited)/charged to the consolidated income statement	(3,930)	314	4,690	1,074
As at 31 December 2012	66,726	1,454	4,690	72,870
As at 1 January 2011	72,762	826	-	73,588
(Credited)/charged to the consolidated income statement	(2,106)	314	-	(1,792)
As at 31 December 2011	70,656	1,140	-	71,796

Company

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Provision for impairment of assets RMB'000	Wages and salaries RMB'000	Total RMB'000
As at 1 January 2012	19,349	734	1,810	21,893
Charged to the consolidated income statement	(1,091)	-	-	(1,091)
As at 31 December 2012	18,258	734	1,810	20,802
As at 1 January 2011	17,482	511	1,810	19,803
Credited to the consolidated income statement	1,867	223	-	2,090
As at 31 December 2011	19,349	734	1,810	21,893

Notes to the financial statements (continued)

31 December 2012

25 Inventories

Group

	2012 RMB'000	2011 RMB'000
Raw materials and spare parts	830,614	676,328
Work in progress	225,075	211,416
Finished goods	616,521	585,678
	1,672,210	1,473,422

Company

	2012 RMB'000	2011 RMB'000
Raw materials and spare parts	184,536	203,411
Work in progress	16,026	11,143
Finished goods	25,952	95,720
	226,514	310,274

Notes to the financial statements (continued)

31 December 2012

26 Trade receivables

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

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

Group

	2012 RMB'000	2011 RMB'000
Trade receivables	97,913	147,355
Impairment	(83)	(83)
	97,830	147,272

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

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

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

	2012 RMB'000	2011 RMB'000
At 1 January	83	2,012
Write-off of impairment losses	-	(1,929)
At 31 December	83	83

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB83,000 (2011: RMB83,000) with a carrying amount before provision of RMB83,000 (2011: RMB83,000).

The individually impaired trade receivables relate to customers that were in financial difficulties and none of the receivables is expected to be recovered.

Notes to the financial statements (continued)

31 December 2012

26 Trade receivables (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Group

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	95,613	144,750
Less than one month past due	2,123	2,498
One to three months past due	94	24
	97,830	147,272

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.

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.

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

Company

	2012 RMB'000	2011 RMB'000
Trade receivables	26,886	32,156
Impairment	(7)	(7)
	26,879	32,149

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

	2012 RMB'000	2011 RMB'000
Within six months	26,178	31,105
Over six months but within one year	701	1,044
	26,879	32,149

As at 31 December 2012, the amounts due from subsidiaries of the Company and from CNOOC group companies included in the above trade receivable balances were RMB1,004,000 (2011: RMB856,000) and RMB4,193,000 (2011: RMB4,195,000), 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.

Notes to the financial statements (continued)

31 December 2012

26 Trade receivables (continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7,000 (2011: RMB7,000) with a carrying amount before provision of RMB7,000 (2011: RMB7,000).

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Company

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	26,178	31,499
Less than one month past due	701	626
One to three months past due	-	24
	26,879	32,149

27 Bills receivable

The bills receivable of the Group and the Company as at 31 December 2012 and 2011 all mature within six months.

Notes to the financial statements (continued)

31 December 2012

28 Prepayments, deposits and other receivables

Group

	2012 RMB'000	2011 RMB'000
Prepayments	590,813	589,500
Prepaid land lease payments	13,012	11,909
Deposits and other receivables	119,997	129,580
	723,822	730,989

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 associates included in the above can be analysed as follows:

	2012 RMB'000	2011 RMB'000
Ultimate holding company	1	-
CNOOC group companies	71,413	60,511
Associates	7,927	7,677
	79,341	68,188

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

Company

	2012 RMB'000	2011 RMB'000
Prepayments	14,038	26,349
Prepaid land lease payments	2,017	1,415
Deposits and other receivables	94,101	89,862
	110,156	117,626

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:

	2012 RMB'000	2011 RMB'000
Ultimate holding company	1	-
CNOOC group companies	26,632	18,298
Jointly-controlled entities	4,996	-
Subsidiaries	42,711	41,833
	74,340	60,131

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

Notes to the financial statements (continued)

31 December 2012

29 Loans receivable

Company

As at 31 December 2012, loans receivable of the Company represented the following:

- Entrusted loan with an amount of RMB875,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 3.920% per annum and is repayable on 25 Jun 2013;

- Entrusted loan with an amount of RMB150,000,000 which was provided to CNOOC Huahe Coal Chemical Co.,ltd (CNOOC Huahe) during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 18 Jan 2013;

- Entrusted loan with an amount of RMB200,000,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 25 April 2013;

- Entrusted loan with an amount of RMB150,000,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 17 April 2013;

- Entrusted loan with an amount of RMB38,500,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 25 Jun 2013;

- Entrusted loan with an amount of RMB310,000,000 which was provided to CNOOC Huahe during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 25 Jun 2013;

- Entrusted loan with an amount of RMB10,000,000 which was provided to CNOOC Hualu Shanxi Coal Chemical Co.,ltd (CNOOC Hualu) during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 5 Jan 2013;

- Entrusted loan with an amount of RMB5,000,000 which was provided to CNOOC Hualu during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 5 Jun 2013;

- Entrusted loan with an amount of RMB131,000,000 which was provided to Guangxi Fudao Agricultural Means of Production Limited (Guangxi Fudao) during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 23 Jun 2013;

- Entrusted loan with an amount of RMB10,000,000 which was provided to Guangxi Fudao Chemical Limited (Fudao Chemical) during the year and is unsecured, bears interest at a rate of 5.600% per annum and is repayable on 27 Mar 2013;

- Entrusted loan with an amount of RMB5,500,000 which was provided to CNOOC (Hainan) E&P Gas Limited (CNOOC E&P) during the year and is unsecured, bears interest at a rate of 2.700% per annum and is repayable on 5 Jan 2013;

As at 31 December 2012, the amounts due from subsidiaries of the Company included in the above loans receivable balances were RMB1,885,000,000 (2011: RMB797,500,000).

Notes to the financial statements (continued)

31 December 2012

30 Cash and cash equivalents and pledged bank deposits

Group

	2012 RMB'000	2011 RMB'000
Cash and bank balances	2,596,375	2,837,827
Less: Pledged bank deposits	(3,995)	(1,711)
Time deposits	(13,500)	(32,850)
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	2,578,880	2,803,266

As at 31 December 2012, the Group's pledged bank deposits of RMB3,995,000 (2011: RMB1,711,000) 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 where denominated in RMB as at 31 December 2012 and 2011, except for amounts of RMB5,106,000 (2011: RMB57,021,000) which was translated from USD812,000 (2011: USD9,051,000); and RMB2,474,000 (2011: RMB12,000) which was translated from HKD3,051,000 (2011: HKD15,000).

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 2012, included in the Group's cash and cash equivalents were RMB598,665,000 (2011: RMB322,373,000) 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

	2012 RMB'000	2011 RMB'000
Cash and bank balances	1,468,379	1,653,204

The Company's cash and bank balances were denominated in RMB as at 31 December 2012 and 2011, except for amounts Nil (2011: RMB53,538,000) which was translated from Nil (2011: USD8,498,000); and RMB2,474,000 (2011: RMB12,000) which was translated from HKD3,051,000 (2011: HKD15,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2012, included in the Company's cash and cash equivalents were RMB199,817,000 (2011: RMB33,073,000) 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.

Notes to the financial statements (continued)

31 December 2012

31 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 2012 and 2011	4,610,000	4,610,000

Notes to the financial statements (continued)

31 December 2012

32 Reserves and proposed dividends

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 7 to 8 of the financial statements.

The Company's movement in reserves and proposed dividends for the years ended 31 December 2012 and 2011 are as follows:

Company

	Note	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2012		1,366,392	611,377
Profit for the year		-	-
Total comprehensive income for the year		-	-
Appropriation and utilisation of safety fund, net		-	-
Transfer from retained profits		-	140,980
Proposed 2012 final dividend	13	-	-
Final 2011 dividend declared		-	-
As at 31 December 2012		1,366,392*	752,357*

* These reserve accounts comprise the company's reserves of RMB5,399,274,000 (2011 : RMB4,667,598,000) in the company's statement of financial position.

	Note	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2011		1,366,392	471,031
Profit for the year		-	-
Total comprehensive income for the year		-	-
Appropriation and utilisation of safety fund, net		-	-
Transfer from retained profits		-	140,346
Proposed 2011 final dividend	13	-	-
Final 2010 dividend declared		-	-
As at 31 December 2011		1,366,392*	611,377*

* These reserve accounts comprise the company's reserves of RMB4,667,598,000 in the company's statement of financial position.

Notes to the financial statements (continued)

31 December 2012

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
10,939	2,678,890	737,600	5,405,198
-	1,423,176	-	1,423,176
-	1,423,176	-	1,423,176
(7,594)	7,594	-	-
-	(140,980)	-	-
-	(691,500)	691,500	-
-	-	(737,600)	(737,600)
3,345*	3,277,180*	691,500	6,090,774

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
672	2,133,066	414,900	4,386,061
-	1,434,037	-	1,434,037
-	1,434,037		1,434,037
10,267	(10,267)	-	-
-	(140,346)	-	-
-	(737,600)	737,600	-
-	-	(414,900)	(414,900)
10,939*	2,678,890*	737,600	5,405,198

Notes to the financial statements (continued)

31 December 2012

33 Benefit 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 expenses recognised in the consolidated income statement and amounts recognised in the consolidated statement of financial position.

The details of expenses by each type of benefits for the years ended 31 December 2012 and 2011 are as follows:

Group

	2012		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	-	157	157
Interest cost on benefit obligation	458	526	984
Net actuarial gain recognised for the year	(695)	(741)	(1,436)
Net benefit expense	(237)	(58)	(295)

	2011		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	-	214	214
Interest cost on benefit obligation	509	572	1,081
Net actuarial gain recognised for the year	(848)	(875)	(1,723)
Net benefit expense	(339)	(89)	(428)

The details of the benefit liability by each type of benefits as at 31 December 2012 and 2011 are as follows:

	2012		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	12,239	14,862	27,101
Unrecognised net actuarial gain	21,290	199	21,489
Benefit liability	33,529	15,061	48,590

	2011		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	14,424	15,392	29,816
Unrecognised net actuarial gain	22,843	752	23,595
Benefit liability	37,267	16,144	53,411

Notes to the financial statements (continued)

31 December 2012

33 Benefit liability (continued)

	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2011	40,702	16,905	57,607
Current service cost	-	214	214
Interest cost on benefit obligation	509	572	1,081
Net actuarial gain recognised for the year	(848)	(875)	(1,723)
Benefits paid	(3,096)	(672)	(3,768)
As at 31 December 2011 and 1 January 2012	37,267	16,144	53,411
Current service cost	-	157	157
Interest cost on benefit obligation	458	526	984
Net actuarial gain recognised for the year	(695)	(741)	(1,436)
Benefits paid	(3,501)	(1,025)	(4,526)
As at 31 December 2012	33,529	15,061	48,590

The Group expects to contribute RMB230,000 to its defined benefit pension plans in 2013.

The principal assumptions used in determining the early retirement benefit obligations and post-employment allowances of the Group as at 31 December 2012 are shown below:

	2012
Discount rate	3.75%
Early retirement rate	1.00%
Inflation rate	2.00%

Management has reviewed the actuarial valuation as at 31 December 2012 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 benefit expenses was adequate as at 31 December 2012.

Notes to the financial statements (continued)

31 December 2012

34 Interest-bearing bank borrowings

Group

	Effective interest rate(%)	Maturity	2012 RMB'000	2011 RMB'000
Non-current				
Unsecured bank loans	5.76-6.35	2020-2021	-	425,000

	2012 RMB'000	2011 RMB'000
Analysed into:		
Bank loans repayable:		
Beyond five years	-	425,000

35 Trade and bills payables

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

Group

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

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

Notes to the financial statements (continued)

31 December 2012

35 Trade and bills payables(continued)

Company

	2012 RMB'000	2011 RMB'000
Within six months	150,351	52,957
Over six months but within one year	2,064	133
	152,415	53,090

As at 31 December 2012, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances totalled RMB115,993,000 (2011: RMB50,517,000). The amounts due to subsidiaries of the company included in the above trade payable and bills payable balances totalled RMB10,986,000 (2011: RMB1,832,000).

36 Other payables and accruals

Group

	2012 RMB'000	2011 RMB'000
Advances from customers	433,931	611,287
Accruals	10,781	9,258
Accrued payroll	225,094	229,999
Other payables	342,556	113,075
Long-term liabilities due within one year	1,798	1,798
Payable to government	85,024	84,883
Tax payables	(79,525)	(87,966)
Port construction fee payable	164,656	164,659
Payables in relation to the construction and purchase of property, plant and equipment	470,592	638,431
	1,654,907	1,765,424

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

	2012 RMB'000	2011 RMB'000
Due to the ultimate holding company	585	-
Due to CNOOC group companies	66,929	43,734
	67,514	43,734

Notes to the financial statements (continued)

31 December 2012

36 Other payables and accruals (continued)

Company

	2012 RMB'000	2011 RMB'000
Advances from customers	99,207	199,848
Accrued payroll	48,570	52,162
Tax payables	2,661	(15,764)
Other payables	132,091	152,047
Payables in relation to the construction and purchase of property, plant and equipment	41,275	84,869
	323,804	473,162

The amounts due to CNOOC group companies and subsidiaries of the Company included in the above can be analysed as follows:

	2011 RMB'000	2010 RMB'000
Due to CNOOC group companies	8,485	12,633
Due to subsidiaries	108,324	82,856
	116,809	95,489

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

37 Share option scheme

On 25 February 2008, 6,224,000 share appreciation rights (the "SARs") were granted to senior executives, which can only be settled in cash. The exercise price of the SARs of HKD5.10 per share was equal to the market price of the shares on the date of grant. The SARs would vest if and when (i) the average return on equity for the financial years 2007 and 2008 was not lower than 14%; and (ii) the average year-on-year increase in net profit of the Company was not lower than 10% for the financial years 2007 and 2008. The share appreciation rights become vested upon that these conditions are met, and the senior executives can exercise their rights in four equal batches, beginning year 3 (first exercisable date: the first trading day after 31 December 2010), 4, 5 and 6 from the approval date of the SAR Plan.

Notes to the financial statements (continued)

31 December 2012

37 Share option scheme (continued)

The SAR's plan provides that if the gain from excising the share appreciation exceeds HKD1.115 per share in any one year, the excess gain should be calculated using the following percentage:

(1) Between HKD1.115 and HKD1.50, at 50%

(2) Between HKD1.50 and HKD2.00, at 30%

(3) Between HKD2.00 and HKD2.50, at 20%

(4) HKD2.50 or above, at 15%

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 are 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 change is charged to the income statement over the period until the finalization of the exercise plan. The liability is measured at fair value at the end of the reporting period with changes in fair value recognised in profit or loss.

During the year, 1,254,250 SARs had been exercised by senior executives and the exercise gain is HKD0.60 per share. As at 31 December 2012, the salary and bonus payable arising from the SARs was RMB2,760,000 (2011: RMB3,397,000). Details of outstanding in the SARs during the years are as follows:

	2012 Numbers of shares	2011 Numbers of shares
Outstanding at 1 January	6,224,000	6,224,000
Exercised during the years	1,254,250	-
Outstanding at 31 December	4,969,750	6,224,000
Exercisable at 31 December	4,969,750	6,224,000

38 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.

Notes to the financial statements (continued)

31 December 2012

38 Operating lease arrangements (continued)

As at 31 December 2012 and 2011, 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:

	2012 RMB'000	2011 RMB'000
Within one year	931	1,425
In the second to fifth years, inclusive	3,369	1,348
After five years	5,498	4,072
	9,798	6,845

Company

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

As at 31 December 2012 and 2011, 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:

	2012 RMB'000	2011 RMB'000
Within one year	1,123	1,123
In the second to fifth years, inclusive	4,257	4,257
After five years	5,735	6,623
	11,115	12,003

(ii) As lessee

Group

The Group leases certain of its properties and vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one month to six years, and those for vehicles are for terms ranging between three months and four years.

At 31 December 2012 and 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 RMB'000	2011 RMB'000
Within one year	9,511	5,681
In the second to fifth years, inclusive	6,675	6,148
After five years	1,932	3,065
	18,118	14,894

As at 31 December 2012 and 2011, the Company had no significant future minimum lease payments under non-cancellable operating leases.

Notes to the financial statements (continued)

31 December 2012

39 Commitments and contingent liabilities

Capital commitments

In addition to the operating lease commitments detailed in note 39(ii) above, the Group and the Company had the following capital commitments at the end of the reporting period:

Group

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	1,074,404	1,201,649
Authorised, but not contracted for:		
- Acquisition of plant and machinery	2,310,121	3,488,718
	3,384,525	4,690,367

Company

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	1,034	109,741
Authorised, but not contracted for:		
- Acquisition of plant and machinery	-	16,538
	1,034	126,279

Notes to the financial statements (continued)

31 December 2012

40 Related party transactions

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

(1) Recurring

	Notes	2012 RMB'000	2011 RMB'000
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	88,880	32,118
Provision of transportation services	(ii)	1,008	7,576
Provision of packaging and assembling services	(iii)	26,829	20,333
Provision of logistics services	(iii)	5,092	5,261
Rental income	(iv)	344	253
(B) Included in cost of sales and other expenses			
(a) CNOOC group companies			
Purchase of raw materials	(i)	2,307,331	2,245,509
Transportation services	(ii)	179,961	117,184
Lease of offices	(iv)	27,195	22,884
Construction and installation services	(v)	37,163	53,280
Labor services	(vi)	22,516	30,265
Network services	(vi)	4,310	9,350
Logistics services	(vi)	2,380	7,400
(b) The ultimate holding company			
Labor services	(vi)	57	-
Network services	(vi)	791	-
(C) Included in finance income/costs			
CNOOC Finance			
Finance income	(vii)	4,888	2,182
Finance costs	(vii)	10,879	1,110

Notes to the financial statements (continued)

31 December 2012

40 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 rates.

(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 rates.

(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 rates for corresponding items and periods.

(2) Non-recurring

	Notes	2012 RMB'000	2011 RMB'000
Provision of utilities to CNOOC group companies	(i)	5,315	12,475
Fees and charges paid to CNOOC Finance	(ii)	6,629	3,355
Loans from CNOOC Finance (note 35)	(iii)	-	200,000

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 in note 40(1)B(c)(vii), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(3) Balances with related parties

Details for following balances are set out in notes 26, 28, 29, 30, 34, 35 and 36 to the financial statements. The balance with CNOOC Finance resulted from interest and loans. Others were mainly formed through routine trading transactions, reception of construction services, and other miscellaneous transactions with related parties.

Notes to the financial statements (continued)

31 December 2012

40 Related party transactions (continued)

Group

	Due from related parties		Due to related parties	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
The ultimate holding company	1	-	635	-
CNOOC group companies (excluding CNOOC Finance)	85,219	74,694	292,176	222,511
Associates	7,927	7,677	-	-
CNOOC Finance	-	-	160	200,115

Company

	Due from related parties		Due to related parties	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
The ultimate holding company	1	-	-	-
CNOOC group companies (excluding CNOOC Finance)	30,825	22,493	124,478	63,150
Jointly-controlled entities	4,996	-	-	-
Subsidiaries	1,928,715	840,189	119,310	98,457

As at 31 December 2012 and 2011, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	31 December 2012 RMB'000	31 December 2011 RMB'000
Deposits placed by the Group with CNOOC Finance	598,665	322,373

Company

	31 December 2012 RMB'000	31 December 2011 RMB'000
Deposits placed by the Company with CNOOC Finance	199,817	33,073

Further details of the deposits placed with CNOOC Finance are set out in note 30 to the financial statements.

Notes to the financial statements (continued)

31 December 2012

40 Related party transactions (continued)

(4) Compensation of key management personnel of the Group

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	5,168	4,620
Post-employment benefits	265	250
Total compensation paid to key management personnel	5,433	4,870

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

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. The sales of goods and rendering of services to these SOEs are individually not significant. The individually significant construction services provided by the SOE vendor is from an SOE, namely China National Chemical Engineering Group Corporation and its subsidiaries, in relation to the construction of Hegang Coal Chemical Project and the reconstruction of power project of Tianye. For the year ended 31 December 2012, the Group has recorded in the additions to its property, plant and equipment for the purchases of construction services, with an aggregate amount of RMB135,000,000 (2011:RMB245,000,000). The related commitment as of 31 December 2012 amounts to RMB270,000,000 (2011:RMB76,000,000), which was included in the commitments in note 39 above.

In addition, the Group has certain of its cash, pledged bank deposits and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2012, as summarised below:

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash and cash equivalents (note 30)	2,596,291	2,480,893
Pledged bank deposits (note 30)	3,995	1,711
Time deposits (note 30)	13,500	32,850
	2,613,786	2,515,454
Long-term bank loans (note 34)	-	225,000

Deposit interest rates and loan interest rates are at the market rates.

Notes to the financial statements (continued)

31 December 2012

41 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:

2012	Group		
Financial assets			
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	11,610	600	12,210
Trade receivables	97,830	-	97,830
Bills receivable	83,890	-	83,890
Financial assets included in prepayments, deposits and other receivables	119,997	-	119,997
Pledged bank deposits	3,995	-	3,995
Timing deposits	13,500	-	13,500
Cash and cash equivalents	2,578,880	-	2,578,880
	2,909,702	600	2,910,302

Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	-	428,382	428,382
Financial liabilities included in other payables and accruals	2,760	1,079,718	1,082,478
Due to the ultimate holding company (note 36)	-	635	635
	2,760	1,508,735	1,511,495

Notes to the financial statements (continued)

31 December 2012

41 Financial instruments by category (continued)

2011

Financial assets	Group		
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	-	600	600
Trade receivables	147,272	-	147,272
Bills receivable	81,196	-	81,196
Financial assets included in prepayments, deposits and other receivables	129,580	-	129,580
Pledged bank deposits	1,711	-	1,711
Timing deposits	32,850	-	32,850
Cash and cash equivalents	2,803,266	-	2,803,266
	3,195,875	600	3,196,475

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank borrowings	-	425,000	425,000
Trade and bills payables	-	327,239	327,239
Financial liabilities included in other payables and accruals	3,397	913,082	916,479
	3,397	1,665,321	1,668,718

Notes to the financial statements (continued)

31 December 2012

42 Fair value and fair value hierarchy

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

Group

	Carrying amounts		Fair values	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Available-for-sale investments	12,210	600	12,210	600
Trade receivables	97,830	147,272	97,830	147,272
Bills receivable	83,890	81,196	83,890	81,196
Financial assets included in prepayments, deposits and other receivables	119,997	129,580	119,997	129,580
Pledged bank deposits	3,995	1,711	3,995	1,711
Timing deposits	13,500	**32,850**	13,500	**32,850**
Cash and cash equivalents	2,578,880	2,803,266	2,578,880	2,803,266
	2,910,302	3,196,475	2,910,302	3,196,475

Financial liabilities				
Interest-bearing bank borrowings		425,000		425,000
Trade and bills payables	**428,382**	327,239	**428,382**	327,239
Financial liabilities included in other payables and accruals	**1,082,478**	916,479	**1,082,478**	916,479
Due to the ultimate holding company (note 36)	**635**	-	**635**	-
	1,511,495	1,668,718	**1,511,495**	1,668,718

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:

The fair values of trade receivables, bills receivable, financial assets included in prepayments, deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, bills payable, financial liabilities included in other payables and accruals, and 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 non-current portion of 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 2012

42 Fair value and fair value hierarchy(continued)

Fair value hierarchy

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

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

Level 2: The 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: The 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)

The liability measured at fair value:

Group

As at 31 December 2012	Level 1	Level 2	Level 3	Total
	RMB'000	RMB '000	RMB '000	RMB '000
Liability in relation to cash-settled share-based payment	-	2,760	-	2,760

As at 31 December 2011	Level 1	Level 2	Level 3	Total
	RMB'000	RMB '000	RMB '000	RMB '000
Liability in relation to cash-settled share-based payment	-	3,397	-	3,397

Notes to the financial statements (continued)

31 December 2012

43 Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank borrowings 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 floating interest rates.

As at 31 December 2012, the Group's interest-bearing bank borrowings bear variable interest rates amounted to nil (2011: RMB425,000,000).

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

(ii) Foreign currency risk

The Group has transactional currency exposures, which arise from sales or purchases in currencies other than Group's functional currency. Approximately 10% (2011: 7%) of the Group's sales were 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 2012 and 2011, 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 2012

43 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 and bank loans. As at 31 December 2012, the balance of the Group's interest-bearing debts is zero.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2012					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	177,612	202,616	13,753	11,301	-	405,282
Bills payable	-	23,100	-	-	-	23,100
Due to the ultimate holding company	635	-	-	-	-	635
Financial liabilities included in other payables and accruals	735,498	8,866	333,600	3,527	987	1,082,478
	913,745	234,582	347,353	14,828	987	1,511,495

	2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	-	-	25,866	129,330	498,148	653,344
Trade payables	174,741	101,717	27,250	14,981	-	318,689
Bills payable	-	8,550	-	-	-	8,550
Financial liabilities included in other payables and accruals	677,625	5,985	226,936	4,704	1,229	916,479
	852,366	116,252	280,052	149,015	499,377	1,897,062

Notes to the financial statements (continued)

31 December 2012

43 Financial risk management objectives and policies (continued)

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2012 and 2011.

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:

	2012 RMB'000	2011 RMB'000
Interest-bearing loans	-	425,000
Total capital	17,263,580	13,567,668
Capital and net debt	17,263,580	13,992,668
Gearing ratio	-	3.04%

44 Events after the reporting period

There is no material event after the reporting period.

45 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 21 March 2013.

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 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 to authorized representatives	ZHANG Xuewen Flat D,16/F,On Wing Building 51-59 Bonham Strand East Sheung Wan, 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 law legal adviser	Freshfields Bruckhaus Deringer 11th Floor,Two Exchange Square,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) 22132533 Fax: (852) 25259322
Beijing	Tel: (86) 010 84527249 Fax: (86) 010 84527254
Webiste	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983