Annual Report 2016

HKSE CODE: 3983

中海石油化学股份有限公司
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, Hubei Province and Heilongjiang Province. Its total designed annual production capacity amounts to 2,360,000 tonnes of urea, 1,000,000 tonnes of phosphate and compound fertilisers, and 1,600,000 tonnes of methanol. On 29 September 2006, China BlueChem was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

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 Hainan

The production facilities in Inner Mongolia

The production facilities in Hubei

The production facilities in Heilongjiang

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Financial Highlights

Selected consolidated income statement data

For the year ended 31 December, RMB'million

	2012 (Restated)	2013	2014	2015	2016
Revenue	10,739.2	10,723.6	10,796.9	10,671.8	**8,503.8**
Cost of sales	(7,432.9)	(7,500.3)	(8,111.3)	(8,925.9)	**(8,204.3)**
Gross profit	3,306.3	3,223.3	2,685.6	1,745.9	**299.5**
Other income and other gains and losses	120.6	156.3	211.9	392.6	**268.2**
Selling and distribution costs	(218.1)	(347.0)	(425.0)	(409.4)	**(344.5)**
Administrative expenses	(431.3)	(476.3)	(518.4)	(408.3)	**(450.1)**
Other expenses	(31.8)	(76.0)	(110.2)	(17.0)	**(15.5)**
Finance income	14.4	10.7	8.3	9.8	**8.0**
Finance costs	(13.5)	(2.6)	(9.5)	(91.5)	**(162.1)**
Net exchange gains/(losses)	(7.5)	(8.8)	8.5	(22.3)	**8.5**
Share of (losses)/profits of joint ventures	0.1	(0.3)	(0.6)	(0.6)	**(1.5)**
Share of (losses)/profits of associates	0.1	(9.3)	(477.0)	(68.1)	**(0.2)**
Impairment of asset	(131.7)	(122.7)	(1,260.4)	-	**-**
Gain recognised on expiry of the Put Option and Call Option	-	-	-	-	**53.8**
Gain on loss of control of a subsidiary	-	-	-	-	**6.3**
(Loss)/profit before tax	2,607.6	2,347.3	113.2	1,131.1	**(329.6)**
Income tax credit/(expenses)	(624.0)	(554.2)	(16.2)	(288.1)	**92.9**
(Loss)/profit for the year	1,983.6	1,793.1	97.1	843.0	**(236.7)**
(Loss)/profit for the year attributable to equity holders of the parent	1,810.5	1,647.1	105.3	829.7	**(215.5)**
Basic (losses)/earnings per share attributable to ordinary equity holders of the parent (RMB)	0.39	0.36	0.02	0.18	**(0.05)**

Selected consolidated statement of financial position data

As at 31 December, RMB'million

	2012 (Restated)	2013	2014	2015	2016
Assets					
Non-current assets	12,427.3	13,448.8	12,285.7	12,065.2	**11,591.0**
Current assets	4,777.7	5,087.0	7,653.6	8,146.7	**8,075.7**
Total assets	17,205.0	18,535.8	19,939.3	20,211.9	**19,666.7**
Equity and liabilities					
Total equity	14,626.7	15,501.2	14,749.3	14,881.6	**14,313.9**
Non-current liabilities	273.5	368.0	2,296.4	1,248.8	**2,598.1**
Current liabilities	2,304.8	2,666.6	2,893.6	4,081.5	**2,754.7**
Total equity and liabilities	17,205.0	18,535.8	19,939.3	20,211.9	**19,666.7**

Operational Highlights

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

		For the year ended 31 December					
		Production volume (tonnes)			Utilisation rate (%)		
		2016	2015	Change %	**2016**	2015	Change
Chemical fertilisers							
Urea	Fudao Phase I	**508,511**	585,219	(13.1)	**97.8**	112.5	(14.7)
	Fudao Phase II	**614,278**	809,366	(24.1)	**76.8**	101.2	(24.4)
	CNOOC Tianye	**335,546**	587,911	(42.9)	**64.5**	113.1	(48.6)
	CNOOC Huahe	**606,549**	241,372	151.3	**116.6**	92.8	23.8
	Group total	**2,064,884**	2,223,868	(7.1)	**87.5**	105.9	(18.4)
Phosphate fertilisers and compound fertilisers	DYK MAP	**55,712**	60,825	(8.4)	**37.1**	40.6	(3.5)
	DYK DAP Phase I (Note 1)	**337,997**	320,821	5.4	**96.6**	91.7	4.9
	DYK DAP Phase II	**558,485**	602,851	(7.4)	**111.7**	120.6	(8.9)
	Group total	**952,194**	984,497	(3.3)	**95.2**	98.4	(3.2)
Chemical products							
Methanol	Hainan Phase I	**575,986**	623,818	(7.7)	**96.0**	104.0	(8.0)
	Hainan Phase II	**783,261**	793,971	(1.3)	**97.9**	99.3	(1.4)
	CNOOC Tianye	**145,812**	143,059	1.9	**72.9**	71.5	1.4
	Group total	**1,505,059**	1,560,848	(3.6)	**94.1**	97.6	(3.5)

Note 1: In 2016, DYK DAP Phase I Plant produced 299,949 tonnes of DAP and 38,048 tonnes of compound fertilisers, amounting to 337,997 tonnes in total. In 2015, DYK DAP Phase I Plant produced 272,082 tonnes of DAP and 48,739 tonnes of compound fertilisers, amounting to 320,821 tonnes in total.

Sales volume of the Group's various plants

Unit: tonne

		For the year ended 31 December 2016	For the year ended 31 December 2015	Change %
Chemical fertilisers				
Urea	Fudao Phase I	**480,445**	546,285	(12.1)
	Fudao Phase II	**627,937**	783,499	(19.9)
	CNOOC Tianye	**383,846**	561,557	(31.6)
	CNOOC Huahe	**525,176**	191,726	173.9
	Group total	**2,017,404**	2,083,067	(3.2)
Phosphate fertilisers and compound fertilisers	DYK MAP	**47,373**	61,054	(22.4)
	DYK DAP Phase I	**324,526**	297,371	9.1
	DYK DAP Phase II	**593,906**	559,737	6.1
	Group total	**965,805**	918,162	5.2
Chemical products				
Methanol	Hainan Phase I	**581,320**	629,099	(7.6)
	Hainan Phase II	**791,752**	765,780	3.4
	CNOOC Tianye	**136,438**	143,756	(5.1)
	Group total	**1,509,510**	1,538,635	(1.9)

Chairman's Statement

Dear shareholders,

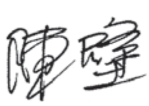
It is my honour to be elected Chairman of the Company in September 2016 with your trust. During my term of office, I will work diligently with all the other directors of the Company to the best of my ability and contribute to the sustainable and healthy development of the Company.

Looking back 2016, the Company experienced the most severe business environment ever since its listing, with the slumping market prices of global fertilisers and methanol. Notwithstanding a full range of proactive measures taken by the Company in production, marketing and cost control, the Company recorded a loss attributable to owners of the parent of RMB216 million in 2016. In view of the low debt ratio and strong cash flow of the Company, the Board has proposed a special dividend of RMB0.05 per share (before tax) to reward our shareholders.

The Board continued to implement high-caliber corporate governance policies and practices in 2016, aiming to achieve sustainable and healthy growth of the Company. The Board amended the Rules of Procedure of the Audit Committee to strengthen risk management, and the Board amended the Rules of Procedure of the Nomination Committee to optimise its operational procedures. The Company complied with the regulatory obligations for information disclosure, ensuring fairness, timeliness and accuracy therein. On behalf of the Board, I would like to express my sincere appreciation to Mr. Li Hui, Mr. Zhou Dechun, Mr. Zhou Hongjun, Mr. Zhu Lei, Mr. Wang Hui and Mr. Cheng Chi, who retired as directors of the Company in the year, for their contribution to the Company during their terms of office.

Looking forward to 2017, the global demand on fertilisers from agriculture will increase steadily, driven by the steady demand growth on grain. Development in methanol-to-olefin will still be the major driving force of the domestic demands for methanol. The Company will adhere to its operating philosophy of "stable operations, prudent investments and healthy finance", and continue to enhance our production safety management and market operational capability, while tightening cost and expenditure control. Furthermore, the Company will actively check and pursue research on the development opportunities in China and overseas to create good returns for shareholders.

Finally, on behalf of the Board, I would like to express heartfelt gratitude for our shareholders' support to the Company and appreciate the efforts made by the management and all our staff for the operation and development of the Company.



Chen Bi
Chairman

CEO's Report

Dear shareholders,

Looking back 2016, the prices of urea and ammonium phosphate were extremely depressed driven by dropped international grain prices, slowdown of China's economic growth and the prolonged oversupply of chemical fertilisers in the domestic market, while the price of methanol also lingered at low level under the influence of low oil prices. Facing such harsh market conditions, the Company actively strengthened the management of production and operation, enhanced marketing capabilities and imposed stringent control on costs and expenses, while insisting on environmentally friendly developments, so as to improve the Company's operating results.

Review of 2016

In 2016, due to the depressed chemical fertiliser and methanol markets, the suspension of our three urea plants and the resumption of value added tax, the Company's revenue decreased 20% as compared with 2015 to RMB8,504 million. The Company's gross profit decreased significantly to RMB299 million, and the Company recorded a loss attributable to owners of the parent of RMB216 million. However, the Company maintained a good financial situation with gearing ratio of 14% and cash balance of RMB5,698 million at the end of 2016.

Regarding production management, effective and stable operation was achieved throughout the year at our Huahe coal-based urea plant in Heilongjiang with the utilisation rate reaching 117%, and our two methanol plants in Hainan also achieved long-cycle operation. However, the production volume of urea of the Company was adversely affected by the scheduled suspension for facility upgrading of the Hainan Fudao Phase I urea plant, the prolonged suspension for repair of the Fudao Phase II urea plant due to a leakage in the equipment, and the suspension of production of the urea plant in CNOOC Tianye in Inner Mongolia following the overhaul in the second half of the year as a result of a weak market and, subsequently, undersupply of natural gas. Annual output of the Company for urea was 2.065 million tonnes, representing a decrease of 159,000 tonnes from 2015. Output of phosphate fertilisers and compound fertilisers was 952,000 tonnes, representing a decrease of 32,000 tonnes from 2015. Output of methanol was 1.505 million tonnes, representing a decrease of 56,000 tonnes from 2015.

Confronting fierce market competition, the Company strived to expand its sales network and actively explored international market by leveraging on our advantages of brand and geographical location. As a result, annual export volumes of urea and DAP were 627,000 tonnes and 328,000 tonnes, respectively, with sales volume largely matching production volume.

With our intensified efforts on reducing cost and enhancing efficiency, CNOOC Huahe actively lowered its procurement costs for raw materials and achieved self-power-generation and on-grid connection. DYK Chemical lowered the quota for mineral processing consumption and used its best effort to raise its annual overall recovery rate. CNOOC Tianye managed to reduce the prices of natural gas used for methanol production through negotiation. The Company also imposed strict control on non-production costs and administrative expenses.

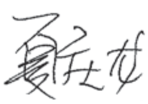
The Company has been consistently upholding a green and sustainable development philosophy over the years. As a consequence, the Company has been awarded the "Benchmark Enterprise of Leading Energy Efficiency of the Year" of the ammonia and methanol industries by the China Petroleum and Chemical Industry Federation for the five consecutive years. Furthermore, the Company is among the first batch of fertiliser enterprises who attained the IFA protection and sustainability certification during the year of 2016 in China.

Outlook for 2017

Looking into the year of 2017, the global demand on fertilisers from agriculture will increase steadily, driven by the steady demand growth on grain. Fierce competition in domestic fertiliser market and the environmental restriction will accelerate the elimination of mid- and small-sized fertiliser capacities. Development in methanol-to-olefin will still be the major driving force of the domestic demands for methanol.

In 2017, the Company will use our best endeavours in coordinating stable natural gas supply, and achieve safe and stable operations for each production unit by strengthening HSE and refined production management. Through enhancing marketing and sales management and adopting on favorable fertilizers export policies, we aim to realize a balance between production and sales volume. Also, we will low down purchasing costs of raw materials and tighten cost and expenditure control. In the meanwhile, we will continue to proceed with the pre-project studies on joint development of Xinhua coal mine with the professional local coal producers in Heilongjiang, and continue to do research on the feasibility of producing high-end chemical products with natural gas in Hainan. In addition, our company will continue to look for development opportunities in China and overseas that fit the Company's development strategy.

In 2017, the management of the Company will stand by our employees to actively respond to severe market conditions and explore development opportunities of the Company under the leadership of the Board, aiming to create good returns for our shareholders.



Xia Qinglong

CEO & President

Management Discussion and Analysis

Sector Review

Fertiliser industry

In 2016, to continue its work to maintain the steady development of agriculture, the PRC government continued to implement floor prices for wheat and grain rice. In particular, floor prices for wheat, mid-to late indica and japonica rice have remained unchanged as compared to 2015. The temporary purchase and storage policy for corn was changed into a new mechanism of market-driven purchases plus subsidies. Meanwhile, the PRC government optimised the composition of agricultural planting and stabilised the production of rice and wheat. Cultivated area of soy beans and potatoes, which have great market demands, was increased, while that of corn is reduced. As a result, total grain production for 2016 decreased by 0.8% to 616,239,000 tonnes, 5,201,000 tonnes less as compared to 2015.

In 2016, the PRC government substantially completed the market-oriented reforms of the chemical fertilisers industry. Following the abolishment of preferential railway transportation price for chemical fertilisers and the resumption of value-added tax levy on chemical fertilisers in 2015, from 20 April 2016, preferential electricity price for chemical fertilisers was completely terminated in order to eliminate the energy-intensive chemical fertiliser capacity and lead the chemical fertiliser industry in the PRC towards an environmental-friendly and sizable development. From 10 November 2016, the price of natural gas used for chemical fertilisers were completely liberalised and fixed solely by the demanding and supplying parties. A unified tariff rate continued to be imposed in 2016 for both urea and ammonium phosphate export from the PRC throughout the year, with the rate applied for urea being RMB80 per tonne and the rate for ammonium phosphate being RMB100 per tonne.

(1) Urea

Domestic urea production volume in 2016 was approximately 67.02 million tonnes (in kind), representing a decrease of approximately 10.5% as compared to 2015. Export of urea in the PRC was affected by the sustained depression of urea prices in the international market in the first three quarters, resulting in a significant decrease in export volume of urea by approximately 35.5% to 8.87 million tonnes (in kind) as compared to 2015.

Due to the combined effect of depressed international bulk commodity prices and the oversupply of domestic urea, domestic ex-factory price of urea in the third quarter of 2016 hit a historical low point of approximately RMB1,000 per tonne with the utilisation rate of urea plants in the PRC decreasing to about 50%. Majority of producers in the urea industry of the PRC suffered losses. As a result of a substantial increase in domestic coal prices and low inventory of urea in the country, domestic urea prices significantly rebounded since October and recovered to approximately RMB1,600 per tonne at the end of December.

(2) Phosphate fertilisers

In 2016, domestic production volume of ammonium phosphate was approximately 27.48 million tonnes (in kind), representing a decrease by approximately 3% as compared to 2015. Due to the depressed international ammonium phosphate prices, export volume of ammonium phosphate was 8.82 million tonnes (in kind), representing a decrease of 18% as compared to 2015.

In the first six months of 2016, international market prices for ammonium phosphate dropped significantly, which, coupled with depressed grain prices and oversupply of domestic phosphate ammonium, caused the domestic market price of DAP to gradually decline to approximately RMB2,200 per tonne. From July to November, the weak market price of DAP continued and lingered at approximately RMB2,000 per tonne. Starting from December, prices of ammonium phosphate rebounded as a result of the rise of prices of raw materials and curtailed production jointly made by major DAP producers in the PRC. The domestic market price of DAP reached RMB2,250 per tonne at the end of December.

Methanol

Domestic production volume of methanol in 2016 was approximately 43.14 million tonnes, representing an increase of approximately 8% from last year. The development of methanol-to-olefin drove the growth of domestic demands for methanol, leading to a significant increase of 64% in the net import volume to 8.80 million tonnes from last year.

Affected by the sustained stoop of international crude oil prices, the domestic market price for methanol dropped to approximately RMB1,730 per tonne in late February of 2016. Following a slight rebound in March, market price of methanol remained weak until mid-September due to ample market supply. However, thanks to decreased international imports, greater downstream demands from methanol-to-olefin plants in the PRC and a significant increase in domestic coal prices, domestic methanol prices significantly surged since late September. At the end of December, the price of methanol in major domestic markets was approximately RMB3,000 per tonne.

Business Review

Production management

Through refined management of the production process, effective and stable operation was achieved throughout the year at the coal-based urea plant of our CNOOC Huahe in Heilongjiang in 2016 with the utilisation rate reaching 117%, and the two methanol plants in Hainan also achieved long-cycle operation. However, the production volume of urea of the Company was adversely affected by the scheduled suspension for facility upgrading of the Hainan Fudao Phase I urea plant, the prolonged suspension for repair of the Fudao Phase II urea plant due to a leakage in the equipment, and the suspension of production of the urea plant in CNOOC Tianye in Inner Mongolia following the overhaul in the second half of the year as a result of a weak market and, subsequently, undersupply of natural gas. Annual output of the Company for urea was 2.065 million tonnes, representing a decrease of 159,000 tonnes from 2015. Output of ammonium phosphate and compound fertilisers was 952,000 tonnes, representing a decrease of 32,000 tonnes from 2015. Output of methanol was 1.505 million tonnes, representing a decrease of 56,000 tonnes from 2015.

Details of production of the Group's plants in 2016 are set out as follows:

	For the year ended 31 December			
	2016		2015	
	Production *(tonnes)*	Utilisation rate *(%)*	Production *(tonnes)*	Utilisation rate *(%)*
Chemical fertilisers				
Urea				
Fudao Phase I	**508,511**	**97.8**	585,219	112.5
Fudao Phase II	**614,278**	**76.8**	809,366	101.2
CNOOC Tianye	**335,546**	**64.5**	587,911	113.1
CNOOC Huahe	**606,549**	**116.6**	241,372	92.8
Group total	**2,064,884**	**87.5**	2,223,868	105.9
Phosphate Fertilisers and Compound Fertilisers				
DYK MAP	**55,712**	**37.1**	60,825	40.6
DYK DAP Phase I (Note 1)	**337,997**	**96.6**	320,821	91.7
DYK DAP Phase II	**558,485**	**111.7**	602,851	120.6
Group total	**952,194**	**95.2**	984,497	98.4
Chemical products				
Methanol				
Hainan Phase I	**575,986**	**96.0**	623,818	104.0
Hainan Phase II	**783,261**	**97.9**	793,971	99.3
CNOOC Tianye	**145,812**	**72.9**	143,059	71.5
Group total	**1,505,059**	**94.1**	1,560,848	97.6

Note 1: In 2016, DYK DAP Phase I Plant produced 299,949 tonnes of DAP and 38,048 tonnes of compound fertilisers, amounting to 337,997 tonnes in total. In 2015, DYK DAP Phase I Plant produced 272,082 tonnes of DAP and 48,739 tonnes of compound fertilisers, amounting to 320,821 tonnes in total.

Sales management

In response to an extremely depressed market for chemical fertilisers and methanol in 2016, which affected the sales of the Company's products, the Company resolutely implemented marketing system reforms and expanded its domestic and international sales channels. Annual export volumes of urea and DAP were 627,000 tonnes and 328,000 tonnes, respectively, with sales volume largely matching production volume.

Urea

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

	For the year ended 31 December			
	2016		2015	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**631,838**	**31.3**	456,344	21.9
Northern China	**182,088**	**9.0**	102,512	4.9
Eastern China	**53,376**	**2.6**	81,493	3.9
South-eastern China	**54,644**	**2.7**	62,864	3.0
Southern China	**380,857**	**18.9**	361,673	17.4
Hainan	**87,882**	**4.4**	128,831	6.2
International	**626,719**	**31.1**	889,350	42.7
Total	**2,017,404**	**100.0**	2,083,067	100.0

Phosphate fertilisers and compound fertilisers

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

	For the year ended 31 December			
	2016		2015	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**244,251**	**25.3**	261,178	28.4
Northern China	**323,754**	**33.5**	240,172	26.2
Eastern China	**21,868**	**2.2**	43,658	4.7
South-eastern China	**23,016**	**2.4**	4,155	0.5
Southern China	**24,837**	**2.6**	59,623	6.5
International	**328,079**	**34.0**	309,376	33.7
Total	**965,805**	**100.0**	918,162	100.0

Methanol

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

	For the year ended 31 December			
	2016		2015	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**67,646**	**4.5**	26,071	1.7
Northern China	**68,792**	**4.6**	118,390	7.7
Eastern China	**135,157**	**9.0**	133,477	8.7
South-eastern China	**128,746**	**8.5**	139,518	9.1
Southern China	**1,002,401**	**66.4**	1,014,282	65.9
Hainan	**106,768**	**7.0**	106,897	6.9
International	**-**	**-**	-	-
Total	**1,509,510**	**100.0**	1,538,635	100.0

BB fertilisers

In 2016, the Group produced a total of 50,154 tonnes of BB fertilisers and achieved a sales volume of 52,619 tonnes.

Sea-land logistics services

In 2016, Basuo Port in Hainan completed a volume of throughput of 12.04 million tonnes.

Financial Review

Revenue

During the reporting period, the Group's revenue was RMB8,503.8 million, representing a decrease of RMB2,168.0 million, or 20.3%, from RMB10,671.8 million in 2015. The decrease is mainly attributable to the extremely depressed urea and ammonium phosphate markets in 2016 as well as the effect of the resumed application of value-added tax on chemical fertilisers by the state, which resulted in a significant decrease in selling prices and a fall in sales volume of urea and ammonium phosphate of the Company.

During the reporting period, the Group's external revenue from urea was RMB2,502.8 million, representing a decrease of RMB898.5 million, or 26.4%, from RMB3,401.3 million in 2015. The decrease was primarily attributable to (1) a decrease in the sales volume of urea by 65,663 tonnes from 2015, leading to a decrease in revenue by RMB107.2 million; and (2) a decrease in revenue by RMB791.3 million due to a drop in the selling price by RMB392.2 per tonne.

During the reporting period, the Group's external revenue from phosphate fertilisers and compound fertilisers was RMB1,969.5 million, representing a decrease of RMB515.5 million, or 20.7%, from RMB2,485.0 million in 2015. The decrease was primarily attributable to (1) a decrease in revenue by RMB612.6 million caused by a fall in the price of phosphate fertilisers and compound fertilisers by RMB667.2 per tonne; which is partially offset by (2) an increase in the sales volume of phosphate fertilisers and compound fertilisers by 47,642 tonnes from 2015, resulting in an increase in revenue by RMB97.1 million.

During the reporting period, the Group's external revenue from methanol was RMB2,483.1 million, representing a decrease of RMB161.4 million, or 6.1%, from RMB2,644.5 million in 2015. The decrease was primarily attributable to (1) a decrease in the sales volume of methanol by 29,125 tonnes, resulting in a decrease in revenue by RMB50.1 million; and (2) a decrease in revenue by RMB111.3 million caused by a drop in the selling price by RMB73.7 per tonne.

During the reporting period, the Group's external revenue from other segments (primarily comprising port operations and provision of transportation services, trading in fertilisers and chemicals, manufacture and sales of BB fertilisers and woven plastic bags) decreased by RMB592.7 million, or 27.7%, to RMB1,548.4 million in 2016 as compared to RMB2,141.1 million in 2015, which was primarily attributable to (1) a decrease in revenue by RMB495.4 million in the trading segment; (2) a decrease in revenue of RMB56.9 million in port loading & unloading and transportation business of the Basuo Port; (3) a decrease by RMB40.1 million in revenue due to the termination of the Company's POM business; and (4) a decrease in revenue by RMB41.0 million caused by a drop in both the sales volume and selling prices of BB fertilisers, which were partially offset by (5) an increase by RMB40.7 million in revenue due to the increase in revenue from woven plastic bags, liquid ammonium and formaldehyde.

Cost of sales

During the reporting period, the Group's cost of sales was RMB8,204.3 million, a decrease of RMB721.6 million or 8.1% from RMB8,925.9 million in 2015.

During the reporting period, the Group's cost of sales for urea was RMB2,649.9 million, representing an increase by RMB284.1 million or 12.0% from RMB2,365.8 million in 2015. The increase was primarily attributable to: (1) an increase in sales volume of urea by 333,000 tonnes from CNOOC Huahe coal-based plant, which commenced commercial operation on 1 July 2015, causing an increase in cost of sales by RMB397.8 million; (2) an increase in cost of sales by RMB38.3 million caused jointly by the suspension of production of Fudao Phase I and Phase II urea production plants in Hainan and the increase of natural gas price for Fudao Phase I during the year, despite a drop in sales of the two urea plants by 221,000 tonnes; and (3) a decrease in cost of sales by RMB152.0 million due to the fall in sales volume by 178,000 tonnes resulting from the suspension of production in the urea plants of CNOOC Tianye in Inner Mongolia following the annual maintenance on 18 July 2016.

The Group's cost of sales for phosphate and compound fertilisers for the reporting period was RMB1,928.0 million, representing a decrease of RMB156.3 million or 7.5% from RMB2,084.3 million in 2015. The decrease was primarily attributable to: (1) a drop in price of raw materials for phosphate and compound fertilisers, contributing to a decrease in cost of sales of RMB251.4 million; and (2) an increase in sales volume of phosphate and compound fertilisers by 47,642 tonnes, resulting in an increase in cost of sales of RMB95.1 million.

The Group's cost of sales for methanol for the reporting period was RMB2,168.0 million, representing a decrease of RMB267.5 million or 11.0% from RMB2,435.5 million in 2015. The decrease was primarily attributable to: (1) a decrease in cost of sales by RMB225.7 million due to decreased costs for overhaul of methanol plants and the decrease in price of natural gas as compared to last year; and (2) a decrease in cost of sales by RMB41.8 million caused by a decrease in sales volume of methanol by 29,125 tonnes as compared to last year.

The Group's cost of sales from other segments for the reporting period decreased by RMB581.9 million or 28.5% from RMB2,040.3 million in 2015 to RMB1,458.4 million. The decrease was primarily attributable to: (1) a decrease in cost of trading businesses by RMB481.2 million; (2) the cessation of production of our POM plants throughout the year, resulting in a decrease in the cost of sales by RMB79.4 million; (3) a decrease in cost of sales of BB fertilisers by RMB41.4 million; and (4) an increase in cost of sales of liquid ammonium and formaldehyde, among others, by RMB20.1 million.

Gross profit

The Group's gross profit for the reporting period was RMB299.5 million, representing a decrease of RMB1,446.4 million or 82.8% from RMB1,745.9 million in 2015. The decrease was primarily attributable to: (1) a decrease in gross profit for urea by RMB1,182.6 million and a decrease in gross profit of phosphate fertilisers and compound fertilisers by RMB359.1 million due to a significant decrease in the selling prices of urea and phosphate fertilisers of the Company amidst an extremely depressed market for urea and phosphate fertilisers in 2016; (2) an increase in gross profit for methanol by RMB106.2 million; and (3) a decrease in gross profit for other segments by RMB10.9 million.

Other income

The Group's other income for the reporting period amounted to RMB63.2 million, representing a decrease by RMB62.0 million or 49.5% from other income of RMB125.2 million in 2015. The decrease was primarily attributable to: (1) a decrease in profit from other business by RMB73.5 million, which is partially offset by (2) an increase in government grants by RMB11.6 million.

Other gains and losses

The Group's other gains and losses during the reporting period was RMB205.0 million, representing a decrease by RMB62.5 million or 23.4% from RMB267.5 million for 2015. The decrease was primarily attributable to: (1) a decrease in short-term bank wealth management gains by RMB72.6 million; and (2) an increase in net gain on disposal of non-current assets by RMB15.9 million.

Selling and distribution expenses

The Group's selling and distribution expenses for the reporting period amounted to RMB344.5 million, representing a decrease of RMB64.9 million or 15.9% from RMB409.4 million in 2015. The decrease was primarily attributable to (1) less transportation expenses incurred due to the increase in exit sales of the Company's phosphate fertilisers and compound fertilisers business; and (2) the significant decrease in export volume of urea by 262,000 tonnes, resulting in a decrease of transportation expenses and port loading & unloading charges.

Administrative expenses

The Group's administrative expenses for the reporting period amounted to RMB450.1 million, representing an increase of RMB41.8 million or 10.2% from RMB408.3 million in 2015. The increase was primarily attributable to: (1) an increase in administrative expenses by RMB17.1 million incurred from CNOOC Huahe which commenced commercial operation on 1 July 2015; and (2) an increase in severance payment to staff of CNOOC Tianye by RMB28.3 million.

Other expenses

The Group's other expenses for the reporting period amounted to RMB12.3 million, representing a decrease of RMB7.6 million, or 38.2%, from RMB19.9 million in 2015. The decrease was primarily attributable to the fact that the cessation of work of POM production in CNOOC Tianye in 2015 incurred other expenses of RMB6.2 million, while there is no such expense for the current year.

Finance income and finance costs

The Group's finance income for the reporting period decreased by RMB1.8 million, or 18.4%, to RMB8.0 million from RMB9.8 million in 2015. The decrease was primarily due to a decrease in the average daily balance of the Group's deposits in 2016 as compared with 2015.

The Group's finance costs for the reporting period amounted to RMB162.1 million, representing an increase of RMB70.6 million, or 77.2%, from RMB91.5 million in 2015. The increase was primarily attributable to: (1) the increase in finance costs by RMB43.8 million caused by the interest fee incurred from the commencement of commercial operation of the coal-based urea project in CNOOC Huahe on 1 July 2015 being included as an expense in 2016; and (2) the increase in cost of financial leases of the Group of RMB28.9 million.

Net exchange gains/(losses)

During the reporting period, the Group recorded exchange gains of RMB8.5 million, whereas an exchange loss of RMB22.3 million was recorded in 2015, representing a change of RMB30.8 million. It was primarily attributable to the effect of appreciation of US$ on the deposit in US dollar held by the Group and the current accounts denominated in US dollar arising from transactions of goods, leading to a net exchange gain of RMB12.4 million.

Asset impairment losses

During the reporting period, certain cash-generating units in relation to urea and phosphate fertilisers of the Group showed evidence of potential impairment when the market for urea and phosphate fertilisers was once in extreme depression. The value-in-use model is used to extrapolate the estimated recoverable amount from the relevant cash-generating units based on the future cash flow as predicted in light of the market prospect as well as factors in relation to supply and demand, calculated by a specific discount rate, to assess whether the assets were impaired. As shown by the findings of the assessment carried out by the Group based on the aforesaid method, the estimated recoverable amount of the relevant cash-generating units exceeded the carrying value of the assets as at the end of the reporting period, and therefore no provision for asset impairment was made during the reporting period.

Share of gains/(losses) of associates and joint ventures

During the reporting period, the share of losses of associates and joint ventures was RMB1.7 million, representing a decrease of RMB67.0 million as compared with the share of losses of associates and joint ventures of RMB68.7 million in 2015. The decrease was mainly due to the dilution of the equity interest in Western Potash Corporation held by CBC (Canada) Holding Corp., a subsidiary of the Company, from 19.9% to 10.1% in 2015, which resulted in the recognition of a loss on deemed disposal amounting to RMB30.2 million and an impairment loss on investment in Western Potash Corporation amounting to RMB33.2 million for the same year.

Income tax expenses

The Group's income tax expense for the reporting period was RMB-92.9 million, representing a change of RMB381.0 million from the income tax expense of RMB288.1 million in 2015. The change was primarily attributable to the pre-tax loss of RMB329.6 million recorded for this year in contrast to the pre-tax profit of the Group in 2015 of RMB1,131.1 million.

Net profit for the year

The Group's net profit for the reporting period was RMB-236.7 million, representing a difference by RMB1,079.7 million from a net profit of RMB843.0 million in 2015.

Dividends

The board of directors of the Company (the "Board") recommended the payment of a special dividend of RMB230.5 million, or RMB0.05 per share, in view of the ample cash position of the Company despite recording a loss for the Group in 2016. The proposed special dividend for the year will be subject to the approval of the shareholders of the Company at the 2016 annual general meeting.

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of acquisitions, property, plant and equipment as well as prepaid lease payments amounted to RMB212.9 million. Capital expenditure primarily included: (1) an investment of RMB104.7 million for facility upgrading at Fudao Phase I; (2) an investment of RMB36.3 million for upgrading the high pressure carbamate pool condenser at Fudao Phase II; and (3) investments in the upgrade of the Group's other production plants and purchase of equipment of RMB71.9 million.

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 and maximise shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or 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 2016 (calculated as interest bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 14.0%, representing an increase of 0.7% compared with 13.3% as at 31 December 2015, which was primarily attributable to the increase in the principal of financial leases by RMB133.4 million during the reporting period.

Cash and cash equivalents

As at the beginning of 2016, the Group's cash and cash equivalents were RMB5,313.9 million. In 2016, the net cash inflow from operating activities was RMB1,114.8 million, the net cash outflow from investing activities was RMB274.5 million, the net cash outflow from financing activities was RMB482.9 million, and the increase of cash and cash equivalent caused by the changes in exchange rates was RMB27.1 million. As at 31 December 2016, the Group's cash and cash equivalents were RMB5,698.4 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 2016, the Group had 6,027 employees. The aggregate of employees' wages and allowances for 2016 was approximately RMB570.3 million. The Group has a comprehensive remuneration system 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 3,145 training courses, and recorded a total of 185,322 enrolments and 524,894 training hours according to its annual training plan.

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, coal, phosphate ore, ammonia and sulphur), fuels (mainly natural gas and coal) and energy 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 short-term and long-term debt obligations which are subject to floating interest rates.

Foreign exchange risk

The Group's revenue was primarily denominated in RMB and secondarily in US dollar. The Group's purchases of equipment and raw materials were primarily denominated in RMB and secondarily in US dollar. During the reporting period, the RMB to US dollar exchange rate ranged between 6.4565 and 6.9508. RMB to US dollar exchange fluctuation may affect import of our equipment and raw materials, export of our products as well as financing activities in US dollar.

As at 31 December 2016, the balance of the Group's deposit in US dollar was US$96.2 million.

Inflation and currency risk

According to the data of National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.0% 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 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 2016, based on the carrying values shown on the financial statements, the Group had borrowings in the amount of RMB68.9 million and financial leases with a principal in the amount of RMB60.0 million that would reach maturity within one year. The Group has sufficient cash and is not exposed to liquidity risk.

Subsequent events and contingent liabilities

Subsequent to the reporting period to the date of this annual report, the Group had no material subsequent events and contingent liabilities.

Litigation and arbitration

During the reporting period, the Group had no material litigation or arbitration. The arbitration matter in relation to Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. which commenced in July 2014 is still pending (for details, please refer to the announcement dated 10 July 2014).

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

The Company initiated the establishment of Wealthfert Co., Ltd. with other shareholders in July 2016 and contributed RMB30.0 million to the newly founded company in which the Company holds 30% shares.

Sector Outlook

Looking forward to 2017, the global demand on fertilisers from agriculture will increase steadily, driving by the steady demand growth on grain. Fierce competition in domestic fertilizer market and the environmental restriction will accelerate the elimination of mid-and small-sized fertiliser capacities. Development in methanol-to-olefin will still be the driving forces of the domestic demands for methanol.

Our Key Tasks in 2017

(1) To use our best endeavours in coordinating upstream supply of natural gas, to continue to strengthen and enhance HSE and refined production management, and to achieve safe and stable operations for each production unit;

(2) To closely track the market conditions of domestic and international markets of chemical fertilisers and methanol, to enhance marketing and sales management and realize a balance between production and sales volume by adopting on favorable fertilizers export policies;

(3) To low down purchasing costs of raw materials and tighten expenditure control;

(4) To continue to pursue further improvements in the risk management and control system for sales so as to raise the standard of rationalisation in management;

(5) To continue to proceed the pre-project studies on joint development of Xinhua coal mine with the professional local coal producers in Heilongjiang;

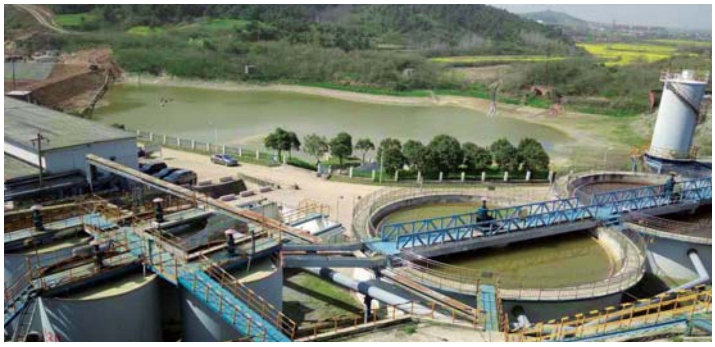
(6) To continue the feasibility studies of producing high-end chemical products with natural gas in Hainan in tandem with the development of the offshore natural gas field in South of Hainan; and

(7) To continue to look for organic growth and merger and acquisition opportunities in China and overseas that fit the Company's development strategy.

Environmental, Social and Governance Report

Environment

To build a green chemical company, we perform our work in environmental protection and resource conservation with utmost earnestness and pay close attention to the demands therein from interested parties of the Company. Measures are adopted to save energy and reduce emission, and environmental protection compliance management is strengthened in order to establish ourselves as an environmentally friendly company. For five years consecutively, the Company has been awarded by China Petroleum and Chemical Industry Federation as the "Benchmark Enterprise of Leading Energy Efficiency of the Year" of the ammonia and methanol industries.



Emission and its management

The Company produces urea and methanol with natural gas and coal as raw materials, and produces ammonium phosphate (MAP and DAP) and compound fertilisers using phosphate ores, sulphur and ammonia as raw materials, which mainly give off exhaust gases such as CO_2, SO_2 and NO_X, industrial wastewater, and solid waste such as tailings from phosphate ores, phosphogypsum and coal ashes, as well as hazardous solid waste including catalysts and radioactive materials (cobalt and cesium) used during production. The Company strictly abides by the relevant environmental protection laws of the PRC and endeavours to ensure clean production. We are actively engaged in pollution prevention to minimise the impact on the environment.

Management of exhaust gas and reduction of greenhouse gases

The Company strictly complies with the laws and regulations including Atmospheric Pollution Prevention and Control Law of the PRC and Integrated Emission Standard of Air Pollutants, and all the production plants fulfill the emission standards imposed by the government in respect of SO_2 and NO_X emission. As a key task of 2016, the CNOOC Tianye treatment project of exhaust fume emitted by coal furnace was implemented, reducing the discharge of atmospheric pollutants. In our CNOOC Fudao Limited ("CNOOC Fudao"), dry ice is manufactured from CO_2 to reduce the emission of greenhouse gases. Our facilities in Hainan were those of the first bulk to be admitted to the national scheme for carbon trading, and DYK Chemical was among the second bulk of enterprises admitted to the carbon trading and discharge management scheme in Hubei. Inspection was conducted on the carbon discharge historical data of them as part of the preliminary preparation to be qualified for the carbon emission trading.

Wastewater management

In compliance with the Discharge Standard of Water Pollutants for Ammonia Industry, Emission Standard of Pollutants for Petroleum Chemistry Industry and Emission Standard of Pollutants for Petroleum Refining Industry, the Company conducts stringent treatments on its industrial and domestic sewage to ensure compliant discharge and raise the rate of reuse for wastewater, which reduced wastewater emission. The wastewater reuse rate in Huahe exceeded 70%, leading to effective conservation of water resources. DYK Chemical implemented a recycling cycle for the wastewater from production and achieved the goal of zero discharge.

Disposal of solid waste

The Company attaches great importance to the generation and disposal of hazardous and non-hazardous wastes and complies strictly with the requirements under Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes, Standard for Pollution Control on Hazardous Waste Storage, among others. The piling and storage of tailings from phosphate ores, phosphogypsum and coal ashes were in conformity to the requirements of environmental safety of the government. Meanwhile, solid wastes are recycled and reused, and researches were conducted actively on the use of phosphogypsum to produce construction materials. Qualified organisations are engaged to centralise the collection, recycle and disposition of hazardous solid wastes. In 2016, the safe treatment rate for hazardous wastes reached 100% for the Company.

Water resource conservation

The Company advocates water conservation and takes a proactive approach in adopting water-saving measures and implementing various technological upgrades, achieving water conservation by the aggregate amount of over 2.40 million tonnes in 2016. CNOOC Fudao completed and put to use the "Technological Development on Water Conversation and Minimal Discharge of Wastewater for Industrial Cooling System", one of the "863" key projects of the government.

Resource use

The Company is committed to the conservation of energy and resource and the development of circular economy. In compliance with the requirements of Energy Conservation Law of the PRC, management systems are formulated, such as Administrative Measures for Energy Conservation and Emission Reduction, Implementation Rules for Monitoring Energy Conservation and Emission Reduction and Implementation Rules for Water Conservation Control. Designated supervisory departments were established for energy saving and emission reduction and quotas are imposed on energy consumption. Criteria relating to energy conservation and emission reduction were incorporated as part of the annual appraisal. Meanwhile, investment for energy conservation and emission reduction has been increased as part of our proactive effort to establish a resource-conservative company.

Energy use

The energy used by the Company mainly comprises natural gas, raw coal, fuel coal and electricity, among others. In 2016, a total of 3,456,230,000 standard cubic metres of natural gas was consumed, accounting for 70.47% of our total energy consumption. Raw coal was consumed by the amount of 500,000 tonnes, accounting for 12.12% of our total energy consumption. Fuel coal was consumed by the amount of 810,000 tonnes, accounting for 13.78% of our total energy consumption. Electricity and other energies account for 3.63% of our total energy consumption. Details are set out in Fig. 1.

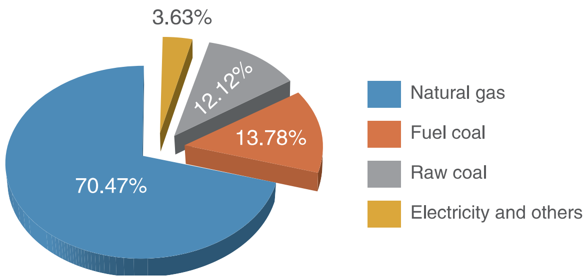


Fig. 1 Chart for Energy Consumption by type

Energy conservation

The Company forcefully promoted the use of advanced energy-saving technology, processes and equipment through technological upgrades in 2016. Upgrade performed on the water pumps in furnaces in DYK Chemical achieved energy conservation of standard coal of 36.87 tonnes/month. The transformation project from wind-powered engine to hydraulic turbine for the cooling tower of the circular water system of Hainan company achieved an energy conservation of standard coal of 9.67 tonnes/month.

Environment and natural resources

The Company consistently applies its philosophy of "green, clean, low-carbon and circular economy" and is engaged in clean production in order to realise sustainable development for both the Company and the environment. In 2016, the Company was awarded the Protect & Sustain certification by the International Fertilizer Industry Association (IFA), making the Company one of the first chemical fertiliser producers passing the Protect & Sustain certification of IFA in the PRC.

Environmental protection

The Company establishes and continuously improves the Health, Safety and Environment (HSE) management system and has formulated several management regulations, such as Administrative Measures for Environmental Protection, Administrative Measures for HSE in Construction Projects and Administrative Measures for HSE for Subcontractors. The Quality, Health, Safety and Environment Committee has been established, which is responsible for major decisions relating to safety and environmental concerns of the Company. The production safety department formulates the general policies for environmental protection and oversees their implementation. Each of the subsidiaries is in charge of the practical execution of environmental protection measures and is responsible for the compliance with the same.

In 2016, the Company actively realised the Environmental Protection Law of the PRC and its ancillary requirements, strictly complying with the requirement of simultaneous design, construction and input of the environmental protection measures together with project construction. Management initiatives for potential environmental hazards were enhanced in order to control the environmental risk exposures in a comprehensive manner. The Company completed the establishment of the pollutant discharge information system which enabled real-time monitoring of the discharge of pollutants by our subsidiaries. Specific environmental check-ups were conducted with special attention as such environmental check-ups on production equipment were conducted 46 times for the year. Environment-related training courses were held 17 times with over 1,000 enrolments by our employees. DYK Chemical was awarded the Advanced Environmental Protection Company title for the Twelfth Five-Year Plan by China Petroleum and Chemical Industry Federation.

Green mines

In adherence to our principle of the "green mine", the Company acted strictly in compliance with the laws and regulations such as the Mineral Resources Law of the PRC and the Regulation on Land Reclamation. Mining was carried out in a scientific manner in pursuit for a harmonious development balancing resource exploitation and ecological protection. During the construction of mines, the Company carried out environmental impact assessment and geological hazard evaluation and formulated corresponding protective plans to eliminate potential hazards. During the production processes in the mines, the standards for mining technology were continuously enhanced, and effective treatment was conducted for the wastewater, exhaust gases and waste residue thus produced in order to ensure that control standards in respect with ecological protection were fulfilled.



Society

Employment and labour practices

The Company strictly complied with related employment laws and regulations of the PRC. In adherence to our principle of being "people-oriented and employee-caring", pursuing a personnel policy that is scientific, reasonable and highly-efficient, we enhanced the establishment of our talent pool and incentivising mechanisms. In 2016, in accordance with our principle of "controlling total volumes, making good use of storage volume while optimising the structure to improve quality", we made great efforts in continuously perfecting and optimising our staff structure, functions adjustments, remuneration oversight, performance assessment and employee training, which provided firm guarantee in personnels required for the sustained and steadfast development of the Company.

Codes on employment and labour

In compliance with the Labour Law, Labour Contract Law, Social Insurance Law, Women's Rights and Interests Protection Law and Provisions on Prohibition of Child Labour of the PRC, the Company formulated administrative measures such as Administrative Measures on Employment, Administrative Measures on Daily Personal Affairs and Administrative Measures on Remuneration setting up a labour management system covering such aspects as employment, promotion, wage, insurance and benefits, leaves and remuneration.

The Company provides labour protection for its employees and makes full and timely contribution to each of the social insurance and housing fund. Female workers' rights are protected and discrimination of all kinds is strongly opposed. Forced labour and employment of child workers are prohibited. Taking into account the basis of market competition and internal fairness, the Company provides employees with a sophisticated and competitive remuneration and benefit regime while the employees enjoy various kinds of leaves including annual leave, sick leave and maternity leave. Staff remunerations are determined according to their positions, performance and capabilities, taking into account the Company's results. Destitute employees are offered financial support. Physical and mental well-being of the employees are our concern as we strive to enliven their after-work life and create solidarity in the enterprise.

Health and safety

The Company regularises its occupational health management in adherence to the Law of the PRC on the Prevention and Control of Occupational Diseases. Noise protection equipment is provided for the Company's employees and the working environment is improved. Occupational health training is enhanced by formulating the annual occupational hygiene training scheme under which targeted training was provided for different categories of employees. Through the Occupational Health Management System, information from monitoring and health check-ups is filled in and reported, enhancing the management of health documentation system and raising the management standards for occupational health. In 2016, no additional cases of occupational disease were reported and the rate of occupational hazard notification, the rate of testing and assessment for underlying factors relating to occupational hazard and the rate of on-job check-up performed all reached 100%.

Production safety is of utmost importance to the Company which relentlessly enhances its protective facilities to minimise the likelihood of work-related accidents or work injury. In 2016, an in-depth potential safety hazard inspection was carried out as part of our strict effort to monitor and control major sources of hazards. Safety training is offered on a continuous basis, and safety management in respect with our subcontractors is enhanced so as to further improve our level of excellence in operation management. By clarifying the allocation of responsibilities relating to safety and encouraging the putting to practice of assigned roles for production safety, the Company had no recorded incident of leakage of hazardous chemicals, fire, explosion, environmental pollution or any other types of liability-incurring incident relating to a direct loss of over RMB 1 million during the year. The OSHA index of recordable incident rate was 0.07.

Development and training

The Company highly emphasises on employees' development and training. A training management system has been established to take care of the development needs of employees at different stages. A growth and promotion platform has been developed and initiatives have been carried out for on-the-job training, apprenticeship and team-building. As part of the Company's continuous efforts in perfecting its training management, a performance-based 3-year rolling course system, designed by job ranking and work type, has been constructed. In 2016, the planned training programs were well implemented, the 13th Skill Competition was organised, the systematic training from internal trainer was strengthened and a total of 3,145 training courses were completed with a total of 185,322 enrolments and with each employee receiving 83 training hours on average throughout the year.

Operation practices

Supply chain management

With Administrative Measure for Suppliers and Implementation Rules for Assessing and Evaluating Suppliers being formulated, the Company conducts centralised management on suppliers while allocating responsibilities by levels. The Project Procurement department is responsible for formulating the supplier management system and constructing a list of suppliers, while each of the subsidiaries is responsible for the practicalities relating to the referral, review and appraisal of suppliers.

A set of qualification standards has been imposed by the Company for potential suppliers in order to manage suppliers under the principle of centralised selection, focalised entry permission and regulated use. By using the procurement business information system, the Company conducts online centralised control and management on procurement dealings and suppliers' information database. Suppliers' services were tracked throughout the procurement process. Suppliers are monitored and appraised so as to enable grading and management by category and ranking.

Product liabilities

The Company abides by laws and regulations such as the Quality Law, Trademark Law and Anti-unfair Competition Law of the PRC and each of the national standards for various types of products. The Administrative Measures for Quality Control, Administrative Measures for Marketing of Products and Administrative Measures for Agro-chemical Services have been formulated by the Company, and a set of comprehensive, rigorous quality control measures has been implemented.

In active participation in the formulation of industry standards, the Company insists on the continuous strengthening of its quality control driven by technological innovation through equipment maintenance, product testing, and enhancement of packages and storage. In 2016, the quality check passing rate of the Company's urea and methanol was 100%, while the rates for goods graded as superior were 99.86% and 100%, respectively. No material litigation and claim were prompted by incidents relating the product and service quality.

Anti-corruption

Prevention and control of corruption is a major component of the Company's risk management. In rigorous compliance with, among others, the Criminal Law, Anti-Money Laundry Law of the PRC and Rules on Integrity of Executives of State-Owned Enterprises, the Company issued the Disciplinary Regulations for Employees' Breaches, requiring our employees to act in strict conformity to the relevant laws and requirements and abide by relating ethical codes. The Company has in place a Supervisory Committee, which is responsible for overseeing the discharge of duties by Directors, president and other senior management members. The secretary of the disciplinary committee is responsible for the oversight of the discipline of the Party members and leading cadres, while regulatory department are responsible for investigating disciplinary infractions. A comprehensive risk control system in promotion of integrity is formed.

The Company conducts coordination for anti-corruption risk control and day-to-day production and operation, with regular focus on key projects and processes for routine monitoring in order to achieve prevention and invigilation of such incidents.

Community building

The Company accords great importance to the founding of local community ties in the place of operation and deems it obligatory to give back to the general society by active participation in charitable works, rendering service to community building, making donation and providing aids for students, thus promoting the harmonious development of both the Company and society.

In 2016, designated personnel were dispatched by the CNOOC Fudao to the Xinningpo Village in Datian Town, Dongfang City, a specific poverty reduction target in Hainan Province, in support for the poverty aid mission by repairing and building water facilities. Huahe provided aids for 8 peasant families in Qianfeng Village of Luobei County, Hegang City, Heilongjiang province by donating granular urea products and offering technical support, and a "1-on-1" charitable campaign was carried out with the Nanshan Elementary School in Hegang City, Heilongjiang province. DYK Chemical donated RMB300,000 to support the reconstruction in the areas devastated by flood in Zhongxiang City, Hubei province.

In 2016, the Company has complied with the "comply or explain" provisions set out in the ESG Reporting Guide.

Corporate Governance Report

The Company continued to be committed to implementing corporate governance policy and practice with a high standard in 2016, striving incessantly for excellence in corporate governance with the goal of maintaining healthy and sustainable growth of the Company and creating greater values for the shareholders.

Since 2006, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Appendix 14 thereto.

The Company was in compliance with the code provisions of Corporate Governance Code set out in Appendix 14 to the Listing Rules. During the reporting period, the Company continued to implement high standard of corporate governance, and maintained the formality, integrity and efficiency of the Company's management. Through holding roadshows about the Company's results and participating in international investment forums, the Company maintained uninterrupted and effective communication with the capital market and the media and preserved its positive image featuring fairness and openness in the capital market.

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 distribution and losses recovery of the Company;
- to elect and replace Directors and Supervisors who are not employee representative and to fix the remunerations of Directors and Supervisors;
- to consider and approve reports of the Directors and the Supervisory Committee;
- 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 issue 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 carrying voting rights in the Company;
- to consider and approve share incentive schemes;
- to authorised or delegated matters in the general meeting's power to the Board;
- other matters which are required by laws, administrative regulations and the Articles to be resolved by the general meetings.

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 percent or more of the issued and outstanding shares carrying voting rights in the Company, 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 percent or more of the shares carrying voting rights in the Company, shall be entitled to put forward and submit new proposals in writing ten days before the date of the general meeting to the convener 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 relevant materials stipulated in the Articles after payment of fees at cost in accordance with the provisions of the Articles, and 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.

Information on general meetings

During the reporting period, one annual general meeting, one H shareholders' class meeting, one domestic shareholders' class meeting and two extraordinary general meetings of the Company were held, at which 17 resolutions were considered and passed, including, among others, the 2015 annual financial reports, the report of the Directors, the report of the Supervisory Committee, the profit distribution proposal, the 2016 budget proposal, the appointment of Directors and Supervisors and the grant of the general mandate to the Board to repurchase H Shares.

Mr. Li Hui, the former chairman of the Company who resigned on 29 September 2016, did not attend the extraordinary general meeting held on 20 July 2016 due to other work commitments (attendance rate of Mr. Li Hui was 80%). Mr. Cheng Chi, a former Director who was appointed on 31 May 2016 and resigned on 29 September 2016, did not attend the extraordinary general meetings held on 20 July 2016 and 29 September 2016, due to other work commitments (attendance rate of Mr. Cheng Chi was 50%). All other Directors of the Company attended the general meetings of the Company held during their respective terms of office in 2016 (attendance rate of other Directors was 100%).

The procedures for the holding and the approval of resolutions of the above general meetings of the Company 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.

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.

Duties of the Board

While it delegates authorities and responsibilities to the management for the purposes of managing day-to-day business operations of the Group, the Board is responsible for formulating business strategic plans, operating plans and investment proposals, establishing management objectives, reviewing the performance of the Company, evaluating the effectiveness of management strategies, formulating the Company's profit distribution and losses recovery proposals, 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 meetings, report to the 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 distribution and losses recovery of the Company;
- formulate proposals for increase or reduction of the registered capital, issue 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 the basic management regime of the Company;
- propose 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 33 to 35 of this annual report.

In addition to compliance with the provisions of the Company Law and the Listing Rules, the composition and structure of the Board not only established an efficient internal balancing mechanism but also catered to the needs of the Company's operation and development.

The incumbent members of the Board are set out as follows:

Board member	Position	Date of appointment
Chen Bi	Chairman and non-executive Director	29 September 2016
Xia Qinglong	Executive Director	20 July 2016
Xie Weizhi	Non-executive Director	29 September 2016
Guo Xinjun	Non-executive Director	31 May 2016
Lee Kit Ying	Independent non-executive Director	28 May 2015
Lee Kwan Hung	Independent non-executive Director	28 May 2015
Yu Changchun	Independent non-executive Director	31 May 2016

Each Director appointed by the Company has entered into a service contract with the Company, and their terms of office commenced on their respective date of appointment until Directors of the new session are elected at the 2017 annual general meeting held by the Company. If, however, new Directors are not elected promptly when term of office of the existing Directors expires, the existing Directors shall, in accordance with the provisions of the laws, regulations, and the Articles, discharge their duties as Directors prior to the election at the general meeting held by the Company in the year when their term of office expires. Directors can offer themselves for re-election upon the end of their terms of office.

The Board comprised three independent non-executive Directors, who represented over one-third of the total members of the Board. During the reporting period, all independent non-executive Directors of the Company have submitted to the Company their annual confirmation letters in respect of their independence. The Board has assessed the independence of each independent non-executive Director and considers all independent non-executive Directors to be independent within the meaning of the Listing Rules. One of the independent non-executive Directors has the qualifications in full compliance with Rule 3.10 (2) of the Listing Rules, namely, having appropriate professional qualifications or appropriate accounting or relevant financial management expertise. The number of the independent non-executive Directors, their independence and qualifications were in full compliance with the provisions of the Listing Rules.The independent non-executive Directors own 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, all the independent non-executive Directors expressed their views and advice on matters concerning the interests of shareholders and the Company at the Board meetings.

Information on Board meetings

During the reporting period, the Board held seven physical meetings and one interim meeting by written resolutions, based on actual working practicality.

Details of attendance of Board members at the physical Board meetings for the year ended 31 December 2016 are as follows:

Board member	Number of meetings attended / held	Attendance rate (%)
Chen Bi	2/2 (Note 1)	100
Xia Qinglong	4/4 (Note 2)	100
Xie Weizhi	2/2 (Note 1)	100
Guo Xinjun	5/5 (Note 3)	100
Lee Kit Ying	7/7	100
Lee Kwan Hung	7/7	100
Yu Changchun	5/5 (Note 3)	100
Li Hui	4/5 (Note 4)	80
Wang Hui	3/3 (Note 5)	100
Zhou Dechun	2/2 (Note 6)	100
Zhu Lei	2/2 (Note 6)	100
Zhou Hongjun	2/2 (Note 6)	100
Cheng Chi	2/4 (Note 7)	50

Note 1: Mr. Chen Bi and Mr. Xie Weizhi were appointed as non-executive Directors of the Company on 29 September 2016. During the period from 29 September 2016 to 31 December 2016, two Board meetings were held.

Note 2: Mr. Xia Qinglong was appointed as an executive Director of the Company on 20 July 2016. During the period from 20 July 2016 to 31 December 2016, four Board meetings were held.

Note 3: Mr. Guo Xinjun and Mr. Yu Changchun were appointed as non-executive Directors of the Company on 31May 2016. During the period from 31 May 2016 to 31 December 2016, five Board meetings were held.

Note 4: Mr. Li Hui ceased to be the chairman and non-executive Director of the Company on 29 September 2016 due to work commitments. During the period from 1 January 2016 to 29 September 2016, five Board meetings were held. Mr. Li Hui attended four Board meetings in person, and attended and voted at one Board meeting by his proxy, Mr. Lee Kwan Hung, due to other work commitments.

Note 5: Mr. Wang Hui ceased to be an executive Director of the Company on 20 July 2016 due to work commitments. During the period from 1 January 2016 to 20 July 2016, three Board meetings were held.

Note 6: Mr. Zhou Dechun ceased to be a non-executive Director of the Company on 31 May 2016 as he reached retirement age, while Mr. Zhu Lei and Mr. Zhou Hongjun respectively ceased to be a non-executive Director and an independent non-executive Director of the Company on 31 May 2016 due to work commitments. During the period from 1 January 2016 to 31 May 2016, two Board meetings were held.

Note 7: Mr. Cheng Chi was appointed as a non-executive Director of the Company on 31 May 2016 and ceased to be a non-executive Director of the Company on 29 September 2016 due to work commitments. During the period from 31 May 2016 to 29 September 2016, four Board meetings were held. Mr. Cheng Chi attended two Board meetings in person, and attended and voted at two Board meetings by his proxy, Mr. Guo Xinjun, due to other work commitments.

These Board meetings were held and proposals were approved in compliance with the provisions of the relevant laws and regulations and the Articles. The Directors fulfilled their fiduciary duty in a practical manner and made decisions on matters important to the Company only after prudent discussion. 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 vote on behalf of other Directors so as to protect the interest of all shareholders of the Company.

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, including attending trainings organized by the Company and external institutes and reading relevant materials. In particular, the Company delivered the written training materials to Mr. Chen Bi, Mr. Xia Qinglong, Mr. Cheng Chi, Mr. Xie Weizhi, Mr. Guo Xinjun and Mr. Yu Changchun, being the new directors, by mail, and they completed such new directors' training by reading through such materials. All the then Directors of the Company (including Mr. Li Hui, Mr. Wang Hui, Mr. Cheng Chi, Mr. GuoXinjun, Ms. Lee Kit Ying, Mr. Lee Kwan Hung and Mr. Yu Changchun) attended an internal onsite training organised by the Company on 31 May 2016 in relation to the recent changes to the Listing Rules, disclosure of inside information, and the responsibilities and obligations of directors, among other things. The Company also circulated by mail to all Directors, including Mr. Chen Bi, Mr. Xia Qinglong, Mr. Xie Weizhi, Mr. Guo Xinjun, Ms. Lee Kit Ying, Mr. Lee Kwan Hung and Mr. Yu Changchun, on 27 October 2016, five sets of learning materials in written form concerning the guidance for issuers subject to market commentary or rumors, and the Directors completed the training by reading through such materials. Ms. Lee Kit Ying, Mr. Lee Kwan Hung and Mr. Yu Changchun, being independent non-executive Directors, made a field investigation to Hubei Dayukou Chemical Co., Ltd to further understand the operation of the production plants, sales of products and future operation strategies. Upon taking office as a new chairman of the Company, Mr. Chen Bi carried on several field investigations in the Company's plants in Hainan, Hubei, Heilongjiang and Inner Mongolia to actively coordinate to settle the existing problems in those plants.

Corporate governance functions

The Board is responsible for carrying out the corporate governance functions and has fulfilled its duties and responsibilities as set out in Code Provision D.3.1 of the Corporate Governance Code. During the reporting period, the Board made amendments to the provisions in relation to risk management of the Rules of Procedures of the Audit Committee, made supplements to the Rules of Procedures of the Nomination Committee, reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and disclosures in the Corporate Governance Report, reviewed and monitored the training and continuous professional development of Directors and senior management, enhanced the risk management and internal control of the Company and further enhanced the Company's corporate governance policy and practices.

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 and provide 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. Lee Kwan Hung and Mr. Yu Changchun and non-executive Directors Mr. Xie Weizhi and Mr. Guo Xinjun. 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, review the annual production operation and financial budget proposals and review the effectiveness of the risk control procedures and 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 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. The Audit Committee also examines the internal audit and supervisory work planning of the Company and submits relevant reports, deliberations and recommendations to the Board.

The Audit Committee held five meetings during the reporting period and the work it performed is summarised as follows:

- Reviewed the 2015 financial statements and the 2016 interim financial statements, in particular, focusing on the compliance with accounting standards, the Listing Rules and other regulations, and provided recommendations and advice to the Board;
- Reviewed the 2015 and 2016 operating and financial budgets of the Company, and made recommendations and advice to the Board;
- Reviewed the independence of the external auditor and provided recommendations to the Board on appointment of the external auditor, and approved the terms of engagement of the external auditor and the audit fees for 2016;
- Reviewed the statutory audit plan of the external auditor and the nature and scope of their audit;
- Reviewed the internal audit and supervisory work reports of the Company for 2016 and internal audit and supervisory work plan of the Company for 2017 and reviewed the effectiveness of the risk control and internal control systems of the Company.

Details of attendance of members of the 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)	5/5	100
Lee Kwan Hung	5/5	100
Yu Changchun	3/3 (Note 1)	100
Xie Weizhi	1/1 (Note 2)	100
Guo Xinjun	3/3 (Note 1)	100
Zhou Hongjun	2/2 (Note 3)	100
Zhou Dechun	2/2 (Note 3)	100
Zhu Lei	2/2 (Note 3)	100
Cheng Chi	2/2 (Note 4)	100

Note 1: Mr. Yu Changchun and Mr. Guo Xinjun were appointed as members of the Audit Committee of the Company on 31 May 2016. During the period from 31 May 2016 to 31 December 2016, three meetings were held by the Audit Committee of the Company.

Note 2: Mr. Xie Weizhi was appointed as a member of the Audit Committee of the Company on 29 September 2016. During the period from 29 September 2016 to 31 December 2016, one meeting was held by the Audit Committee of the Company.

Note 3: Mr. Zhou Hongjun, Mr. Zhou Dechun and Mr. Zhu Lei ceased to be members of the Audit Committee of the Company on 31 May 2016. During the period from 1 January 2016 to 31 May 2016, two meetings were held by the Audit Committee of the Company.

Note 4: Mr. Cheng Chi was appointed as a member of the Audit Committee of the Company on 31 May 2016 and ceased to be a member of the Audit Committee of the Company on 29 September 2016. During the period from 31 May 2016 to 29 September 2016, two meetings were held by the Audit Committee of the Company.

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. Xie Weizhi. 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 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, the president and other executive Directors.

Remuneration policy

- The remuneration package policy for the 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 the executive Director.

- The remuneration of non-executive Directors and independent non-executive Directors, which is subject to approval by the Company's general meetings, 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 both the non-executive Directors and the 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 and the 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 2016 are set out in Note 11 to the financial statements.

The Remuneration Committee held four meetings during the reporting period, at which the Remuneration Committee determined the remuneration for the new executive Director, Supervisors and senior management and recommended the remuneration for the new independent non-executive Director of the Company to the Board.

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)	4/4	100
Lee Kit Ying	4/4	100
Xie Weizhi	1/1 (Note 1)	100
Cheng Chi	2/3 (Note 2)	67
Li Hui	- (Note 3)	-

Note 1: Mr. Xie Weizhi was appointed as a member of the Remuneration Committee of the Company on 29 September 2016. During the period from 29 September 2016 to 31 December 2016, one meeting was held by the Remuneration Committee of the Company.

Note 2: Mr. Cheng Chi was appointed as a member of the Remuneration Committee of the Company on 31 May 2016 and ceased to be a member of the Remuneration Committee of the Company on 29 September 2016. During the period from 31 May 2016 to 29 September 2016, three meetings were held by the Remuneration Committee of the Company. Mr. Cheng Chi attended two meetings in person, and attended and voted at one meeting by his proxy, Mr. Lee Kwan Hung, due to other work commitments.

Note 3: Mr. Li Hui ceased to be a member of the Remuneration Committee of the Company on 31 May 2016. During the period from 1 January 2016 to 31 May 2016, no meeting was held by the Remuneration Committee of the Company.

Nomination Committee

The Nomination Committee currently consists of three members, including non-executive Director Mr. Chen Bi, and independent non-executive Directors Mr. Lee Kwan Hung and Mr. Yu Changchun. Mr. Chen Bi 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 assessing and reviewing the structure, size and composition (including skills, knowledge and experience) of the Board; making recommendations to the Board in respect of appointments, re-appointments and succession of the Directors, senior management of the Company and relevant personnel appointed pursuant to the requirements of the Listing Rules. Detailed standards of adoption include the suitability of the candidates in terms of appropriate professional skills, knowledge and experience, personal integrity, honesty and skills. The Nomination Committee also assesses the independence of each independent non-executive Director.

The Nomination Committee is also responsible for reviewing the policy on Board diversity of the Company. The selection of the Directors of the Board is based on a range of diversified factors, including but not limited to gender, age, culture and educational background, professional experience, skills and knowledge and shall ultimately be determined by the merits of the candidates and the contributions that may be provided by them to the Company.

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

The Nomination Committee held three physical meetings and one interim meeting by written resolutions instead of a physical meeting based on actual working practicality during the reporting period, at which the candidates for new Directors and senior management of the Company were proposed, the independence of the new independent non-executive Director was assessed, and the structure, size and composition (including the skills, knowledge and experience) of the Board and its subordinated committees in 2016 were reviewed.

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 (%)
Chen Bi (Chairman)	1/1 (Note 1)	100
Lee Kwan Hung	3/3	100
Yu Changchun	2/2 (Note 2)	100
Zhou Hongjun	1/1 (Note 3)	100
Li Hui	1/1 (Note 4)	100
Wang Hui	1/1 (Note 5)	100

Note 1: Mr. Chen Bi was appointed as a member of the Nomination Committee of the Company on 29 September 2016. During the period from 29 September 2016 to 31 December 2016, one meeting was held by the Nomination Committee of the Company.

Note 2: Mr. Yu Changchun was appointed as a member of the Nomination Committee of the Company on 31 May 2016. During the period from 31 May 2016 to 31 December 2016, two meetings were held by the Nomination Committee of the Company.

Note 3: Mr. Zhou Hongjun ceased to be a member of the Nomination Committee of the Company on 31 May 2016. During the period from 1 January 2016 to 31 May 2016, one meeting was held by the Nomination Committee of the Company.

Note 4: Mr. Li Hui was appointed as a member of the Nomination Committee of the Company on 31 May 2016 and ceased to be a member of the Nomination Committee of the Company on 29 September 2016. During the period from 31 May 2016 to 29 September 2016, one meeting was held by the Nomination Committee of the Company.

Note 5: Mr. Wang Hui ceased to be a member of the Nomination Committee of the Company on 1 June 2016. During the period from 1 January 2016 to 1 June 2016, one meeting was held by the Nomination Committee of the Company.

Investment Review Committee

The current Investment Review Committee consists of five members, including independent non-executive Directors Mr. Yu Changchun, Ms. Lee Kit Ying and Mr. Lee Kwan Hung, and non-executive Directors Mr. Xie Weizhi and Mr. Guo Xinjun. Mr. Yu Changchun is the Chairman.

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

The Investment Review Committee held one meeting during the reporting period, and reviewed the investment projects of the Company and reported its recommendations 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 (%)
Yu Changchun (Chairman)	-/- (Note 1)	-
Lee Kit Ying	1/1	100
Lee Kwan Hung	-/- (Note 1)	-
Xie Weizhi	-/- (Note 1)	-
Guo Xinjun	-/- (Note 1)	-
Cheng Chi	-/- (Note 1)	-
Zhou Hongjun	1/1 (Note 2)	100
Li Hui	1/1 (Note 2)	100
Wang Hui	1/1 (Note 3)	100
Zhou Dechun	1/1 (Note 2)	100
Zhu Lei	1/1 (Note 2)	100

Note 1: Mr. Yu Changchun, Mr. Lee Kwan Hung, Mr. Cheng Chi and Mr. Guo Xinjun were appointed as members of the Investment Review Committee of the Company on 31 May 2016. Mr. Cheng Chi ceased to be a member of the Investment Review Committee of the Company on 29 September 2016 and Mr. Xie Weizhi was appointed as a member of the Investment Review Committee of the Company on 29 September 2016. During the period from 31 May 2016 to 31 December 2016, no meeting of the Investment Review Committee was held by the Company.

Note 2: Mr. Zhou Hongjun, Mr. Li Hui, Mr. Zhou Dechun and Mr. Zhu Lei ceased to be members of the Investment Review Committee of the Company on 31 May 2016. During the period from 1 January 2016 to 31 May 2016, one meeting was held by the Investment Review Committee of the Company.

Note 3: Mr. Wang hui ceased to be a member of the Investment Review Committee of the Company on 1 June 2016. During the period from 1 January 2016 to 1 June 2016, one meeting was held by the Investment Review Committee of the Company.

4 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 supervise the behaviours of Directors and senior management in discharging their duties and propose to remove those who have violated the laws, administrative regulations and the Articles;
- To demand Directors, president and other senior management to rectify any improper behaviour that would be detrimental to the interests of the Company;
- To verify financial information, such as financial reports, business reports and profit distribution proposals to be submitted by the Board to the general meeting, and to appoint certified public accountants or 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 initiate an action against 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 whom are external supervisors (as shareholder's representative Supervisor and independent Supervisor, respectively) and one of whom is the Supervisor representing employees of the Company.

For details of the work performed by the Supervisory Committee, please refer to the Report of the Supervisory Committee on page 51 to 52 of this annual report.

5 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 production, operation and management of the Company and to organise the implementation of the resolutions of the Board;
- To organise and implement the annual operating plans and investment proposals of the Company;
- To draw up plans for the establishment of the Company's internal management structure;
- To draw up basic management regime and formulate basic rules and regulations of the Company;
- To propose the appointment or dismissal of the executive vice president, chief financial officer, 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 certificates of 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 conducting of the day-to-day operation of the Company.

The management of the Company furnishes the management accounts of the Company (including analysis of production and sales data and internal financial statements) to members of the Board and the Supervisory Committee every month and provides to members of the Board and of the Supervisory Committee such background and explanatory information relating to matters to be discussed by the Board, so that each Director and Supervisor may fully understand the progress of any material events and the latest business updates of the Company; weekly trends of stock price are provided alongside with information reports on the capital market such as analysis reports prepared by investment bank analysts and media news in order to provide the Directors and Supervisors with a grasp on developments in the capital market relating to the Company. Daily stock price movements are reported by the management so as to keep the Directors and Supervisors abreast of the share price changes of the Company.

The Company has set up the Quality, Health, Safety and Environmental Protection Committee, the Budget Management Committee, the Investment Review Committee, the Science and Technology Committee, the Risk Management Committee and the Personnel Committee. The specialised committees fully guaranteed a scientific and prudent production and operation, decision-making process and risk management for the Company.

The range of the remuneration of members of senior management for the year ended 31 December 2016 is set out in Note 12 to the financial statements.

6 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 being made specific inquiries with the Directors and Supervisors, all Directors and Supervisors have confirmed that during the accounting period covered by this annual report, 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.

7 Chairman and President

During the reporting period, Mr. Li Hui and Mr. Chen Bi acted as the chairman of the Company for the period from 1 January 2016 to 29 September 2016 and from 29 September 2016 to 31 December 2016, respectively; Mr. Wang Hui and Mr. Xia Qinglong served as the chief executive officer/president of the Company for the period from 1 January 2016 to 1 June 2016 and from 1 June 2016 to 31 December 2016, respectively. 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, which is in accordance with A.2.1 of the Corporate Governance Code providing that the roles of chairman and chief executive officer should be separated and not be held by the same individual.

8 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 obtain the advice and services from 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.

9 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 set up 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.

10 Risk management and internal control

The Company maintains internal audit function. In strict compliance with the relevant requirements under the Listing Rules of Hong Kong and the Basic Standard for Enterprise Internal Controls in the PRC, the Board is responsible for evaluating and determining the nature and level of risks that the Company is willing to assume in order to achieve its strategic goals, and maintaining a robust and effective risk management and internal control system. The Board, by itself and through the Audit Committee, reviews the adequacy and effectiveness of the risk management and internal control system of the Company in order to protect the investment of the Shareholders and the Company's assets. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Board only provides reasonable and not absolute assurance against material misstatement or loss.

During the reporting period, the Board reviewed the risk management and internal control system of the Company and enhanced the responsibility for risk management of the Audit Committee. The Audit Committee of the Board had two briefings and discussed on the risk management and internal control system of the Company.

During the reporting period, the Risk Management Committee was established by the Company, and a three-tier risk management structure consisting of Risk Management Committee, the risk management department and the subsidiaries was formed. Risk management and control policies were formulated and implemented with reference to our business strategies. An internal control system was established focusing on compliance with risk control and management. In 2016, the Company focused on improving the decision-making management system for key issues, with 39 administrative measures and articles newly enacted or amended in total during the year. Authorities are clearly defined and decision-making procedures are rationalised. The Company further optimised the risk management system for its marketing business with reference to the organizational setting after the reform of its marketing business. A monthly risk report mechanism was put in place. Each subsidiary identifies and reports risk issues. The risk management department analyses and identifies major risks of the Company and reports to the management of the Company. The Risk Management Committee reviews the monthly risk management report and discuss and ascertain measures to cope with such major risks which the subsidiaries are required to implement and put to practice.

Disclosure management and spokesperson system were enhanced in compliance with the requirements and procedures as set out in the Listing Rules, clarifying the departments responsible for disclosures of inside information to ensure timely and compliant disclosures.

The management confirms, and the Board concurs, for the year ended 31 December 2016, (1) that the risk management and internal control system of the Company were effective and adequate; (2) that necessary control mechanisms had been adopted to oversee and rectify non-compliance matters; and (3) the Company had complied with the risk management and internal control requirements as set out in the Corporate Governance Code.

11 Auditors and fees

During the reporting period, Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the overseas and domestic auditors of the Company respectively. In 2016, the audit fees amounted to RMB 4.2 million, which has been approved by the Audit Committee.

The responsibility statement of the Company's external auditor on the consolidated financial statements is set out on page 54 to 55 of this annual report.

12 2016 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 27 March 2017, the Company and CNOOC held the 2016 annual review on non-competition and reviewed 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 a 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.

13 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 lucid and comprehensive manner based on the financial statements and 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

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Non-executive Directors

①Mr. **Chen Bi**, born in 1961, graduated with a bachelor degree in 1982 from the department of development of Southwest Petroleum Institute (now known as Southwest Petroleum University) majoring in oil production. He obtained a master degree of engineering in 1988 from Heriot-Watt University in the United Kingdom majoring in petroleum engineering. In 2001, he obtained a MBA degree from Tsinghua University School of Economics and Management, majoring in business administration. He was later qualified as a senior engineer (professor grade). From February 1982 to May 1985, he worked as a technician of the well testing division of the drilling company of CNOOC Nanhai West Corporation. He received on job training in Expro, a British company, from May 1985 to September 1987. He worked successively as an engineer, a supervisor, a vice manager of the drilling engineering department of CNOOC Nanhai West Corporation and the vice manager of the oil production company of CNOOC Nanhai West Corporation during the period of July 1988 to August 1995. From August 1995 to September 1999, he worked successively as the head of production division and the vice manager of development and production department of CNOOC. From September 1999 to April 2003, he worked successively as the vice general manager and the general manager of development and production department of CNOOC Limited. He was the general manager and Party secretary of Tianjin Branch of CNOOC (China) Limited from April 2003 to December 2010. He was also appointed as a vice president and an executive vice president of CNOOC Limited from October 2005 to May 2016. He has been the chief safety officer of CNOOC since May 2016 and a vice general manager and a Party leadership group member of CNOOC since July 2016. He was appointed as the chairman of the Board and a non-executive Director of the Company in September 2016.

②Mr. **XieWeizhi**, born in 1964, graduated from the department of finance of Xiamen University majoring in finance with a bachelor's degree in 1986. He obtained a MBA degree from Guanghua School of Management, Peking University in 2001 and was awarded the title of senior accountant in 1998. From August 1986 to October 1996, he worked for CNOOC Nanhai West Corporation successively as a clerk, deputy chief and chief of the accounting section, and the deputy manager of the finance department. From October 1996 to January 2002, he worked successively as the deputy manager and manager of the finance department and the general manager of the treasury department of CNOOC. He was the general manager of CNOOC Finance Corporation Limited from January 2002 to February 2011. From February 2011 to February 2013, he joined Aluminum Corporation of China as an assistant general manager. He worked successively as the executive director, chairman of the Board and chairman of the supervisory committee of Chinalco Finance Company Limited from February 2011 to May 2016. From July 2011 to March 2013, he was the director and president of Chinalco Overseas Holdings Limited. From

October 2011 to February 2014, he worked successively as the executive director, president and non-executive director of Chinalco Mining Corporation International, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 3668). He was the vice president and chief financial officer of Aluminum Corporation of China Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 2600), the New York Stock Exchange (stock code: ACH) and the Shanghai Stock Exchange (stock code: 601600), from February 2013 to November 2015. And he was the president of Chalco Hong Kong Limited from March 2014 to September 2015. From November 2015 to February 2016, he was the assistant general manager of Aluminum Corporation of China, and he was the director of Chalco Iron Ore Holdings Limited from November 2015 to May 2016. From February 2016 to May 2016, he was the Chief Auditor and the general manager of audit department of Aluminum Corporation of China. Since June 2016, he has been appointed as the general manager of the Finance and Assets department of CNOOC. And he has been a non-executive director of China Oilfield Services Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 2883) and the Shanghai Stock Exchange (stock code: 601808) since July 2016. He was appointed as a non-executive Director of the Company in September 2016.

③Mr. **GuoXinjun**, born in 1964, graduated from Wuhan University with a bachelor's degree majoring in law in 1986. In 2008, he obtained a master's degree in business administration from Peking University, and subsequently qualified as a senior economist. From July 1986 to September 1989, he worked as a clerk in the Operation Division of the Supply and Sales Bureau of Ministry of Chemical Industry. From September 1989 to December 1997, he worked in China National Chemical Supply & Sales Corporation successively as chief of the General Office, deputy head of General Office, deputy head of the Inorganic Chemicals Department, and deputy head of the Administrative Department. From January 1998 to November 2003, he worked for China National Chemical Supply & Sales (Group) Corporation as head of the Administrative Department, head of General Office, head of the Auditing and Supervising Department, and assistant to general manager, successively. From November 2003 to March 2008, he was the deputy general manager of China National Chemical Supply & Sales (Group) Company. He was the deputy general manager of China Oil & Gas Development & Utilization Company from March 2008 to January 2016. Since January 2016, he was the deputy general manager of the Strategy and Planning Department of China National Offshore Oil Corporation. He was appointed as a non-executive Director of the company in May 2016.

Executive Directors

④Mr. **Xia Qinglong**, born in 1964, obtained a bachelor's degree majoring in oil exploration from Chengdu Geology Institute in 1986 and a doctoral degree specialising in solid earth geophysics from University of Chinese Academy of Sciences in 2007, and then held the title of professor-grade senior engineer. From July 1986 to March 1994, he had worked as assistant engineer and project manager at the Computation Centre of Bohai Oil Corporation. From March 1994 to November 1995, he had served as project manager at Bohai Oil Research Institute. Thereafter, he was the deputy chief engineer (geophysical prospect) at the Exploration Department of CNOOC China Limited Tianjin Branch from November 1995 to May 2000; chief engineer (geophysical prospect) at Bohai Oil Research Institute from May 2000 to August 2003; manager at the Technology Department of CNOOC China Limited Tianjin Branch from August 2003 to November 2005; chief geologist of CNOOC China Limited Tianjin Branch from November 2005 to April 2013; chief geologist and deputy general manager of CNOOC China Limited Tianjin Branch and deputy director of CNOOC Bohai Petroleum Administrative bureau from April 2013 to August 2013; deputy general manager of CNOOC China Limited Tianjin Branch and deputy director of CNOOC Bohai Petroleum Administrative bureau from August 2013 to November 2015; executive deputy general manager of CNOOC China Limited Tianjin Branch and executive deputy director of CNOOC Bohai Petroleum Administrative bureau from November 2015 to May 2016. He was appointed as the Chief Executive Officer and president of the Company in June 2016 and was appointed as the executive director of the Company in July 2016. Mr. Xia served as chairman of CBC(Canada) Holding Corp.(中海化學(加拿大)控股公司) and chairman of CNOOC Kingboard Chemical Limited in August 2016. He was appointed as director of Western Potash Corp.(西部鉀肥公司)(a company listed on the Main Board of Toronto Stock Exchange, Canada) in September 2016.

Independent non-executive Directors

⑤Ms. **Lee Kit Ying**, born in 1948, 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. Ms. Lee is a senior fellow of the Institute of Chartered Accountants in England and Wales. She previously held a number of senior positions in Hong Kong Futures Exchange, the Stock Exchange and Hong Kong Exchanges and Clearing Limited. Ms. Lee has over 20 years' experience in derivative products and the operation, supervision and risk management of securities markets. Currently, Ms. Lee is the chairman of Virtus Foundation Limited. She was appointed as an independent executive Director of the Company in June 2012, Currently, Ms. Lee is also an independent non-executive director of Century Global Commodities Corporation (世紀全球商品有限公司) (a company listed on Toronto Stock Exchange, Canada) and an independent non-executive director of Gemilang International Limited (彭順國際有限公司) (a company listed on the Main Board of the Stock Exchange). Ms. Lee served as an 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) in the past three years.

⑥Mr. **Lee Kwan Hung**, born in 1965, 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. Mr. Lee was a senior manager of the Listing Division of the Stock Exchange between December 1992 and April 1994; a partner of Philip KH Wong, Kennedy YH Wong Co. between April 1994 and March 2000; a partner and chief representative of Beijing office in Woo Kwan Lee & Lo between April 2001 and February 2011; a consultant in Cheung & Choy solicitor & notaries between November 2011 and June 2014. Mr. Lee was appointed as an independent non-executive

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Director of the Company in June 2012; and is a consultant in Howse Williams Bowers from July 2014; Mr. Lee served as an independent non-executive director of Yuexiu REIT Asset Management Limited, Far East Holdings International Limited and Walker Group Holdings Limited (all are companies listed on the Main Board of the Stock Exchange) in the past three years. Mr. Lee currently holds the positions of independent non-executive director respectively at Embry Holdings Limited,NetDragonWebsoft Holdings Limited, Asia Cassava Resources Holdings Limited, Futong Technology Development Holdings Limited, Newton Resources Ltd., Tenfu (Cayman) Holdings Company Limited, Landsea Green Properties Co., Ltd., Red Star Macalline Group Corporation Ltd., China Goldjoy Group Limited, FSE Engineering Holdings Limited and Ten Pao Group Holdings Limited, the shares of all of which are listed on the Stock Exchange.

⑦Mr. **Yu Changchun**, born in 1969, graduated with a bachelor's degree from Sichuan Normal College majoring in chemistry in 1990. He obtained a master's degree of physical chemistry from Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1993, and a doctor's degree of physical chemistry from the OSSO State Key Lab (OSSO國家重點實驗室) of Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1997 and obtained the assistant professor title afterward. From April 1997 to December 2002, Mr. Yu Changchun worked as a teacher in the Chemical Industry Institute of China University of Petroleum (Beijing). He was a visiting scholar in University of British Columbia, Canada from January 2003 to January 2004; From February 2004 to February 2012, he worked as a secretary to Academic Committee of China National Petroleum Corporation Catalyst Key Lab of China University of Petroleum (Beijing) and a teacher of the School of Chemical Engineering of China University of Petroleum (Beijing). He is a member of the Committee for Affairs of New Energy Research Center in China University of Petroleum (Beijing) and a teacher of this institute since March 2012. Mr. Yu Changchun's main research areas include conversion and utilisation of natural gas, catalytic conversion of light hydrocarbons, Fislcher-Tropsch synthesis, methanol and DME to chemicals, and substitute natural gas synthesis. He was appointed as an independent non-executive Director of the company in May 2016.

Supervisors

⑧Mr. **Liu Jianyao**, born in 1965, graduated from the Department of Management Engineering of East China Petroleum Institute (now known as China University of Petroleum (East China)) with a bachelor's degree majoring in industrial management engineering in 1987, and subsequently qualified as a senior accountant. From July 1987 to October 1990, he worked as a officer of Project management Division in the Production and Technology Department of China Offshore Oil Exploration Project Planning Company. From October 1990 to May 2000, he worked in Finance Department of China National Offshore Oil Corporation successively as officer of Accounting and Auditing for Oilfield, head of Taxation Department and head of Pricing and Taxation Department. From May 2000 to May 2002, he worked as manager of Finance Department of China Ocean Oilfields Services (Hong Kong) Limited and head of Finance Department of CNOOC (Hong Kong) Insurance Limited. From May 2002 to October 2004, he worked as a manager of Settlement Department and a member of Credit Assessment Committee of CNOOC Finance Corporation Limited. From October 2004 to December 2004, he was a member of Preparation Team of CNOOC Oil Base Group Ltd. From December 2004 to July 2007, he worked as general manager of Finance Department of CNOOC Oil Base Group Ltd. From July 2007 to August 2009, he was general manager of Finance Department of CNOOC Energy Technology & Services Limited. From August 2009 to August 2014, he was chief financial officer of CNOOC Western Strait Ningde Industrial Zone Development Co., Ltd. He has been the chairman of the Supervisory Committee of CNOOC since August 2014. He was appointed as a supervisor representing the Shareholders and chairman of the Supervisory Committee of the Company in May 2016.

⑨Mr. **Li Xiaoyu**, born in 1958, graduated from Shandong University, Department of Chemistry with a bachelor's degree of science majoring in Organic Chemistry in 1981. He graduated from the Major of Polymers Materials of the Department of Polymers of Beijing Institute of Chemical Technology (now known as Beijing University of Chemical Technology, (BUCT)) with a master's degree of engineering in 1985. He graduated from the Major of Materials Science of the Department of Materials Science of BUCT with a doctorate degree (on-the-job) of engineering and title of professor in 1998. From May 1985 to June 1987, he was a teaching assistant in the Department of Applied Chemistry of BUCT; from July 1987 to June 1994, he was a lecturer in the Department of Applied Chemistry and Department of Polymers of BUCT; from July 1994 to June 1998, he was an associate professor of the Department of Polymers of BUCT; from July 1997 to June 1999, he was an deputy dean of the College of Materials Science of BUCT; since July 1998, he



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has been the professor and Ph. D. candidate supervisor of the College of Materials Science of BUCT; from July 1999 to January 2003, he served as the director of Science and Technology Department in BUCT. In May 2015 he was appointed as an independent Supervisor of the Company.

⑩Ms. **Liu Lijie**, born in 1970, graduated from China Finance Institute (now known as School of Banking and Finance, University of International Business and Economics) in 1993 with a bachelor's degree majoring in International Finance, and was later awarded the title of senior accountant and she is 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 of 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; the deputy general manager of the Treasury Management Department of the Company from September 2009 to August 2012; the general manager of the Audit and Supervising Department of the Company from September 2012 to December 2015; the general manager of the Audit Department of the Company since December 2015. She was elected as the Supervisor Representing the Employees at the Employee Representative Meeting of the Company held in September 2012 and the chairman of the supervisor committee of CNOOC Tianye Chemical Limited in October 2014.

Senior management

⑪Mr. **Chen Kai**, born in 1957, graduated from the department of Philosophy of Sun Yatsen University in 1982 with a bachelor's degree majoring in Philosophy, and was later awarded the title of lecturer. From February 1982 to October 2001, he had served as deputy director of the Cultural Centre, head of the Publicity Division, Communist Youth League Committee secretary, head of General Office, and CCP Committee secretary of CNOOC Nanhai West Corporation (中國海洋石油南海西部公司) as well as CCP Committee secretary and secretary of the Disciplinary Committee of CNOOC Shipping Limited (中海石油船舶有限公司) from October 2001 to August 2002. He was a vice president of China Oilfield Services Limited from August 2002 to October 2005; and general manager of Inner Mongolia Tianye Chemicals Ltd. (now known as CNOOC Tianye Chemical Limited) from July 2004 to January 2009. Mr. Chen was a deputy general manager of CNOOC Chemical Limited from October 2005 to April 2006 and chairman of CNOOC Tianye Chemical Limited (now known as CNOOC Tianye Chemical Limited) from February 2006 to October 2014. He has been an executive vice president of the Company since April 2006. Mr. Chen was an executive Director of the Company from April 2006 to June 2012.

⑫Ms. **Zhou Fan**, born in 1962, graduated from Guangdong Ocean University with a bachelor's degree majoring in shipping power in 1983; and graduated from the China University of Petroleum (Beijing) majoring in management and engineering with a master degree in 2005, and was later awarded the title of senior political cadre. She worked at CNOOC Nanhai West Corporation from August 1983 to May 1989 and had served as officer at the Human Resources Department, deputy head of the Communist Youth League Committee Organization Department and deputy secretary and secretary of the Communist Youth League Committee of the Education Department. 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 (中國海洋石油南海西部公司物業公司) from May 1998 to May 1999; deputy secretary of CCP Committee, secretary of the Disciplinary Committee and chairman of labour union of Zhanjiang Branch Company of CNOOC (中國海洋石油有限責任公司湛江分公司) 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. (中海石油基地集團有限責任公司) and CCP Committee secretary and secretary of the Disciplinary Committee of CNOOC Nanhai West Corporation from November 2004 to August 2007. Ms. Zhou was appointed as an executive vice president of the Company in August 2007.

⑬Mr. **Quan Changsheng**, born in 1966, graduated from East China Petroleum Institute (now known as China University of Petroleum) in 1986 majoring in business management with a bachelor degree, and was later awarded the title of accountant. From July 1986 to June 1999, he served as an accountant, senior accountant, chief budgetary reporting supervisor and chief accountant at various divisions of CNOOC Nanhai East Corporation (中國海洋石油南海東部公司), manager of the Finance Department of the

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CNOOC QHD 32-6 Operating Branch Company (中國海油秦皇島32–6作業分公司) from June 1999 to September 2002; and manager of the Finance Department of the Tianjin Branch Company of CNOOC Limited (中國海洋石油有限公司天津分公司) from September 2002 to March 2006. Mr. Quan was chief financial officer of the Company in April 2006 and vice president of the Company in May 2006. In July 2007, he was appointed as Board secretary and Company Secretary. Mr. Quan was also a director of CNOOC Tianye Chemical Limited (now known as CNOOC Tianye Chemical Limited) from December 2007 to October 2014. He was appointed as chairman of Shanxi Hualu Coal Chemical Ltd. in August 2009. He was appointed as a director of CNOOC Huahe Coal Chemical Ltd. in October 2014; and a director of CNOOC Kingboard Chemical Limited in January 2015.

⑭Mr. **Wang Weimin**, born in 1965, graduated from the department of Chemical Engineering of Hebei Institute of Technology (now known as Hebei University of Technology) in 1989 majoring in Organic Chemistry with a bachelor's degree. He obtained an MBA degree from the School of Management of Tianjin University in March 2001, an EMBA degree from China Europe International Business School in July 2001, and was later awarded the title of senior engineer (professor grade). He was a technician at Qinhuangdao SinoArab Chemical Fertilizer Corp. (秦皇島中阿化肥配套總公司) from July 1989 to January 1990 and served successively as shift leader of process workshop, section leader of finished product workshop and head of finished product workshop of Sino-Arab Chemical Fertilizers Co. Ltd. (中國—阿拉伯化肥有限公司, hereinafter referred to as SACF) from January 1990 to June 1994; assistant to general manager of SAFC from June 1994 to December 1995; production plant manager of SAFC from December 1995 to June 1998; deputy general manager from June 1998 to August 2005; leader of the on-site initiation team of the mineral-fertiliser integration project at Dayukou, Hubei from November 2002 to August 2005; general manager of Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限責任公司) from August 2005 to July 2012; assistant to the president of the Company from July 2008 to July 2012. He was appointed as a vice president of the Company in August 2012. He has been served as the chairman of Hubei Dayukou Chemical Co., Ltd. since November 2012. He was appointed as an executive director of China BlueChemical (Hong Kong) Ltd. (中海化學(香港)有限公司) in October 2014; and a director of CNOOC Kingboard Chemical Limited in January 2015.

⑮Mr. **Zhou Renlin**, born in 1962, graduated from Nanjing Maritime School (now known as Jiangsu Maritime Institute) in 1983 majoring in Ship Navigation. He graduated from Jianghan Petroleum University (now known as Yangtze University) in June 2002 majoring in Business Administration with a bachelor's degree and obtained his qualification as a chief officer. He served successively as crewman, helmsman, captain and deputy manager of Business Department of China Offshore Oil Southern Shipping Company (中海石油南方船舶公司) from September 1983 to April 2000; manager of the Marine Technology Services Company of China Offshore Oil Southern Shipping Company (南方船舶海上技術服務公司) from April 2000 to November 2001; deputy manager of the Crew Services Company of CNOOC Shipping Company Limited (中海石油船舶有限公司船員服務公司) from November 2001 to October 2002; deputy general manager of Zhanjiang Branch Company 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 (海南八所港務有限責任公司) from May 2006 to April 2010; assistant to president of the Company from March 2007 to July 2012; and executive deputy general manager of CNOOC Fudao Limited from April 2010 to July 2012; chairman of Hainan Basuo Port Limited since May 2010. He was appointed as a vice president of the Company in August 2012; a director and the chief executive officer of CBC (Canada) Holding Corp in May 2013. He was appointed as the chairman of CNOOC Tianye Chemical Limited in October 2014.

Report of Directors

The Directors of the Company are pleased to present the report of Directors and the audited financial statements for the year ended 31 December 2016.

Principal activities

The Company and its subsidiaries (the "Group") and associates are principally engaged in the manufacture and sale of fertilizers (mainly urea, phosphate fertilisers and compound fertilisers) and chemical products (mainly methanol).

Results

Profit of the Group for the year ended 31 December 2016 and the financial position of the Company and the Group as at that date are set out on pages 56 to 63 of the financial statements.

Business review

A review of the business of the Company and a discussion and analysis of the Company's performance during the year, an analysis using financial key performance indicators, main risks and uncertain factors faced, and the material factors underlying its results and financial position are provided in the Management Discussion and Analysis on pages 6 to 15 and Independent Auditors' Report on page 53 to 55, respectively. Particulars of the important events affecting the Company that have occurred since the end of the financial year 2016 is set out in Note 48 to the Consolidated Financial Statements. The future development of the Company's business is discussed throughout this annual report including the CEO's Report on pages 4 to 5 and Management Discussion and Analysis on pages 6 to 15. In addition, details regarding the Company's performance on environmental and social-related key performance indicators and policies are provided in the Environmental, Social and Governance Report on pages 16 to 21; compliance with relevant laws and regulations which have a significant impact on the Company are provided in the "compliance with laws and regulations" of this Report of Directors; and an account of the Company's relationships with its employees, customers, suppliers, shareholders, etc. are disclosed, respectively, in "human resources and training" of Management Discussion and Analysis, Environmental, Social and Governance Report on pages 16 to 21, and "major customers and suppliers" and "connected transactions" of this Report of Directors.

Dividends

The Board recommended the payment of a special dividend of RMB230.5 million, RMB0.05 per share (tax inclusive). The proposed special dividend will be subject to the approval of the shareholders of the Company at the 2016 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 2016 are set out in Note 45 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 2016 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 2016 are set out in Note 30 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Articles and the PRC laws.

Debentures issued

No debentures were issued by the Company during the year ended 31 December 2016.

Equity-linked agreements

No equity-linked agreements were entered into by the Company during the year ended 31 December 2016.

Permitted indemnity provision

The Company has arranged appropriate liability insurance to indemnify our Directors and senior officers for their liabilities arising out of corporate activities.

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 2016.

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 2016, the reserves available for distribution of the Company was RMB6,237.5 million.

Charitable donations

During the year, the Group made charitable donations of RMB1.11 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's five largest customers accounted for 17% of the total sales for the year and sales to the largest customer included therein amounted to 5% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 37% of the total purchases for the year and purchases from the largest supplier accounted for 24% 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 close 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 2016 were:

Executive Director:	
Xia Qinglong	Appointed on 20 July 2016
Non-executive Directors:	
Chen Bi	Appointed on 29 September 2016
Xie Weizhi	Appointed on 29 September 2016
Guo Xinjun	Appointed on 31 May 2016
Independent Non-executive Directors:	
Lee Kit Ying	Re-appointed on 28 May 2015
Lee Kwan Hung	Re-appointed on 28 May 2015
Yu Changchun	Appointed on 31 May 2016
Supervisors:	
Liu Jianyao	Appointed on 31 May 2016
Li Xiaoyu	Appointed on 28 May 2015
Liu Lijie	Elected at a meeting of the employee representatives held on 6 February 2015

Note: Mr. Zhou Dechun reached retirement age and ceased to work as a non-executive Director of the Company with effect on 31 May 2016; Mr. Zhu Lei ceased to be a non-executive Director of the Company with effect on 31 May 2016 due to other work commitments; Mr. Zhou Hongjun ceased to be an independent non-executive Director of the Company with effect on 31 May 2016 due to other work commitments; Mr. Wang Mingyang reached retirement age and ceased to be a Supervisor of the Company with effect on 31 May 2016; Mr. Wang Hui ceased to be an executive Director of the Company with effect on 20 July 2016 due to other work commitments; Mr. Cheng Chi was appointed as a non-executive Director of the Company at the annual general meeting held on 31 May 2016 and ceased to be a non-executive Director of the Company with effect on 29 September 2016 due to other work commitments; Mr. Li Hui ceased to be a non-executive Director of the Company with effect on 29 September 2016 due to other work commitments.

Pursuant to the Articles, all Directors and Supervisors are elected for a term of three years or until the new Directors and Supervisors are elected at a general meeting of the Company to be held in the year in which the term of office expires (save for the Supervisor representing the Company's employees), 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 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, 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 33 to 37 of this annual report.

Service contracts of Directors and Supervisors

At the AGM of the Company held on 28 May 2015, a new session of Directors and Supervisors (save for the Supervisor representing the Company's employees) have been elected. Each of the Directors and Supervisors elected on 28 May 2015 has entered into a service contract with the Company for a term of office of three years, or more precisely (save for the Supervisor representing the Company's employees) from 28 May 2015 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 6 February 2015 by the Company in which Ms. Liu Lijie was elected as the Supervisor representing the Company's employees of the fourth 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.

At the AGM of the Company held on 31 May 2016, each of Mr. Cheng Chi and Mr. Guo Xinjun was appointed as a non-executive Director of the Company (Mr. Cheng Chi ceased to be a non-executive Director of the Company due to other work commitments on 29 September 2016), Mr. Yu Changchun was appointed as an independent non-executive Director of the Company, and Mr. Liu Jianyao was appointed as the Supervisor representing the Company's shareholders. They entered into service contracts with the Company, and their terms of office shall begin from the date of approval of their appointment at the annual general meeting until a new session of Directors are approved at the annual general meeting for 2017 by the shareholders, upon which they are eligible for re-election.

Mr. Xia Qinglong was appointed as an executive Director of the Company at the extraordinary general meeting held on 20 July 2016 by the Company. He entered into a service contract with the Company and shall hold office from the date of approval of his appointment at the extraordinary general meeting until a new session of Directors are approved at the annual general meeting for 2017 by the shareholders, upon which he is eligible for re-election.

Mr. Chen Bi and Mr. Xie Weizhi were appointed as non-executive Directors of the Company at the extraordinary general meeting held on 29 September 2016 by the Company. They entered into service contracts with the Company and shall hold office from the date of approval of their appointments at the extraordinary general meeting until a new session of Directors are approved at the annual general meeting for 2017 by the shareholders, upon which they are eligible for re-election.

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 11 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 nor any entity connected with the Director or the Supervisor had a material interest, either directly or indirectly, in any material contract transaction or arrangement 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 2016 or subsisted at any time during the year.

Interests and short positions of Directors, Supervisors and chief executive in shares, underlying shares and debentures

As at 31 December 2016, 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 2016, to the best knowledge of any of the Directors and chief executives of the Company, pursuant to the register 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 shares in issue (%)
China National Offshore Oil Corporation (Note 1)	Beneficial owner	2,738,999,512 (L)	Domestic Shares	97.33(L)	59.41(L)
Commonwealth Bank of Australia (Note 2)	Interests in controlled corporation	336,304,000 (L)	H Shares	18.99(L)	7.30(L)
Hermes Investment Management Ltd	Investment manager	159,846,000 (L)	H Shares	9.03(L)	3.47(L)
Edgbaston Investment Partners Limited	Investment manager	143,462,000 (L)	H Shares	8.10(L)	3.11(L)
Edgbaston Asian Equity Trust	Beneficial owner	107,048,000 (L)	H Shares	6.04(L)	2.32(L)
Mondrian Investment Partners Limited	Investment manager	106,304,000 (L)	H Shares	6.00(L)	2.31(L)

Notes: The letter (L) denotes long position.

(1) Mr. Chen Bi, the Chairman and non-executive Director of the Company, is also the deputy manager of CNOOC. Mr. Xie Weizhi, a non-executive Director, is also the general manager of the Finance and Assets department of CNOOC. Mr. Guo Xinjun, a non-executive Director, is also the deputy general manager of the Strategy and Planning department of CNOOC.

(2) These Shares are held directly by a number of controlled corporations of Commonwealth Bank of Australia, which are Colonial Holding Company Ltd, Commonwealth Insurance Holding Limited, Colonial First State Group Ltd, First State Investments Managers (Asia) Ltd, First State Investments (UK Holdings) Ltd, First State Investments (Hong Kong) Ltd, SI Holdings Limited and First State Investment Management (UK) Limited.

Save as disclosed above, to the best knowledge of any of the Directors and chief executives of the Company, as at 31 December 2016, 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 of the Group which required reporting and annual review in 2016 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.07 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 14A.13 of the Listing Rules and, therefore, connected persons of the Company pursuant to Rule 14A.07(4) of the Listing Rules.

CNOOC Finance Corporation Limited ("CNOOC Finance") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 14A.13 of the Listing Rules, and also a connected person of the Company pursuant to Rule 14A.07(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 14A.13 of the Listing Rules, and therefore connected persons of the Company pursuant to Rule 14A.07(4) of the Listing Rules.

CNOOC International Financial Leasing Limited* (中海油國際融資租賃有限公司) ("CNOOC Leasing") is a wholly owned subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 14A.13 of the Listing Rules, and a connected person of the Company pursuant to Rule 14A.07(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 Rule 14A.07 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.

Continuing connected transactions

1 Properties Leasing Agreement

The Group is required to lease certain properties from CNOOC Group as well as lease certain properties to CNOOC Group in the ordinary and usual course of its business. On 28 October 2014, the Company entered into the Properties Leasing Agreement with CNOOC on normal commercial terms, pursuant to which:

(1) CNOOC Group may provide properties leasing services and relevant property management services (if needed) to the Group;

(2) the Group may provide properties leasing services and relevant property management services (if needed) to CNOOC Group.

The term of the Properties Leasing Agreement will commence on 1 January 2015 and expire on 31 December 2017, 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 Properties Leasing Agreement are being 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 principles: the property rent and management fees for each leased property shall be determined by both parties by taking into account factors including locations of the properties, the state of the properties and the property management service scope;

1. As to provision of properties leasing services and relevant property management services by CNOOC Group to the Group:

   (1) property rent: (i) shall not be higher than the property rent payable by other third party lessees of other properties owned by CNOOC Group or other owners (if any) in the same building; and (ii) shall not be higher than the property rent for the same or similar types of properties in the same area or the adjacent areas.

   (2) property management fees: (i) shall not be higher than the standard property management fees approved by the state pricing regulatory authorities (if any); (ii) shall not be higher than the property management fees payable by other third party lessees of other properties owned by CNOOC Group or other owners (if any) in the same building; and (iii) shall not be higher than the property management fees for the same or similar types of properties in the same area or the adjacent areas.

2. As to the provision of properties leasing services and relevant property management services by the Group to CNOOC Group:

   (1) property rent: (i) shall not be lower than the property rent payable by other third party lessees of other properties owned by the Group or other owners (if any) in the same building; and (ii) shall not be lower than the property rent for the same or similar types of properties in the same area or the adjacent areas.

   (2) property management fees: (i) shall not be lower than the standard property management fees approved by the state pricing regulatory authorities (if any); (ii) shall not be lower than the property management fees payable by other third party lessees of other properties owned by the Group or other owners (if any) in the same building; and (iii) shall not be lower than the property management fees for the same or similar types of properties in the same area or the adjacent areas.

The Group may, from time to time when the situation requires, enter into specific agreements which will set out the specific scope of services, terms and conditions of providing such services according to the principles laid down by the Properties Leasing Agreement.

In the year of 2016, the annual expenses paid by the Group for the properties leasing and management services from CNOOC Group were RMB26,588,000.

2 Natural Gas Sale and Purchase Agreements

(1) 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:

(i) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between the Company and CNOOC China Limited dated 28 July 2003, under which CNOOC China Limited has committed to supply natural gas to the Company for Fudao Phase II Urea Plant at prices that are subject to adjustments on a quarterly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding quarter. The natural gas delivery period under this agreement is 20 years, commencing on 1 October 2003 and will expire on 30 September 2023;

(ii) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between CNOOC Jiantao and CNOOC China Limited dated 10 March 2005, under which CNOOC China Limited has committed to supply natural gas to CNOOC Jiantao for Hainan Phase I 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 quoted on Platts Crude Oil Marketwire during the preceding month. The natural gas delivery period under this agreement is 20 years, commencing on 16 October 2006 and will expire on 15 October 2026.

(iii) Natural Gas Sale and Purchase Framework Agreement between the Company and CNOOC China Limited on 1 September 2006, under which CNOOC China Limited 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 Limited 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 quoted on Platts Crude Oil Marketwire) 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 Limited 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, the Company and CNOOC China Limited entered into the Ledong Natural Gasfield Natural Gas Sale and Purchase Agreement pursuant to which CNOOC China Limited has agreed to supply natural gas to the Company for Hainan Phase II Methanol Plant at 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 quoted on Platts Crude Oil Marketwire during the preceding quarter. The natural gas delivery period under this agreement is 15 years, commencing on 1 January 2011 and will expire on 31 December 2025, or the substitude period as determined in accordance with the terms of the agreement.

In addition to the above-mentioned three long-term natural gas sale and purchase agreements, as mentioned in the announcement of the Company dated 28 March 2012, as a result of the Reorganization, CNOOC Ranhua assumed a natural gas sale and purchase agreement dated 26 April 1996 entered into between Hainan Haikong Fuel & Chemical Co., Ltd.* (海南海控燃料化學股份有限公司) ("Hainan Haikong") and CNOOC Fudao Limited* (海洋石油富島有限公司) pursuant to which CNOOC Ranhua has agreed to continue to supply natural gas to the Company for Fudao Phase I Urea Plant. The prices of natural gas are subject to adjustments on a quarterly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding quarter (the agreement is hereafter referred to as "CNOOC Ranhua Natural Gas Sale and Purchase Agreement"). The natural gas stable delivery period under this agreement has expired in 2016. As the transactions hereunder were transactions conducted with an independent third party when the Company entered into the transactions and the transactions subsequently became continuing connected transactions of the Company as a result of the Reorganization in 2012, the transactions are only subject to the reporting, annual review and disclosure requirements of Chapter 14A of the Listing Rules pursuant to Rule 14A.60 of the Listing Rules. Consequently, no annual cap is required to be set for the transactions contemplated under this natural gas sale and purchase agreement.

(2) In anticipation of the expiry of the natural gas stable delivery period under the natural gas sale and purchase agreement between Hainan Haikong and CNOOC Fudao as mentioned above and in order to secure stable and reliable supply of natural gas for Fudao Phase I Urea Plant, the Company, CNOOC Fudao and CNOOC China Limited finalized and signed the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement on 28 October 2014 pursuant to which CNOOC China Limited has agreed to supply to the Group with natural gas as feedstock required mainly for Fudao Phase I Urea Plant. The natural gas delivery period under this framework agreement is nine years commencing on 1 August 2015, which was approved by the shareholders at the extraordinarily general meeting hold on 29 December 2014.

The transactions under the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to independent third parties, and will be priced in accordance with a benchmark price which is determined with reference to the exploration, development and production cost of the gas field plus reasonable profit in principle. The parties will negotiate for the adjustment of the benchmark price in August each year taking into consideration of the factors such as change of the pricing policy by the state pricing regulatory authorities, prices of domestic energy markets, domestic prices for natural gas and change in CPIs. On 18 May 2015, the Company and the Company's relevant subsidiaries entered into Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement with CNOOC China Limited according to the principles laid down by this framework agreement.

The prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire are:

(i) the four types of crude oil referred to in Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement, Natural Gas Sale and Purchase Framework Agreement and Ledong Natural Gasfields Natural Gas Sale and Purchase Agreement entered into between the Company and CNOOC China Limited and Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement entered into between CNOOC China Limited and CNOOC Jiantao are: West Texas Intermediate Crude Oil (西德克薩斯中質原油), 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);

(ii) the four types of crude oil referred to in the natural gas sale and purchase agreement between CNOOC Ranhua and CNOOC Fudao are: West Texas Intermediate Crude Oil (西德克薩斯中質原油), Dubai Crude Oil (迪拜原油), Brent Crude Oil (混合布倫特原油) and Minas Crude Oil (米納斯原油).

In 2016, the aggregate expenses of the Group on purchases of natural gas from CNOOC China Limited amounted to RMB2,357,150,000, while the expenses of the Group on purchases of natural gas from CNOOC Ranhua amounted to RMB55,136,000.

3 Comprehensive Services and Product Sales Agreement

On 28 October 2014, the Company entered into the Comprehensive Services and Product Sales Agreement ("Comprehensive Services and Product Sales Agreement") with CNOOC, which was approved by the Shareholders at the extraordinary general meeting held on 29 December 2014, pursuant to which:

(a) the Group has agreed to provide services and supplies to CNOOC Group (including but not limited to provision of offices and facilities, labour services, technical training services, project management services, logistics management services, accommodation/catering services, port management, logistics assistance and transportation services);

(b) CNOOC Group has agreed to provide services and supplies to the Group (including but not limited to engineering services, telecommunication and network services, construction services, management system/technology development services, equipment leasing, equipment maintenance, project management services, labour services, materials/equipment procurement services, transportation services, technical training services, catering, accommodation, medical, insurance services, conference services, consultancy services and logistics management services); and

(c) the Group has agreed to sell products (urea, phosphate fertiliser, methanol, potash, Polyoxymethylene, ammonia etc.) to CNOOC Group and CNOOC Group has agreed to sell products (potash, medicament etc.) to the Group.

The term of the Comprehensive Services and Product Sales Agreement will commence on 1 January 2015 and will expire on 31 December 2017, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactionsare 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 will be priced in accordance with the following pricing principles:

1. As to the provision of services and supplies by the Group to CNOOC Group, to be priced in accordance with the following principles:

   (i) not lower than the prices charged by the Group to comparable independent third parties for the same type of services or supplies; or

   (ii) with reference to the prices for the same type of services or supplies in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service or supplies providers; or

   (iii) with reference to the prices for the same type of services or supplies in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service or supplies providers.

2. As to the provision of services and supplies by CNOOC Group to the Group:

   (1) Engineering Services:

      (i) at government-prescribed prices: The "government-prescribed price" refers to the price determined by pricing regulatory authorities or other relevant authorities in accordance with its authorisation under the Price Law of the PRC.

      (ii) where there is not a government-prescribed price, to be priced in accordance with the following principles:

         1) not higher than the lower of the prices charged by CNOOC Group to its associates (excluding the Group) or comparable independent third parties (if any) for the same type of services or supplies;

         2) with reference to the prices for the same type of services and supplies in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service or supplies providers; or

         3) with reference to the prices for the same type of service and supplies in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service or supplies providers.

   (2) Telecommunication and Network Services, Construction Services, Management System/Technology Development Services, Equipment Leasing, Equipment Maintenance, Project Management Services, Labour Services, Materials/Equipment Procurement Services, Transportation Services, Technical Training Services, Catering, Accommodation, Medical, Insurance Services, Conference Services, Consultancy Services and Logistics Management Services:

      The above-mentioned services and supplies shall be priced in accordance with the following principles:

      (i) not higher than the lower of the prices charged by CNOOC Group to its associates (excluding the Group) or comparable independent third parties (if any) for the same type of services or supplies;

      (ii) with reference to the prices for the same type of services and supplies in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service or supplies providers; or

      (iii) with reference to the prices for the same type of services and supplies in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service or supplies providers.

3. As to the sale of products by the Group to CNOOC Group, to be priced in accordance with the following principles:

   (i) not lower than the prices charged by the Group to comparable independent third parties for the same type of products;

   (ii) with reference to the prices for the same type of products charged on normal terms in the ordinary and usual course of its business by comparable independent third party sellers in the same areas; or

   (iii) with reference to the prices for the same type of products charged on normal terms in the ordinary and usual course of its business by comparable independent third party sellers in the adjacent areas.

4. As to the sale of products by CNOOC Group to the Group, to be priced in accordance with the following principles:

   (i) not higher than the lower of the prices charged by CNOOC Group to its associates (excluding the Group) or comparable independent third parties (if any) for the same type of products;

   (ii) with reference to the prices for the same type of products charged on normal terms in the ordinary and usual course of its business by comparable independent third party sellers in the same areas; or

   (iii) with reference to the prices for the same type of products charged on normal terms in the ordinary and usual course of its business by comparable independent third party sellers in the adjacent areas.

Nevertheless, for the above-mentioned services, supplies and products without applicable government-prescribed price for now, when relevant government authorities publish a government-prescribed price in relation to the transactions contemplated under the Comprehensive Services and Product Sales Agreement during the term of the Comprehensive Services and Product Sales Agreement, the relevant prices shall be adjusted with reference to government-prescribed price accordingly. The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services, supplies and products, and the terms and conditions of providing such services, supplies and 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 2016 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB137,186,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB683,673,000.

4 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 (the "Financial Services Agreement") with CNOOC Finance on 28 October 2014, pursuant to which CNOOC Finance will provide to the Group a range of financial services that the Group may require, including the following:

(1) provision of financing services to the Group, including but not limited to loans;

(2) deposit services;

(3) bank notes acceptance and discounting services;

(4) arrangement of entrustment loans between the Company and its subsidiaries or among its subsidiaries;

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

(6) other financial services permitted by the CBRC to the members of the Group.

The term of the Financial Services Agreement will commence on 1 January 2015 and expire on 31 December 2017 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 Financial Services Agreement will be conducted on normal commercial terms and conditions and will be priced in accordance with the following principles:

(1) provision of loans to the Company: the interest rates for such loans are determined in accordance with the loan benchmark interest rates promulgated by the PBOC from time to time, and shall not be less favorable to the Group than those provided by independent third party financial institutions;

(2) deposit services: the interest rates for such deposits are determined in accordance with the deposit benchmark interest rates promulgated by the PBOC from time to time, and shall not be less favorable to the Group than those provided by independent third party financial institutions;

(3) bank notes acceptance and discounting services: the interest for bank notes discounting is borne by the relevant parties presenting the notes (not by the Group); 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 shall not be less favorable to the Group than those provided by independent third party financial institutions;

(4) arrangement of entrustment loans: the annual service fees are to be calculated based on the outstanding principal of the loans, and the aggregate amount of service fees and loan interest together shall not exceed the interest for securing a loan of the same term directly from independent third party financial institutions; and if there are standard rates promulgated by the PBOC or other competent regulatory authorities, the service fees shall be determined with reference to the standard rates promulgated by the PBOC or other competent regulatory authorities and shall not be less favorable to the Group than those provided by independent third party financial institutions;

(5) settlement services: no service fee will be charged; and

(6) other financial services: service fees shall be determined with reference to the relevant standard charging rate promulgated from time to time by the PBOC or other competent regulatory authorities, and shall not be less favorable to the Group than those provided by independent third party financial institutions.

Pursuant to the Financial Service Agreement entered into between the Company and CNOOC Finance, the Company shall be entitled to have a unilateral right of set-off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group, the Group will be able to offset the amount due to the Group from CNOOC Finance against the amount outstanding from the Group to CNOOC Finance. CNOOC Finance shall not be entitled to have any such 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. In 2016, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB483,421,000.

5 Finance Lease Agreement

On 28 October 2014, the Company entered into a finance lease agreement (the "Finance Lease Agreement") with CNOOC Leasing, which was approved by the Shareholders at the extraordinary general meeting held on 29 December 2014, pursuant to which:

(a) CNOOC Leasing agrees to provide finance lease services to the Group when the Group so requires, by means including but not limited to (1) the Group selling its production facility/equipment to CNOOC Leasing, leasing them back from CNOOC Leasing for its own use and repurchasing them at the end of the lease period; or (2) CNOOC Leasing purchasing production facility/equipment in accordance with the Group's choice of the suppliers and the facility/equipment, leasing them to the Group for its use and selling them to the Group at the end of the lease period; and

(b) the Group agrees to pay lease rent (principal plus lease interest) and commission fees to CNOOC Leasing for provision of the finance lease service.

The term of the Finance Lease Agreement will commence on 1 January 2015 and expire on 31 December 2017, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions contemplated under the Finance Lease Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those provided to other third parties by CNOOC Leasing, and the consolidated rate of lease interest plus commission fees during the lease period shall not be higher than the available loan interest rate provided by the PRC commercial banks for the corresponding period. The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific terms and conditions of obtaining such finance lease services according to the principles laid down by the Finance Lease Agreement.

In 2016, the annual costs paid by the Group for the finance lease services provided by CNOOC Leasing under the Finance Lease Agreemnt amounted to RMB2,058,952,000.

6 Kingboard Product Sales and Services Agreement

The Company entered into a framework agreement for product sales and services (the "Kingboard Product Sales and Services Agreement") with Hong Kong Kingboard on 28 October 2014, pursuant to which 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.

The term of Kingboard Product Sales and Services Agreement will commence on 1 January 2015 and expire on 31 December 2017 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

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

(i) not lower than the prices charged by the Group to comparable independent third parties for sales or provision of the same type of products or services;

(ii) with reference to the prices for the same type of products or services sold or provided in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third parties; or

(iii) with reference to the prices for the same type of products or services sold or provided in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third parties.

Nevertheless, when relevant government authorities publish a government-prescribed price in relation to the transactions contemplated under Kingboard Product Sales and Services Agreement during the term of the Kingboard Product Sales and Services Agreement, the relevant prices shall be adjusted with reference to government-prescribed price accordingly.

Hong Kong Kingboard (and/or its associates) and the Group may, from time to time when the situation requires, enter into separate agreements which will 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 Kingboard Product Sales and Services Agreement.

In 2016, the aggregate revenue of the Group from Hong Kong Kingboard and its associates for sales of products and provision of related services amounted to RMB296,045,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2016 are set out below:

	Annual cap amount for 2016 (RMB'000)	Actual transaction amounts for 2016 (RMB'000)
A. Continuing connected transactions with CNOOC and its associates		
(1) Leasing of certain properties by the Group from CNOOC Group under the Properties Leasing Agreement	29,877	26,588
(2) Purchases of natural gas by the Group from CNOOC China Limited under the Natural Gas Sale and Purchase Agreements	3,160,629	2,357,150
(3) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by CNOOC Group to the Group	226,555	137,186
(b) Provision of services, supplies and sales of products by the Group to CNOOC Group	2,138,701	683,673
(4) Financial Services Agreement		
(a) Deposits placed in CNOOC Finance by the Group (Note 1)	500,000	483,421
(5) Provision of finance lease services by CNOOC to the Group under the Finance Lease Agreement	2,424,200	2,058,952
(6) Purchases of natural gas by CNOOC Fudao from CNOOC Ranhua under the CNOOC Ranhua Natural Gas Sale and Purchase Agreement	-	55,136
B. Continuing connected transaactions with Hong Kong Kingboard and its associates		
Sales of products and provision of services by the Group to Hong Kong Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	624,015	296,045

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 continuing 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;

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.

The Directors confirm that the Company has complied with the requirements set out under Chapter 14A of the Listing Rules for the abovementioned connected transactions. Save as disclosed above, other related parties transactions disclosed in Note 40 to the Accountant's Report of this annual report do not fall under connected transactions or continuing connected transactions under Chapter 14A of 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 2016 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.

Litigation and arbitration

During the reporting period, the Group had no material litigation or arbitration.

The arbitration matter in relation to Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. which commenced in 2014 is still pending (for details, please refer to the announcement dated 10 July 2014).

Compliance with laws and regulations

For the year ended 31 December 2016, so far as the Company is aware, the Company has complied with relevant laws and regulations that have material effect on the Company in all material aspects. The Company's compliance with relevant environmental protection laws and regulations are provided in the Environmental, Social and Governance Report on pages 16 to 21.

Audit Committee

The 2016 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 2016 audited annual results with the management. There is no disagreement between the Audit Committee and Deloitte Touche Tohmatsu Certified Public Accountants, 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 in the Corporate Governance Code.

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 being made specific enquiries, all Directors and Supervisors confirmed that they had strictly complied with the required standards as set out in the Model Code during the accounting period covered in this annual report.

Auditors

On 31 May 2016, Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the overseas and domestic auditors of the Company respectively on the 2015 annual general meeting of the Company.

The financial statements of the year have been audited by Deloitte Touche Tohmatsu Certified Public Accountants who will retire at the forthcoming AGM, at which a resolution will be proposed by the Company for the reappointment of Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the overseas and the domestic auditors of the Company.

For and on behalf of the Board
Chen Bi
Chairman

Guangzhou the PRC, 27 March 2017

Report of the Supervisory Committee

In 2016, all the members of the Supervisory Committee earnestly performed their supervisory functions in accordance with relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules. The Supervisory Committee inspected Company's operations on a regular basis to ensure compliance, supervised the performance of duties by the Directors and senior management of the Company by attending general meetings and Board meetings of the Company and visited the Company's major production bases on an as-needed basis to conduct investigations. During the year, the Supervisory Committee adequately performed its supervisory functions to safeguard the interests of the shareholders as a whole in an effective manner.

1 Meetings of the Supervisory Committee

In 2016, the Supervisory Committee of the Company convened three physical meetings. The convening of the aforesaid meetings was in compliance with provisions of relevant laws and regulations and the Articles, the details of which were as follows:

(1) The First Meeting of the Supervisory Committee in 2016 was held in Shenzhen, Guangdong Province on 24 March 2016, at which the 2015 Report of the Supervisory Committee of China Bluechemical Ltd. and the resolutions on the new candidate of the shareholders' representative Supervisor to be appointed and his remuneration was considered and passed, and the 2015 financial report of the Company was reviewed.

(2) The Second Meeting of the Supervisory Committee in 2016 was held in Beijing on 31 May 2016, at which the Chairman of the Supervisory Committee of the Company was elected, and the key tasks of the Supervisory Committee for 2016 were discussed.

(3) The Third Meeting of the Supervisory Committee in 2016 was held in Shenzhen, Guangdong on 23 August 2016, at which the 2016 interim financial report of the Company was reviewed.

2 Principal inspection and supervision work carried out by the Supervisory Committee in 2016

(1) Members of the Supervisory Committee carried out supervision and inspection in respect of the financial position of the Company and the implementation of its internal control systems, including regular inspections of the financial reports and budgets of the Company and reviews of the Company's accounting books, vouchers, related contracts and other relevant information from time to time. Timely attention was paid to the results of the Company's disposal of its low- or nil-efficiency assets.

(2) Members of the Supervisory Committee attended one annual general meeting, one H Shareholders' class meeting, one Domestic Shareholders' class meeting and two extraordinary general meetings. Mr. Li Xiaoyu, an independent Supervisor of the Company acted as scrutineer for the voting at the annual general meeting and class meetings, and Mr. Liu Jianyao, chairman of the Supervisory Committee acted as scrutineer for the voting at the extraordinary general meetings, respectively.

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

(4) Key members of the Supervisory Committee communicated with the management of the Company as necessary from time to time to understand the future development plan, the progress of the structural adjustment and transformation and upgrade of the industry.

(5) In 2016, members of the Supervisory Committee visited the production bases of the Company in Hubei and Heilongjiang to carry out on-site inspection and further understand the production and operations, sales conditions and problems in management of the production bases.

3 Independent opinions issued by the Supervisory Committee on relevant matters

(1) Operation and management of the Company

During the reporting period, in response to the extremely severe situation in both domestic and international markets, the Company consolidated its production management, increased its sales system reform and made further improvements in the internal control system. The Risk Management Committee was established in order to strengthen our risk management. Information disclosure was timely, accurate and complete. The procedures for decision-making at the general meetings and Board meetings of the Company were legal and in compliance with relevant provisions. The Directors and senior management of the Company have diligently implemented resolutions passed by the general meetings and the Board in faithful performance of their duties as stipulated in the Articles, without compromising the Company's interests and acting in violation of laws and regulations.

(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 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 view that the Company has strictly complied with relevant laws and regulations governing financial and economic matters and financial regulations, the financial management system has been sound and effectively implemented, accounting treatments have been applied with consistency, and the Company's financial reports represent a fair and objective view of the financial position and operating results of the Company.

The Supervisory Committee has reviewed the unqualified audit reports in respect of the financial position and operating results of the Company for 2016 issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu Certified Public Accountants in accordance with domestic and international accounting standards, respectively, and does not dispute the report.

(3) Connected transactions

The Supervisory Committee has conducted random examination of the connected transactions with connected persons entered into by the Company and its subsidiaries from time to time during the reporting period, and is of the view that relevant provisions of the Listing Rules have been complied with, and that the prices of the connected transactions were reasonable, open and fair without any prejudice to the interests of the shareholders and the Company.

(4) Implementation of resolutions of the general meetings

The Supervisory Committee does not dispute the reports and motions tabled by the Board at the general meeting for consideration, and is of the view that the Board has diligently implemented resolutions approved at the general meeting.

In 2017, the Supervisory Committee will continue to closely monitor the Company's day-to-day operations and significant initiatives in business development and supervise the actions of the Directors and senior management in the performance of their duties, in diligent performance of their supervisory duties through the lawful and independent exercise of powers vested in them in accordance with relevant provisions of the Company Law, the Articles, the Rules of Meetings ofthe Supervisory Committee and the Listing Rules, with the aim of facilitating standardized operations at and healthy development for the Company and faithfully protecting the interests of all shareholders and the Company.

By order of the Supervisory Committee
Liu Jianyao
Chairman of the Supervisory Committee

Guangzhou, the PRC, 27 March 2017

Deloitte. 德勤

Independent Auditor's Report

To the shareholders of China BlueChemical Ltd.
(Incorporated in the People's Republic of China as a joint stock company with limited liability)

Opinion

We have audited the consolidated financial statements of China BlueChemical Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 56 to 135, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment on certain non-current assets related to urea, phosphorus and compound fertilizer segments	
We identified the impairment on certain non-current assets related to urea, phosphorus and compound fertilizer segments as a key audit matter due to the significant judgements and estimates used in the impairment assessment by management. Management concluded that impairment indicators existed for certain cash-generating units ("CGUs") in urea, phosphorus and compound fertilizer segments at the end of the reporting period, and therefore performed an impairment assessment on those CGUs. In determining the recoverable amount of the CGUs, management used a value in use model that requires significant judgements and estimates with respect to the discount rate as well as the underlying cash flows. Details of the key estimation uncertainties and the impairment assessment on the non-current assets are disclosed in notes 4a and 16, respectively, to the consolidated financial statements.	Our procedures in relation to the impairment on certain non-current assets related to urea, phosphorus and compound fertilizer segments included: • assessing the valuation methodology; • analysing and challenging the reasonableness of significant judgements and estimates built in the underlying cash flows used in management's impairment assessment; • utilising internal valuation specialists to independently develop an expectation in respect of the specific discount rate and comparing the expectation with that used by management; and • reconciling input data used in the underlying cash flows to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Recognition of deferred tax assets	
We identified the recognition of deferred tax assets as a key audit matter due to the significant estimates and assumptions used by management in determining the future taxable profits and the period over which the deferred tax assets are expected to be realised. Details of the key estimation uncertainties and the deferred tax assets are disclosed in notes 4b and 24, respectively, to the consolidated financial statements.	Our procedures in relation to the recognition of deferred tax assets included: • assessing and challenging the reasonableness of management's estimates and assumptions of future profitability; • comparing management's estimates and assumptions used in assessing the future taxable profits for the relevant subsidiaries with those used in the approved budgets; and • utilising internal tax specialists to assess and challenge whether the estimates and assumptions, made by management on the period over which the deferred tax assets are expected to be realised, are supported by applicable tax regulations.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lip Sai Wo.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	6	8,503,792	10,671,841
Cost of sales		(8,204,309)	(8,925,894)
Gross profit		299,483	1,745,947
Other income	6	63,241	125,150
Other gains and losses	7	204,967	267,495
Selling and distribution expenses		(344,473)	(409,408)
Administrative expenses		(450,128)	(408,347)
Other expenses		(12,256)	(19,862)
Change in fair value of obligation arising from a put option to a non-controlling shareholder	42	(1,519)	4,849
Change in fair value of derivative financial instrument	43	(1,689)	(2,061)
Gain recognised on expiry of the Put Option and Call Option	42	53,822	-
Gain on loss of control of a subsidiary	38	6,282	-
Finance income	8	7,974	9,778
Finance costs	9	(162,102)	(91,457)
Net exchange gains/(losses)		8,537	(22,273)
Share of losses of joint ventures		(1,541)	(609)
Share of losses of associates		(168)	(68,111)
(Loss)/profit before tax	10	(329,570)	1,131,091
Income tax credit/(expenses)	13	92,900	(288,050)
(Loss)/profit for the year		(236,670)	843,041
(Loss)/profit for the year attributable to:			
Owners of the parent		(215,504)	829,657
Non-controlling interests		(21,166)	13,384
		(236,670)	843,041
(Loss)/earnings per share attributable to ordinary owners of the parent			
- Basic for the year (RMB)	15	(0.05)	0.18

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
(Loss)/profit for the year	**(236,670)**	843,041
Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax:		
Fair value gains on unlisted investment during the year	**202,041**	274,607
Reclassification adjustment relating to disposal upon maturity	**(202,041)**	(274,607)
	-	-
Exchange differences arising on translation	**6,808**	(20,927)
Share of other comprehensive income of joint ventures, net of related income tax	**1,865**	-
Cumulative translation loss release to profit or loss upon loss of control over a subsidiary (Note 38)	**37,191**	-
Other comprehensive income/(expense) for the year, net of tax	**45,864**	(20,927)
Total comprehensive (expense)/income for the year	**(190,806)**	822,114
Total comprehensive (expense)/income for the year attributable to:		
Owners of the parent	**(169,640)**	808,730
Non-controlling interests	**(21,166)**	13,384
	(190,806)	822,114

Details of the dividends payable and proposed for the year are disclosed in note 14 to the financial statements.

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**9,013,942**	9,783,087
Mining and exploration rights	17	**469,036**	471,928
Prepaid lease payments	18	**604,569**	619,087
Investment properties	19	**130,656**	-
Intangible assets	20	**28,148**	32,464
Investments in joint ventures	21	**278,443**	212,449
Investments in associates	22	**214,804**	255,975
Available-for-sale investment	23	**600**	600
Deferred tax assets	24	**847,845**	677,575
Other long-term prepayment		**3,000**	12,000
		11,591,043	12,065,165
Current assets			
Inventories	25	**1,279,001**	1,406,243
Trade receivables	26	**485,951**	659,092
Bills receivable	27	**109,509**	124,820
Prepayments, deposits and other receivables	28	**212,318**	328,551
Tax recoverable		**286,323**	279,645
Pledged bank deposits	29	**4,136**	4,059
Time deposits with original maturity over three months	29	**-**	30,429
Cash and cash equivalents	29	**5,698,412**	5,313,907
		8,075,650	8,146,746
Total assets		**19,666,693**	20,211,911
Equity and liabilities			
Capital and reserves			
Issued capital	30	**4,610,000**	4,610,000
Reserves		**8,476,141**	8,876,281
Proposed dividends	14	**230,500**	368,800
		13,316,641	13,855,081
Non-controlling interests		**997,219**	1,026,493
Total equity		**14,313,860**	14,881,574

Consolidated Statement of Financial Position - continued

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Benefits liability	31	67,581	41,276
Interest-bearing bank borrowings	32	810,000	900,000
Deferred tax liabilities	24	51,007	54,937
Deferred revenue	33	158,865	137,669
Obligation under finance lease	36	1,396,166	-
Other long-term liabilities		114,535	114,922
		2,598,154	1,248,804
Current liabilities			
Interest-bearing bank borrowings	32	68,900	67,280
Trade payables	34	971,212	924,515
Bills payable	34	89,631	107,271
Other payables and accruals	35	1,517,352	1,422,599
Obligations under finance lease	36	60,000	1,322,731
Obligation arising from a put option to a non-controlling shareholder	43	-	82,549
Derivative financial instruments	43	-	52,133
Income tax payable		47,584	102,455
		2,754,679	4,081,533
Total liabilities		5,352,833	5,330,337
Total equity and liabilities		19,666,693	20,211,911
Net current assets		5,320,971	4,065,213
Total assets less current liabilities		16,912,014	16,130,378
Net assets		14,313,860	14,881,574

Xia Qing Long
Director

Lee Kit Ying
Director

Consolidated Statement of Changes in Equity

At 31 December 2016

	Attributable to owners of the parent			
	Issued capital RMB'000	Capital reserve RMB'000 (Note i)	Statutory surplus reserve RMB'000 (Note ii)	Special reserve RMB'000 (Note iii)
Balance at 1 January 2015	4,610,000	1,007,237*	940,287*	29,384*
Profit for the year	-	-	-	-
Other comprehensive expense for the year	-	-	-	-
Total comprehensive (expense)/income for the year	-	-	-	-
Transfer from retained profits	-	-	54,820	-
Appropriation and utilisation of safety fund, net	-	-	-	10,749
Proposed 2015 dividend	-	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-
Final 2014 dividend declared	-	-	-	-
Balance at 31 December 2015	4,610,000	1,007,237*	995,107*	40,133*
Balance at 1 January 2016	**4,610,000**	**1,007,237***	**995,107***	**40,133***
Loss for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive (expense)/income for the year	-	-	-	-
Non-controlling interests arising upon expiry of Put Option to the non-controlling shareholder (note 42)	-	-	-	-
Loss of control over a subsidiary (note 38)	-	-	**2,739**	-
Transfer from retained profits	-	-	**13,111**	-
Appropriation and utilisation of safety fund, net	-	-	-	**15,275**
Proposed 2016 dividend	-	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-
Final 2015 dividend declared	-	-	-	-
Balance at 31 December 2016	**4,610,000**	**1,007,237***	**1,010,957***	**55,408***

* These reserve accounts comprise the consolidated reserves of approximately RMB8,476,141,000 (2015: RMB8,876,281,000) in the consolidated statement of financial position.

Note:

i. The capital reserve mainly comprises of (i) share premium arising from the issuance of H shares; and (ii) contribution and distribution from/to ultimate holding company.

ii. Statutory surplus reserve represents statutory reserve fund. In accordance with relevant rules and regulations in the People's Republic of China (the "PRC"), the Company and its PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund annually until the accumulated total of the fund reaches 50% of their registered capital. The appropriation to the statutory reserve fund is determined by the articles of association of the Company and its subsidiaries and approval by the respective boards of directors.

iii. Special reserve represents safety fund, the Group's PRC subsidiaries are required to appropriate an amount of safety fund, in accordance with relevant PRC rules and regulations. Safety fund is used to improve, renovate and maintain safety facilities and equipment and update the safety supplies for the operation personnel, etc.

Retained profits RMB'000	Proposed dividends RMB'000	Translation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
6,482,756*	553,200	(23,313)*	13,599,551	1,149,735	14,749,286
829,657	-	-	829,657	13,384	843,041
-	-	(20,927)	(20,927)	-	(20,927)
829,657	-	(20,927)	808,730	13,384	822,114
(54,820)	-	-	-	-	-
(10,749)	-	-	-	-	-
(368,800)	368,800	-	-	-	-
-	-	-	-	(136,626)	(136,626)
-	(553,200)	-	(553,200)	-	(553,200)
6,878,044*	368,800	(44,240)*	13,855,081	1,026,493	14,881,574
6,878,044*	**368,800**	**(44,240)***	**13,855,081**	**1,026,493**	**14,881,574**
(215,504)	**-**	**-**	**(215,504)**	**(21,166)**	**(236,670)**
-	**-**	**45,864**	**45,864**	**-**	**45,864**
(215,504)	**-**	**45,864**	**(169,640)**	**(21,166)**	**(190,806)**
-	**-**	**-**	**-**	**87,253**	**87,253**
(2,739)	**-**	**-**	**-**	**(87,253)**	**(87,253)**
(13,111)	**-**	**-**	**-**	**-**	**-**
(15,275)	**-**	**-**	**-**	**-**	**-**
(230,500)	**230,500**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(8,108)**	**(8,108)**
-	**(368,800)**	**-**	**(368,800)**	**-**	**(368,800)**
6,400,915*	**230,500**	**1,624***	**13,316,641**	**997,219**	**14,313,860**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
(Loss)/profit before tax		(329,570)	1,131,091
Adjustments for:			
Finance costs	9	162,102	91,457
Share of losses of associates	22	168	68,111
Share of losses of joint ventures	21	1,541	609
Finance income	8	(7,974)	(9,778)
Gain on maturity of unlisted investments	7	(202,041)	(274,607)
Net (gain)/losses on disposal of property, plant and equipment and prepaid lease payment	10	(8,712)	7,120
Depreciation of property, plant and equipment	16	975,031	866,991
Amortisation of mining rights	17	2,892	2,482
Amortisation of prepaid lease payments	18	16,122	15,500
Amortisation of intangible assets	20	6,538	5,288
Amortization of investment properties	19	25	-
Release of government grants	33	(3,804)	(2,468)
Net provision/(reversal) of allowance on doubtful receivables		5,786	(8)
Write-down of inventories to net realisable value		19,825	31,100
Change in fair value of obligation arising from a put option to a non-controlling shareholder	42	1,519	(4,849)
Change in fair value of derivative financial instruments	43	1,689	2,061
Gain recognised on expiry of the Put Option and Call Option	42	(53,822)	-
Gain on loss of control of a subsidiary	38	(6,282)	-
		581,033	1,930,100
Decrease/(increase) in inventories		107,417	(209,818)
Net decrease/(increase) in trade receivables and bills receivable, prepayments, deposits and other receivables		110,432	(559,671)
Net increase in trade payables, bills payable, other payables and accruals, and other long-term liabilities		411,605	381,542
Increase in defined benefits liability		26,305	15,378
Cash generated from operations		1,236,792	1,557,531
Income tax paid		(121,966)	(203,605)
Net cash flows from operating activities		1,114,826	1,353,926

Consolidated Statement of Cash Flows - continued

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Interest received		7,974	9,778
Purchases of property, plant and equipment		(489,957)	(550,425)
Proceeds from disposal of property, plant and equipment		4,732	486
Proceeds of disposal of prepaid lease payment		6,405	-
Addition to investment in an associate		(30,000)	(3,464)
Dividends received from associates	22	250	-
Purchase of available-for-sale investment		(18,186,000)	(12,902,000)
Disposal of available-for-sale investment		18,388,041	13,176,607
Government grants received		25,000	-
Placement of pledged bank deposits		-	(4,340)
Withdrawal of pledged bank deposits		-	5,990
Placement of time deposits with original maturity over three months		(25,683)	(70,202)
Withdrawal of time deposits with original maturity over three months		26,159	38,582
Net cash outflow on loss of control of a subsidiary	38	(1,411)	-
Net cash flows used in investing activities		(274,490)	(298,988)
Financing activities			
Bank borrowings raised		3,121,202	3,519,321
Repayment of bank borrowings		(3,214,077)	(4,642,297)
Borrowings raised from sales and leaseback		2,000,000	1,340,391
Repayment of obligations under finance lease		(1,866,565)	(618,831)
Interest paid related to obligations under finance lease		(45,307)	(12,687)
Interest paid		(94,628)	(142,989)
Dividends paid		(368,800)	(553,200)
Dividends paid to non-controlling shareholders		(8,086)	(136,626)
Transaction charge paid for financial lease		(6,625)	(24,125)
Net cash flows used in financing activities		(482,886)	(1,271,043)
Net increase/ (decrease) in bank balances and cash		357,450	(216,105)
Cash and cash equivalents at 1 January		5,313,907	5,525,928
Effect of foreign exchange rate changes		27,055	4,084
Cash and cash equivalents at 31 December	29	5,698,412	5,313,907

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 compound fertiliser.

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

The consolidated financial statements are presented in RMB, which is the same as the functional currency of the Company.

2. Adoption of new accounting policies

2.1 Application of amendments to IFRSs

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (IASB) for the first time in the current year.

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Discourse Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

The application of amendments to IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

2. Adoption of new accounting policies - continued

2.2 New and amendments to IFRSs not yet effective and not early adopted

IFRS 9	Financial Instrument[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2017

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except for IFRS 9, IFRS 15 and IFRS 16, the directors of the Company do not anticipate that the application of the amendments to IFRSs above will have a material effect on the Group's consolidated financial statements.

IFRS 9 Financial Instrument

IFRS 9 introduces new requirements for classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amotised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and that have contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

2. Adoption of new accounting policies - continued

2.2 New and amendments to IFRSs not yet effective and not early adopted – continued

IFRS 9 Financial Instrument – continued

Key requirements of IFRS 9 are: – continued

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the directors of the Company anticipate that the adoption of IFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets set out below:

- The Group's available-for-sale financial assets which are those currently stated at cost less impairment will either be measured as fair value through profit or loss ("FVTPL") or be designated as FVTOCI (subject to fulfillment of the designation criteria).
- The expected credit loss model may result in early provision of credit losses which are not yet incurred to the Group's financial assets measured at amortised cost.

Presently, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

IFRS15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the Standard introduces a 5-step approach to revenue recognition.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

2. Adoption of new accounting policies - continued

2.2 New and amendments to IFRSs not yet effective and not early adopted - continued

IFRS 15 Revenue from Contracts with Customers - continued

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e, when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the future.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating leases payments are presented as operating cash flows. Under the IFRS 16 leases payments in relation to lease liability will be allocated to a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use asset separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

2. Adoption of new accounting policies - continued

2.2 New and amendments to IFRSs not yet effective and not early adopted - continued

IFRS 16 Leases - continued

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB17,118,000 as disclosed in notes 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16 and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

3. Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

These financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments and an obligation arising from a put option to a non-controlling shareholder, which have been measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, using consistent accounting policies. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. The carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them) is derecognised. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influences. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the year 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.

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 6.79%
Plant and machinery	5.00% to 19.00%
Motor vehicles	6.00% to 19.00%
Computer and electronic equipment	18.00% to 19.40%
Office and other equipment	5.28% to 20.00%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 statement of profit or loss 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 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 year of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The principal annual rates used for depreciation purpose are 4.67% to 5%.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Investment properties - continued

An item of property, plant and equipment becomes an investment property when its use has changed as evidenced by end of owner-occupation.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

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 mineral reserve in the depletion base.

Exploration and evaluation assets

Exploration and evaluation assets comprises costs which are directly attributable to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource, including, but not limited to, the following:

- acquisition of rights to explore
- topographical, geological, geochemical and geophysical studies
- exploratory drilling, trenching and sampling
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resources

Other than licence cost, expenditure during the initial exploration stage of a project is charged to profit or loss as incurred before the establishment of commercial reserves. Further exploration and evaluation costs are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. They are subsequently measured at cost less accumulated impairment.

Once development of commercial reserves is sanctioned, exploration and evaluation assets are tested for impairment and transferred to mining rights.

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. Intangible assets with finite lives are subsequently amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation year 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 Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

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).

Leases

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 consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Land using rights under operating leases are presented as prepaid lease payments in the consolidated statement of financial position and are initially stated at cost and subsequently charged to the profit or loss on the straight-line basis over the lease terms.

A sale and leaseback is a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the seller-lessees, or it may be an operating lease. If the transaction gives rise to a finance lease, any excess of the sales proceeds over the carrying amount is deferred and amortised over the lease term.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Financial instruments

Financial assets

Recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition based on their nature and purpose. All regular way purchases and sales of financial assets are recognised on the trade date and derecognised on a settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. The Group's financial assets include cash and cash equivalents, pledged bank deposits, time deposits with original maturity over three months, bills receivable, trade and other receivables, and available-for-sale financial assets.

During the reporting year, the Group held only loans and receivables and an available-for-sale financial asset, which were initially measured at fair value plus transaction costs. The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivatives 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. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as other categories of financial assets. The Group designated its investment in an unlisted equity investment as available-for-sale, as detailed in note 23. As the unlisted equity investment does not have quoted market price and its fair value cannot be reliably measured, it is measured at cost less any identified impairment losses at end of each reporting period. Dividends on the unlisted equity investment are recognised in profit or loss when the Group's right to receive the dividends is established.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

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.

Impairment of financial assets

Financial assets are assessed for impairment indicators at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Evidence of impairment for the Group's loans and receivable (mainly trade and other receivables) 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. The trade and other receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The amount of the impairment loss recognised for receivables, if any, is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the trade and other receivables is reduced through the use of an allowance account. Change in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For the unquoted equity investment stated at cost, the amount of the impairment is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent period.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instrument

Recognition and measurement

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and, financial liabilities at amortised cost. The Group determines the classification of its financial liabilities at initial recognition. The Group's financial liabilities include trade and bill payables, other payables, interest-bearing bank borrowings, derivative financial instruments and an obligation arising from a put option to a non-controlling shareholder.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

Derivative financial instruments, which are initially recognised at fair value at the date when the derivative contracts are entered into, are remeasured at fair value at the end of the reporting period, with any gains or losses recognised in profit or loss and presented in the other gains or other expenses line item.

After initial recognition, financial liabilities at amortised cost 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 profit or loss when the liabilities are derecognised. The effective interest rate amortisation is included in finance costs in the profit or loss.

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 profit or loss.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interests income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Obligation arising from put and call options on shares of a subsidiary written to / granted from a non-controlling shareholder

Put option written to and call option granted from a non-controlling shareholder, which will be settled other than by exchange of fixed amount of cash for a fixed number of shares in a subsidiary are accounted for as derivatives and are recognised at fair value upon initial recognition. Any changes of fair value in subsequent reporting dates are recognised in profit or loss.

The gross financial liability arising from the put option is recognised when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the Group. The liability for the share redemption amount is initially recognised and measured at present value of the estimated repurchase price with the corresponding debit to the non-controlling interests. In subsequent years, the remeasurement of the present value of the estimated gross obligation under the written put option to the non-controlling shareholder is recognised in profit or loss.

Dividends paid to the other shareholders are recognised as an expense of the Group, unless they represent a repayment of the liability (e.g. where the exercise price is adjusted by the dividends paid). The profits or loss (and changes in equity) with respect to the subsidiary are allocated to the Company and not to the non-controlling interest (classified as a financial liability).

If the put option is exercised, the carrying amount of the gross financial liability at that date is extinguished by the payment of the exercise price. If the put option expires unexercised, the liability is derecognised with the non-controlling interest being reinstated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CUGs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on a carrying value of each assets in the unit. The carrying amount of an assets is not reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would be otherwise have been allocated to the asset is allocated pro rata to the other assets of the units. An impairment loss is recognized immediately in profit or loss.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Impairment on tangible and intangible assets other than goodwill - continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognized as income immediately.

Provisions

Provisions are 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 year 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 profit or loss.

Income tax

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

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities, based on tax rates that have been enacted or subsequently enacted by the end of the reporting year, 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 year 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.

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 future 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Income tax - continued

The carrying amount of deferred tax assets is reviewed at the end of each reporting year 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 year and are recognised to the extent that it has become 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 year 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 year.

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 tax authority.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expense for losses already incurred for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, reduced for estimated customer returns and 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, the amount of revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Group, and the costs incurred in respect of the transaction can be measured reliably ;

(b) from the rendering of services, when services have been performed;

(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 Group's right to receive payment has been established.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

3. Significant accounting policies - continued

Benefits liability

The Group participates and makes contributions into the government-regulated defined contribution pension scheme, medical benefit plan and housing fund 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 profit or loss as incurred.

CNOOC Tianye Chemical Limited ("CNOOC Tianye"), the Group's 92.27%-owned subsidiary and Hainan Basuo Port Limited ("Basuo Port "), the Group's 73.11%-owned subsidiary, also pay early retirement benefits to qualifying early retirees in accordance with an internal retirement plan and post-employment allowances to retired employees in accordance with the local labour regulations (collectively "benefit liability"), as detailed in note 31. The cost of providing the benefit liability is assessed using the projected unit credit method, with actuarial valuation method being carried out at the end of each reporting period. The Group's benefit liability costs include service cost, net interest expense and remeasurement. Remeasurement, including actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in the period in which they occur in other comprehensive income that will not be reclassified to profit or loss and reflected immediately in retained profits. Net interest is calculated by applying the discount rate at the beginning of the period to the net benefit liability. The service cost and net interest are included in cost of sales and administrative expenses.

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 until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the year in which they are incurred.

Dividends

Final dividends proposed by the directors of the Company are classified as a separate allocation of retained profits within the equity section of the consolidated 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

Foreign currency transactions are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve, attributed to non-controlling interests as appropriate.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make judgements, 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 year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting year 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. Impairment on non-financial assets (other than goodwill)

An impairment exists when the carrying value of an asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets or CGUs used in ways specific to the Group's operation may not be readily available, therefore management use the value in use model in determining the recoverable amount of the CGUs. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years approved by management and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

In determining the value in use, expected cash flows generated by the CGUs are discounted to their present value, which requires significant judgments and estimates with respect to the discount rate as well as the underlying cash flows. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions.

In 2016, given the uncertainties caused by oversupply in urea as well as phosphorus and compound fertilizer product markets and on how the performance of certain Group's subsidiaries was affected, management concluded that impairment indicators existed for certain CGUs in urea, phosphorus and compound fertilizer segments at the end of the reporting period, and therefore performed an impairment assessment on those CGUs. Management used a value in use model in the impairment assessment. The key assumptions used to determine the recoverable amount of the certain CGUs are disclosed and further explained in note 16.

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated and will have an impact to profit or loss in the year in which such estimate is revised or when actual write-offs occur.

b. 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 future 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. The assessment requires management to make estimates and assumptions relating to the future taxable profits and the period over which the deferred tax assets are expected be realised. In developing these estimations, management considers future earnings, availability of taxable temporary differences, and the ability of the Group's relevant subsidiaries to offset any of its accumulated losses against these expected profits. Where the actual or expected tax positions of the relevant subsidiaries of the Group in future are different from the original estimates and assumptions, such differences will impact the recognition of deferred tax assets and income tax charge in the year in which such estimates and assumptions has been changed. The amount of deferred tax assets are disclosed in note 24.

c. 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 year in which these estimates have been changed. The amount of write-down of inventories is disclosed in note 25.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

4. Critical accounting judgements and key sources of estimation uncertainty - continued

d. Allowance for doubtful receivables

Allowance for 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/reversal in the year in which these estimates have been changed. The amount of allowance for doubtful receivables is disclosed in note 26 and 28.

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 5 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.

The amount of depreciation of property, plant and equipment for the year ended 31 December 2016 is disclosed in note 16.

5. Operating segment information

Information reported to the Chief Executive Officer, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods and services delivered or produced. The measure reported for resources allocation and segment's performance assessment is the same as last annual financial statements. Hence, the Group has reportable operating segments as follows:

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

(b) the phosphorus and compound fertiliser segment is engaged in the manufacture and sale of MAP , DAP and compound fertiliser;

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

(d) the "others" segment mainly comprises segments engaged in port operations and provision of transportation services; trading of fertilisers and chemicals; manufacture and sale of Bulk Blending (the "BB") fertiliser and woven plastic bags.

The accounting policies of the operating segments are the same as the Group's accounting policies describe in note 3. Segment performance is evaluated based on segment result and is measured consistently with (loss)/profit before tax in the consolidated financial statements. However, the Group's financing (including finance costs and finance income), unallocated administrative expenses, exchange gains/(losses) on translation of foreign operations, bank charges, other income, changes on fair value of derivative financial instruments, other unallocated revenues, other expenses, share of results of associates and joint ventures, gain on disposal of subsidiary, gain on disposal of unlisted investments and income taxes are managed on a group basis and are not allocated to operating segments.

Inter-segment sales are determined on an arm's length basis in a manner similar to transactions with third parties.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

5. Operating segment information - continued

Operating segments

	Urea RMB'000	Phosphorus and compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2016						
Segment revenue:						
Sales to external customers	2,502,753	1,969,490	2,483,093	1,548,456	-	8,503,792
Inter-segment sales	-	-	-	159,998	(159,998)	-
Total	2,502,753	1,969,490	2,483,093	1,708,454	(159,998)	8,503,792
Segment (loss) /profit before tax	(454,922)	(132,596)	111,039	95,800	-	(380,679)
Interest and unallocated income						248,546
Corporate and other unallocated expenses						(261,161)
Exchange gain, net						8,537
Share of losses of joint ventures						(1,541)
Share of losses of associates						(168)
Change in fair value of obligation arising from a put option to a non-controlling shareholder						(1,519)
Change in fair value of derivative financial instruments						(1,689)
Gain recognized on expiry of the Put Option and Call Option						53,822
Gain recognized on loss of control of a subsidiary						6,282
Loss before tax						(329,570)
As at 31 December 2016						
Total segment assets	8,653,150	2,948,336	1,989,852	2,034,122	(35,568)	15,589,892
Unallocated						4,076,801
Total assets						19,666,693
Total segment liabilities	2,538,894	1,431,585	506,722	771,142	(35,568)	5,212,775
Unallocated						140,058
Total liabilities						5,352,833
Other segment information:						
Depreciation and amortisation	459,224	258,624	217,142	65,618	-	1,000,608
Investments in associates	-	-	-	214,804	-	214,804
Investments in joint ventures	-	-	-	278,443	-	278,443
Capital expenditure *	171,432	28,139	1,477	11,852	-	212,900

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

5. Operating segment information - continued

Operating segments - continued

	Urea RMB'000	Phosphorus and compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2015						
Segment revenue:						
Sales to external customers	3,401,292	2,484,951	2,644,450	2,141,148	-	10,671,841
Inter-segment sales	-	-	-	195,248	(195,248)	-
Total	3,401,292	2,484,951	2,644,450	2,336,396	(195,248)	10,671,841
Segment profit before tax	799,051	188,614	48,471	79,422	-	1,115,558
Interest and unallocated income						301,214
Corporate and other unallocated expenses						(197,476)
Exchange losses, net						(22,273)
Change in fair value of derivative financial instruments						(2,061)
Change in fair value of obligation arising from a put option to a non-controlling shareholder						4,849
Share of losses of joint ventures						(609)
Share of losses of associates						(68,111)
Profit before tax						1,131,091
As at 31 December 2015						
Total segment assets	9,162,227	3,304,307	2,224,742	2,090,789	(116,387)	16,665,678
Unallocated						3,546,233
Total assets						20,211,911
Total segment liabilities	3,048,234	990,552	551,041	666,802	(131,466)	5,125,163
Unallocated						205,174
Total liabilities						5,330,337
Other segment information:						
Depreciation and amortisation	362,172	246,111	217,285	64,693	-	890,261
Investments in associates	-	-	-	255,975	-	255,975
Investments in joint ventures	-	-	-	212,449	-	212,449
Capital expenditure *	603,575	26,842	4,353	14,508	-	649,278

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

5. Operating segment information - continued

Operating segments - continued

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

1 Inter-segment revenues are eliminated on consolidation.

2 Profit for each operating segment does not include the Group's financing (including finance costs and finance income), unallocated administrative expenses, exchange gains/(losses) on translation of foreign operations, bank charges, other income, changes on fair value of derivative financial instruments, other unallocated revenues, other expenses, share of profits of associates and joint ventures, gain on disposal of subsidiary, gain on disposal of unlisted investments and income taxes.

3 Segment assets do not include deferred tax assets, available-for-sale financial assets, cash and bank balances managed on corporate level, assets of centralised cost centre and inter-segment balances.

4 Segment liabilities do not include interest payables, dividends payable, deferred tax liabilities, liabilities of centralised cost centre and inter-segment balances.

Geographic information

(a) Revenue from external customers, based on their locations

	2016 RMB'000	2015 RMB'000
Sales to external customers:		
- PRC	7,136,007	8,503,422
- Others	1,367,785	2,168,419
	8,503,792	10,671,841

(b) Non-current assets

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

Information about major customer

No single customer contributed 10% or more to the Group's revenue for both 2016 and 2015.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

6. Revenue and other income

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

An analysis of revenue and other income is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of goods	8,141,186	10,256,621
Rendering of services	362,606	415,220
	8,503,792	10,671,841
Other income		
Income from sale of other materials	10,746	57,798
Income from rendering of other services	15,905	23,985
Gross rental income	10,469	31,385
Government grants	22,399	10,771
Indemnities received	3,722	1,211
	63,241	125,150

7. Other gains and losses

	2016 RMB'000	2015 RMB'000
Gain on maturity of unlisted investments	202,041	274,607
(Provision)/reversal of allowance for doubtful receivables	(5,786)	8
Gain/(loss) on disposal of property, plant and equipment	2,796	(6,872)
Gain/(loss) on disposal of prepaid lease payments	5,916	(248)
	204,967	267,495

8. Finance income

Finance income represents interest income on bank and financial institution deposits for the years ended 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

9. Finance costs

	2016 RMB'000	2015 RMB'000
Interest on bank and financial institution borrowings	93,721	142,907
Finance charges payable under other-long term liabilities and obligations under finance lease	68,381	12,687
Total interest expense on financial liabilities not at fair value through profit or loss	162,102	155,594
Less: Interest capitalised on qualifying assets	-	(64,137)
	162,102	91,457

10. (Loss)/profit before tax

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		7,899,624	8,640,642
Cost of services provided		284,860	254,152
Depreciation	16	975,031	866,991
Amortisation of mining rights	17	2,892	2,482
Amortisation of prepaid lease payments	18	16,122	15,500
Amortisation of investment properties	19	25	-
Amortisation of intangible assets included in administrative expense	20	6,538	5,288
Auditors' remuneration		4,200	4,300
Employee benefit expense (including directors' and supervisors' remuneration explained in note 11):			
Wages and salaries		626,794	545,155
Defined contribution pension scheme		95,716	94,556
Early retirement benefits and post-employment allowances		35,484	25,534
Medical benefit costs		37,756	37,830
Housing fund		55,876	51,848
Provision/(reversal) of allowance for doubtful receivables		5,786	(8)
(Gain)/loss on disposal of property, plant and equipment and prepaid lease payment		(8,712)	7,120
Write-down of inventories to net realisable value, included in cost of sales		19,825	31,100

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

11. Key management personnel remuneration

Details of the directors' and supervisors' remuneration for the year disclosed pursuant to the applicable Listing Rules and Companies Ordinance is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries and other allowances	**1,146**	1,227
Discretionary bonuses	**820**	988
Pension scheme contributions	**29**	38
	1,995	2,253

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2016 is set out below:

	Salaries and other allowances	Discretionary bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Directors				
Non-executive directors				
Li Hui (note 1)	-	-	-	-
Zhou Dechun (note 2)	-	-	-	-
Zhu Lei (note 3)	-	-	-	-
Guo Xinjun (note 4)	-	-	-	-
Cheng Chi (note 5)	-	-	-	-
Chen Bi (note 6)	-	-	-	-
Xie Weizhi (note 7)	-	-	-	-
	-	-	-	-

No remuneration was paid or payable to the non-executive directors shown above during the year ended 31 December 2016.

Executive directors				
Wang Hui (Ex-Chief Executive) (note 8)	**160**	**131**	**8**	**299**
Xia Qinglong (Chief Executive) (note 9)	**231**	**433**	**10**	**674**
	391	**564**	**18**	**973**

The executive director's remunerations shown above were for his services in connection with the management of the affairs of the Company and the Group.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

11. Key management personnel remuneration - continued

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2016 is set out below: - continued

	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Independent non-executive directors				
Lee Kit Ying	240	-	-	240
Lee Kwan Hung	240	-	-	240
Zhou Hongjun (note 10)	-	-	-	-
Yu Changchun (note 11)	70	-	-	70
	550	-	-	550

The independent non-directors' remunerations shown above were for their services as directors of the Company.

	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Supervisors				
Wang Mingyang (note 12)	-	-	-	-
Liu Lijie	145	256	11	412
Li Xiaoyu	60	-	-	60
Liu Jianyao (note 13)	-	-	-	-
	205	256	11	472

The supervisors' remunerations shown above were for their services as directors of the Company or its subsidiaries.

	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Total	1,146	820	29	1,995

Notes:

1 Li Hui resigned as Non-Executive director on 29 September 2016.

2 Zhou Dechun resigned as Non-Executive director on 31 May 2016.

3 Zhu Lei resigned as Non-Executive director on 31 May 2016.

4 Guo Xinjun was appointed as Non-Executive director on 31 May 2016.

5 Cheng Chi was appointed as Non-Executive director on 31 May 2016; and resigned as Non-Executive director on 29 September 2016.

6 Chen Bi was appointed as Non-Executive director on 29 September 2016.

7 Xie Weizhi was appointed as Non-Executive director on 29 September 2016.

8 Wang Hui resigned as Executive director on 20 July 2016.

9 Xia Qinglong was appointed as Executive director on 20 July 2016.

10 Zhou Hongjun resigned as Independent Non-Executive director on 31 May 2016.

11 Yu Changchun was appointed as Independent Non-Executive director on 31 May 2016.

12 Wang Mingyang resigned as Supervisor on 31 May 2016.

13 Liu Jianyao was appointed as Supervisor on 31 May 2016.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

11. Key management personnel remuneration - continued

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2015 is set out below:

	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Directors				
Non-executive directors				
Li Hui	33	-	-	33
Zhou Dechun	39	-	-	39
Zhu Lei	39	-	-	39
	111	-	-	111

The non-executive directors' remunerations shown above were for their services as directors of the Company or its subsidiaries.

Executive directors				
Wang Hui (Chief Executive)	251	745	26	1,022

The executive director's remunerations shown above were for his services in connection with the management of the affairs of the Company and the Group.

Independent non-executive directors				
Lee Kit Ying	282	-	-	282
Lee Kwan Hung	282	-	-	282
Zhou Hongjun (note 1)	21	-	-	21
Gu Zongqin (note 2)	61	-	-	61
	646	-	-	646

The independent non-directors' remunerations shown above were for their services as directors of the Company.

Supervisors				
Wang Mingyang	19	-	-	19
Liu Lijie	121	243	12	376
Huang Jinggui (note 3)	29	-	-	29
Li Xiaoyu (note 4)	50	-	-	50
	219	243	12	474

The supervisors' remunerations shown above were for their services as directors of the Company or its subsidiaries.

Total	1,227	988	38	2,253

Notes:

1 Zhou Hongjun was appointed as Independent Non-Executive director on 28 May 2015.

2 Gu Zongqin resigned as Independent Non-Executive director on 28 May 2015.

3 Huang Jinggui resigned as Supervisor on 28 May 2015.

4 Li Xiaoyu was appointed as Supervisor on 28 May 2015.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

12. Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2016 and 2015 are analysed as follows:

	2016	2015
Directors and supervisors	1	1
Non-director and non-supervisor employees	4	4
	5	5

Details of the remuneration of non-director and non-supervisor highest paid employees during the years ended 31 December 2016 and 2015 are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other allowances	1,494	926
Discretionary bonuses	1,364	2,513
Pension scheme contributions	86	96
	2,944	3,535

The number of the highest paid employees who are non-director and non-supervisor whose remuneration fell within the following bands is as follows:

	2016	2015
HK$ nil to HK$1,000,000	4	1
HK$1,000,001 to HK$1,500,000	-	3
	4	4

13. Income tax

	2016 RMB'000	2015 RMB'000
Current tax		
PRC Enterprise Income Tax	82,282	281,377
Deferred tax (note 24)	(174,200)	6,914
	(91,918)	288,291
Over provision in prior year	(982)	(241)
	(92,900)	288,050

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

13. Income tax - continued

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.

(a) Enterprise income tax ("EIT")

Under the Enterprise Income Tax Law of the People's Republic of China (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Two subsidiaries of the Company, CNOOC Fudao Limited and Hubei Dayukou Chemical Co., Ltd ("Hubei Dayukou"), are entitled to preferential EIT rate of 15% for the three years ended 31 December 2016 after being assessed as high-tech enterprises from the year of 2014.

CNOOC (Hainan) E&P Gas Limited, a subsidiary of the Company, is taxed at 90% of its total taxable income, as CNOOC (Hainan) E&P Gas Limited is entitled to a tax incentive for its efficient use of resources in preferential.

(b) Hong Kong profits tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax charge for the year can be reconciled to the (loss)/profit per the consolidated statement of profit or loss as follows:

	2016 RMB'000	2015 RMB'000
(Loss)/profit before tax	(329,570)	1,131,091
Tax at the statutory tax rate of 25%	(82,392)	282,773
Effect of income that is exempt from taxation	(1,570)	(111)
Income tax on concessionary rate	(18,500)	(67,993)
Over provision in respect of prior years	(982)	(241)
Tax effect of share of losses of joint ventures and associates	427	1,348
Tax effect of tax losses not recognised	309	46,728
Tax effect of deductible temporary differences not recognised	9,314	20,649
Utilisation of deductible temporary difference previously not recognised	(5,534)	-
Expenses not deductible for tax	6,028	4,897
Income tax	(92,900)	288,050
The Group's effective income tax rate	28%	25%

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

14. Proposed dividends

	2016 RMB'000	2015 RMB'000
Proposed dividends – RMB0.05 (2015: RMB0.08) per ordinary share	230,500	368,800

The proposed 2015 final dividend was approved at the annual general meeting on 31 May 2016. The proposed 2016 special dividend is subject to the approval of the Company's shareholders at the forthcoming 2016 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%.

15. Earnings per share attributable to owners of the parent

	2016 RMB'000	2015 RMB'000
For the purposes of basic earnings per share:		
Earnings		
(Loss)/profit for the year attributable to owners of the parent	(215,504)	829,657

	Number of shares	
	2016 '000	2015 '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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

16. Property, plant and equipment

	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 process RMB'000	Total RMB'000
As at 1 January 2016:							
Cost	5,782,554	13,456,102	186,252	1,082,434	532,810	399,728	21,439,880
Accumulated depreciation and impairment	(2,526,087)	(7,851,214)	(125,370)	(883,584)	(205,701)	(64,837)	(11,656,793)
Net carrying amount	3,256,467	5,604,888	60,882	198,850	327,109	334,891	9,783,087
Cost as at 1 January 2016, net of accumulated depreciation and impairment	3,256,467	5,604,888	60,882	198,850	327,109	334,891	9,783,087
Additions	-	7,614	780	1,100	11,384	192,022	212,900
Disposals	(436)	(488)	(739)	(328)	(12)	-	(2,003)
Transfer	123,067	258,086	220	10,132	240	(391,745)	-
Transfer to prepaid lease payment	(2,130)	-	-	-	-	-	(2,130)
Transfer to intangible assets	-	-	-	-	-	(2,222)	(2,222)
Transfer to investment property	(659)	-	-	-	-	-	(659)
Depreciation for the year	(236,442)	(597,121)	(8,623)	(69,914)	(62,931)	-	(975,031)
Cost as at 31 December 2016, net of accumulated depreciation and impairment	3,139,867	5,272,979	52,520	139,840	275,790	132,946	9,013,942
As at 31 December 2016:							
Cost	5,900,059	13,715,466	176,898	1,088,440	544,212	197,783	21,622,858
Accumulated depreciation and impairment	(2,760,192)	(8,442,487)	(124,378)	(948,600)	(268,422)	(64,837)	(12,608,916)
Net carrying amount	3,139,867	5,272,979	52,520	139,840	275,790	132,946	9,013,942

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

16. Property, plant and equipment - 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 process RMB'000	Total RMB'000
As at 1 January 2015:							
Cost	4,763,905	11,073,906	186,771	1,076,684	352,411	3,448,455	20,902,132
Accumulated depreciation and impairment	(2,320,626)	(7,484,667)	(118,536)	(854,789)	(150,175)	(64,837)	(10,993,630)
Net carrying amount	2,443,279	3,589,239	68,235	221,895	202,236	3,383,618	9,908,502
Cost as at 1 January 2015, net of accumulated depreciation and impairment	2,443,279	3,589,239	68,235	221,895	202,236	3,383,618	9,908,502
Additions	1,748	11,957	1,632	2,834	127,215	603,548	748,934
Disposals	(3,338)	(2,287)	(858)	(180)	(57)	(638)	(7,358)
Transfer	1,046,211	2,509,467	549	42,026	53,384	(3,651,637)	-
Depreciation for the year	(231,433)	(503,488)	(8,676)	(67,725)	(55,669)	-	(866,991)
Cost as at 31 December 2015, net of accumulated depreciation and impairment	3,256,467	5,604,888	60,882	198,850	327,109	334,891	9,783,087
As at 31 December 2015:							
Cost	5,782,554	13,456,102	186,252	1,082,434	532,810	399,728	21,439,880
Accumulated depreciation and impairment	(2,526,087)	(7,851,214)	(125,370)	(883,584)	(205,701)	(64,837)	(11,656,793)
Net carrying amount	3,256,467	5,604,888	60,882	198,850	327,109	334,891	9,783,087

During the year, the Group has no capitalised borrowing costs on qualifying assets (2015: RMB64,137,000, 6.10% of general borrowings).

As at 31 December 2016, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB1,223,675,000 (2015: RMB1,209,999,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned buildings.

The carrying amount of equipment, which are held under finance lease arrangements, is approximately RMB1,546,306,000 as at 31 December 2016 (31 December 2015: RMB1,386,733,000). The details of the arrangement and the amount of obligation under finance lease are disclosed in note 36.

As disclosed in note 4a, given the uncertainties caused by oversupply in urea as well as phosphorus and compound fertilizer product markets and on how the performance of certain Group's subsidiaries was affected, which together is an impairment indication, management performed impairment assessment on the relevant non-current assets of the said subsidiaries, each of which is a separate CGU, including CNOOC Tianye, CNOOC Huahe Coal Chemical Ltd ("CNOOC Huahe") and Hubei Dayukou.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

16. Property, plant and equipment - continued

The total carrying value of the relevant non-current assets of CNOOC Tianye, CNOOC Huahe and Hubei Dayukou is RMB870,147,000, RMB3,504,795,000 and RMB1,803,097,000 respectively as at 31 December 2016.

As the result of the impairment assessment, the recoverable amount of the above three CGUs' non-current assets are all greater than their carrying value. Therefore management considered there is no need to recognise any impairment loss against the non-current assets for the year ended at 31 December 2016.

The recoverable amount is determined using value in use, based on discounted cash flow model covering the assets' residual useful life period starting with financial budgets approved by the directors of the Company covering a five-year period. The compound annual growth rate ("CAGR") of the selling price from 2017 to 2021 of CNOOC Tianye's urea, CNOOC Huahe's urea, and Hubei Dayukou's DAP are 4.9%, 6.7% and 2.6% respectively. Cash flows beyond the five-year approved financial budgets are prepared based on zero growth rate. The pre-tax discount rate applied to the above three CGUs' cash flow projection is 11%.

The recoverable amount of the above CGUs are sensitive to some of the assumptions respectively as follows, and it is estimated that the following assumed adverse percentage change (sensitivity rate) for the relevant assumptions, while holding all other assumptions constant, would lead to the recognition of impairment provision (sensitivity amount):

	Sensitivity rate	Sensitivity amount RMB'000
CNOOC Huahe – urea selling price	**(5%)**	**101,356**
CNOOC Huahe – discount rate	**1%**	**42,570**
Hubei Dayukou – DAP selling price	**(5%)**	**169,798**

Saved as discussed above, the recoverable amount are not sensitive to other assumptions.

Discount rates represent the current market assessment of the risks specific to the industry, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The Group takes into account its weighted average cost of capital ("WACC") as a starting point in estimating the discount rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. The beta factors used are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount.

Growth rate estimates for those three CGUs, after the year ended 2016, are based on management's best estimate of local industry demand for the first five years and followed by the zero growth rate, with the expectation that the Group's local market share to be stable over the forecast period. Management recognises that the timing and volume of such local industry demand can have an impact on growth rate assumptions and some adverse changes might result in an impairment.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

17. Mining and exploration rights

	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Cost as at 1 January 2016, net of accumulated amortisation	**142,808**	**329,120**	**471,928**
Transfer	**329,120**	**(329,120)**	**-**
Amortisation for the year	**(2,892)**	**-**	**(2,892)**
Cost as at 31 December 2016, net of accumulated amortisation	**469,036**	**-**	**469,036**
As at 31 December 2016:			
Cost	**487,785**	**-**	**487,785**
Accumulated amortisation	**(18,749)**	**-**	**(18,749)**
Net carrying amount	**469,036**	**-**	**469,036**
Cost as at 1 January 2015, net of accumulated amortisation	93,346	381,064	474,410
Transfer	51,944	(51,944)	-
Amortisation for the year	(2,482)	-	(2,482)
Cost as at 31 December 2015, net of accumulated amortisation	142,808	329,120	471,928
As at 31 December 2015:			
Cost	158,665	329,120	487,785
Accumulated amortisation	(15,857)	-	(15,857)
Net carrying amount	142,808	329,120	471,928

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

18. Prepaid lease payments

	2016 RMB'000	2015 RMB'000
Carrying amount as at 1 January	**634,277**	584,096
Additions	**-**	66,006
Transfer from property, plant and equipment	**2,130**	-
Transfer to investment properties	**(23)**	-
Disposal	**(489)**	(325)
Amortisation for the year	**(16,122)**	(15,500)
Carrying amount as at 31 December	**619,773**	634,277
Current portion included in prepayments, deposits and other receivables	**(15,204)**	(15,190)
Non-current portion	**604,569**	619,087

As of the date of issuance of the financial statements, the land use right certificate held by CNOOC Hualu Shanxi Coal Chemical Co., Ltd. ("CNOOC Hualu") has not been invalidated after CNOOC Hualu was served the relevant seizure notification by the local land bureau and provided full impairment against the carrying amount of the land use right in 2014. In addition, the directors of the Company are of the view that there is no evidence the payables for acquisition of the said land use right amounting to RMB26,339,000 (31 December 2015: RMB26,339,000), presented under "Other long term liabilities" and "Other payables and accruals", are no longer payable.

As at 31 December 2016, the Group is in the process of applying for the title certificates of certain land use rights with a net book value of approximately RMB2,130,000, which was newly acquired in 2016. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

19. Investment properties

	Total RMB'000
Cost as at 1 January 2015, 31 December 2015 and 1 January 2016	**-**
Additions (Note 47)	**129,999**
Transfer	**682**
Cost as at 31 December 2016	**130,681**
Accumulated amortization and accumulated depreciation for the year	**(25)**
Carrying amount as at 31 December 2016	**130,656**

The additions of investment properties were acquired in December 2016 with fair value amounted to RMB129,999,000 as disclosed in note 47. The fair value has been arrived at based on a valuation carried out by China Enterprise Appraisals Consultation Co. Ltd., independent valuers not connected with the Group. The fair value was determined based on the direct comparison approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use. Management considers that the carrying amount of these investment properties as at 31 December 2016 approximate to their fair value.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

20. Intangible assets

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2016, net of accumulated amortisation	**8,490**	**23,974**	**32,464**
Additions	**2,222**	**-**	**2,222**
Amortisation for the year	**(4,651)**	**(1,887)**	**(6,538)**
Cost as at 31 December 2016, net of accumulated amortisation	**6,061**	**22,087**	**28,148**
As at 31 December 2016:			
Cost	**52,878**	**152,690**	**205,568**
Accumulated amortisation	**(46,817)**	**(130,603)**	**(177,420)**
Net carrying amount	**6,061**	**22,087**	**28,148**

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2015, net of accumulated amortisation	11,106	5,130	16,236
Additions	1,887	19,629	21,516
Amortisation for the year	(4,503)	(785)	(5,288)
Cost as at 31 December 2015, net of accumulated amortisation	8,490	23,974	32,464
As at 31 December 2015:			
Cost	50,656	152,690	203,346
Accumulated amortisation	(42,166)	(128,716)	(170,882)
Net carrying amount	8,490	23,974	32,464

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

21. Investment in joint ventures

	2016 RMB'000	2015 RMB'000
Cost of investment in joint ventures	280,837	215,167
Share of post-acquisition profits and other comprehensive Income, net of dividends received	(2,394)	(2,718)
	278,443	212,449

The joint ventures are accounted for using the equity method in these consolidated financial statement.

Particulars of the joint ventures of the Group are set out as follows:

Name of the entity	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company	Principal activities
Guizhou Jinlin Chemical Co., Ltd. (貴州錦麟化工有限責任公司)	PRC 12 April 2007	RMB481,398	Direct Indirect	41.26 -	Phosphate mining and processing manufacture and sales of phosphate ore and chemical products
Yantai Port Fertiliser Logistics Co., Ltd. (煙台港化肥物流有限公司)	PRC 20 July 2011	RMB122,500	Direct Indirect	27.00 -	Cargo handling, warehousing, packaging and domestic freight forwarding
CBC (Canada) Holding Corp ("CBC (Canada)") (Note i) (中海化學(加拿大)控股公司)	Canada 28 May 2013	CAD24,000	Direct Indirect	60.00 -	Investment holding

Note i: As at 1 April 2016, the Company lost control and retains joint control over CBC (Canada) as a joint venture of the Group, as detailed in note 38. During the nine-month period ended 31 December 2016, the Group equity-accounted for its share of CBC (Canada)'s net loss and translation gain for the same period amounting to RMB1,372,000 and RMB1,865,000, respectively, with the carrying amount of investment in CBC (Canada) measured at RMB66,163,000 as at 31 December 2016.

The aggregate financial information in respect of the Group's joint ventures is set out below since no single joint venture is individually material:

	2016 RMB'000	2015 RMB'000
The Group's share of profit/(loss) and other comprehensive Income/(expenses)	324	(609)
Aggregate carrying amount of the Group's investment in the joint ventures	278,443	212,449

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

22. Investment in associates

	2016 RMB'000	2015 RMB'000
Cost of investment in associates	667,900	715,501
Loss on deemed disposal of Western Potash Corporation ("WPC")	-	(30,170)
Share of post-acquisition profits and other comprehensive income, net of dividends received	(453,096)	(429,356)
	214,804	255,975

The above associate is accounted for using the equity method in these consolidated financial statements.

The Group's other receivables with its associates are disclosed in note 28.

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

Name of the entity	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company 2016	2015	Principal activities
Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal") (Note i) (山西華鹿陽坡泉煤礦有限公司)	PRC 3 August 2001	RMB52,000	Direct Indirect	49 -	49 -	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	RMB1,800	Direct Indirect	- 36.56	- 36.56	Provision of overseas shipping services
Western Potash Corporation (Note ii) (西鉀公司)	Canada 5 April 2007	CAD140,944	Direct Indirect	- -	- 10.1	Acquisition, evaluation, and exploration of mineral properties containing potash
United Agricultrual Means of Production (Beijing) Co. Ltd. (聯合惠農農資(北京)有限公司)	PRC 7 June 2016	RMB100,000	Direct Indirect	- 30	- -	Merchandizing

Note i: As of the date of issuance of the financial statements, China Cinda Asset Management Co., Ltd. ("Cinda"), who took over defaulted outstanding debts payable by Yangpoquan Coal ("the Debts") from Industrial and Commercial Bank of China Limited ("ICBC") in 2015, has not initiated any proceeding to exercise its rights assumed from ICBC. After recognition of impairment against the carrying amount of investment in Yangpoquan Coal in 2014 due to unsuccessful Yangpoquan Coal's assets foreclosures by ICBC, the directors of the Company are of the view that no further impairment indication presents and no further impairment charge is required for the current period.

Note ii: During the year, the Company lost control over CBC (Canada) (note 38) and significant influence over WPC held by CBC (Canada).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

22. Investment in associates - continued

The aggregate financial information in respect of the Group's associates is set out below since no single associate is individually material:

	2016 RMB'000	2015 RMB'000
The Group's share of loss/total comprehensive expenses	**(168)**	(68,111)
Dividends received from the associate during the year	**250**	-
Aggregate carrying amount of the Group's investment in the associates	**214,804**	255,975

23. Available-for-sale investment

	2016 RMB'000	2015 RMB'000
Non-curr ent		
Unlisted equity investment, at cost	**600**	600

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

24. Deferred taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	847,845	677,575
Deferred tax liabilities	(51,007)	(54,937)
	796,838	622,638

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation RMB'000	Impairment losses RMB'000	Wages and salaries RMB'000	Financial instruments fair value changes RMB'000	Fair value adjustment on acquisition of subsidairies RMB'000	Unused tax losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2015	29,505	517,463	10,027	12,518	(58,866)	115,339	3,566	629,552
(Charge)/credit to profit or loss	(1,922)	7,963	(746)	515	3,929	(12,873)	(3,780)	(6,914)
As at 31 December 2015 and 1 January 2016	27,583	525,426	9,281	13,033	(54,937)	102,466	(214)	622,638
(Charge)/credit to profit or loss	(2,056)	(676)	6,776	(13,033)	3,930	174,160	5,099	174,200
As at 31 December 2016	25,527	524,750	16,057	-	(51,007)	276,626	4,885	796,838

As at 31 December 2016, the Group has unused tax losses of RMB1,419,115,000 (31 December 2015: RMB723,994,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1,106,504,000 (31 December 2015: RMB409,865,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB312,611,000 (31 December 2015: RMB314,129,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB312,611,000 (31 December 2015: RMB314,129,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB126,393,000 (31 December 2015: RMB145,620,000) that has not been recognised as deferred tax assets as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

25. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials and spare parts	448,532	466,395
Work in progress	298,940	340,389
Finished goods	556,200	635,405
	1,303,672	1,442,189
Written-down of Inventories	(24,671)	(35,946)
Net Value of Inventories	1,279,001	1,406,243

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 customers are mainly on credit. The credit period is generally one month, except for some high-credit customers, where payments may be extended.

	2016 RMB'000	2015 RMB'000
Trade receivables	486,319	659,099
Less: allowance for doubtful debts	(368)	(7)
	485,951	659,092

An ageing analysis of the trade receivables of the Group as at the end of the reporting year, based on invoice dates and net of allowance for doubtful debts, is as follows:

	2016 RMB'000	2015 RMB'000
Within six months	484,190	655,003
Over six months but within one year	1,160	1,861
Over one year but within two years	-	1,314
Over two years	601	914
	485,951	659,092

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

26. Trade receivables - continued

The allowance for doubtful debts relate to an allowance made for individually impaired trade receivables with an aggregate carrying amount of RMB368,000 (2015:RMB7,000), which were in financial difficulties and none of the receivables is expected to be recovered.

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

	2016	2015
	RMB'000	RMB'000
Neither past due nor impaired	485,759	656,986
Less than one month past due	33	1,861
One to three months past due	159	245
	485,951	659,092

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.

As at 31 December 2016, the amount due from CNOOC (the "ultimate holding company"), its subsidiaries, and associates (other than the ultimate holding company collectively referred to as the "CNOOC group companies") included in the above trade receivable balances was RMB447,532,000 (2015: RMB444,379,000). The amount due is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

27. Bills receivable

The bills receivable of the Group as at 31 December 2016 and 2015 are all mature within six months.

At 31 December 2016, the Group has transferred bills receivables having maturity less than six months from the reporting dates to its suppliers to settle its payables through endorsing the bills to its suppliers amounted to RMB183,689,000 (2015: RMB107,968,000). The Group has derecognised these bills receivables and the payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 31 December 2016, the Group's maximum exposure to loss, which is same as the amount payable by the Group to banks or the suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB183,689,000 (2015: RMB107,968,000).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

28. Prepayments, deposits and other receivables

	2016 RMB'000	2015 RMB'000
Prepayments	**126,961**	221,603
Prepaid lease payments	**15,204**	15,190
Deposits and other receivables	**77,777**	93,956
Less: allowance for doubtful debts	**(7,624)**	(2,198)
	212,318	328,551

The allowance for doubtful debts relate to an allowance made for individually impaired other receivables with an aggregate carrying amount of RMB7,624,000 (2015:RMB2,198,000), which were in financial difficulties and none of the receivables is expected to be recovered.

Besides the doubtful other receivables mentioned above, 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, associates and joint ventures included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	2016 RMB'000	2015 RMB'000
Ultimate holding company	**20**	-
CNOOC group companies	**18,416**	25,283
Associates	**10,042**	8,155
	28,478	33,438

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

29. Cash and cash equivalents and pledged bank deposits

	2016 RMB'000	2015 RMB'000
Cash and bank and financial institution balances	5,702,548	5,348,395
Less: Pledged bank deposits	(4,136)	(4,059)
Time deposits with original maturity over three months	-	(30,429)
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	5,698,412	5,313,907

The Group's cash and bank balances were denominated in RMB as at 31 December 2016 and 2015, except for amounts of RMB667,435,000 (2015: RMB221,871,000) which was translated from USD96,214,000 (2015: USD34,168,000); and RMB8,000 (2015: RMB39,000) which was translated from HKD 9,000(2015: HKD 47,000); and RMB13,394,000 (2015: RMB22,000) which was translated from EUR 1,833,000(2015: EUR3,000); and RMB nil (2015: RMB31,245,000) which was translated from CAD nil (2015: CAD 6,674,000).

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 2016, included in the Group's cash and cash equivalents were RMB216,641,000 (2015: RMB467,906,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"), a subsidiary of the ultimate holding company and a licensed financial institution.

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 earn interest at the respective short-term time deposit rates.

30. 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 2016 and 2015	**4,610,000**	**4,610,000**

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

31. Benefit liability

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

	2016 RMB'000	2015 RMB'000
Post-employment allowances	**15,165**	15,587
Early retirement benefits	**52,416**	25,689
Total benefit liability	**67,581**	41,276

Movement of post-employment allowances and early retirement benefits are as follows:

	Post-employment Allowances RMB'000	Early Retirement Benefits RMB'000
As at 1 January 2015	14,793	11,105
Current service cost	51	-
Past service cost - plan amendments	-	16,809
Net interest cost	2,100	2,387
Benefits paid	(1,357)	(4,612)
As at 31 December 2015 and 1 January 2016	**15,587**	**25,689**
Current service cost	**61**	**-**
Past service cost - plan amendments (Note i)	**-**	**33,607**
Net interest cost	**442**	**1,374**
Benefits paid	**(925)**	**(8,254)**
As at 31 December 2016	**15,165**	**52,416**

Note i: During the reporting period, CNOOC Tianye recorded additional early retirement benefits liability due to its additional qualifying early retirees in accordance with an internal retirement plan, which was considered as a plan amendment to past service cost.

The principal assumptions used in determining post-employment allowances and early retirement benefits of the Group as at 31 December 2016 are shown below:

	Post-employment Allowances **2016**	Early Retirement Benefits 2016
Discount rate		
- CNOOC Tianye	**3.00%**	3.00%
- Basuo Port	**-**	2.75%
Annual growth rate of employee benefits	**0.00%~1.00%**	0.00%~7.00%

The directors of the Company have reviewed the actuarial valuation as at 31 December 2016 which was performed by Towers Watson Consultant (Shanghai) Ltd., an independent actuary service provider, using the valuation method detailed under the heading "Employee benefits" in note 3, and considered that the Group's current provision for the net benefit expenses was adequate as at 31 December 2016. The directors of the Company do not expect significant changes in principal assumptions.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

32. Interest-bearing bank borrowings

	2016 RMB'000	2015 RMB'000
Unsecured bank loans repayable:		
Within one year	68,900	67,280
More than one year, but not more than five years	750,000	90,000
More than five years	60,000	810,000
	878,900	967,280

The unsecured bank loans have effective interest rates of 4.28%-4.41%, payable within 2017 and 2023.The amounts due are based on the scheduled repayment dates set out in the loan agreements.

33. Deferred revenue

Deferred revenue represents government grants. The deferred revenue generated from government grants is recognised in the consolidated statement of profit or loss according to the depreciation periods of the related assets and the periods in which the related costs incurred.

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	137,669	144,077
Additions	25,000	-
Credited to the consolidated statement of profit or loss during the year	(3,804)	(2,468)
Refund to governments	-	(3,940)
Balance at end of the year	158,865	137,669

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

34. Trade and bills payables

The trade and bills payables are unsecured, non-interest-bearing and are normally settled in 30 to 180 days. An ageing analysis of trade payables and bills payable of the Group, based on invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within six months	**1,021,041**	1,002,450
Over six months but within one year	**12,674**	4,893
Over one year but within two years	**12,061**	11,250
Over two years but within three years	**2,002**	12,034
Over three years	**13,065**	1,159
	1,060,843	1,031,786

As at 31 December 2016, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances amounted to RMB254,646,000 (2015: RMB198,819,000).

35. Other payables and accruals

	2016 RMB'000	2015 RMB'000
Advances from customers	**627,067**	341,484
Accruals	**15,641**	8,925
Accrued payroll	**179,255**	157,452
Other payables	**239,214**	190,478
Long-term liabilities due within one year	**1,798**	1,798
Interest payable	**1,182**	2,089
Dividend payable	**102**	80
Payable to government	**97,603**	97,603
Other tax payables	**34,691**	24,834
Port construction fee payable	**164,656**	164,656
Payables in relation to the construction and purchase of property, plant and equipment	**156,143**	433,200
	1,517,352	1,422,599

The amounts due to the ultimate holding company, CNOOC group companies and other related parties included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	2016 RMB'000	2015 RMB'000
Due to the ultimate holding company	**532**	532
Due to CNOOC group companies	**75,464**	80,983
Due to other related parties	**7,443**	8,812
	83,439	90,327

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

36. Obligations under finance leases

The Group entered into sale and leaseback arrangements with CNOOC International Financial Leasing Limited ("CNOOC Leasing") for certain of its manufacturing equipment which results in obligations under finance leases. Under the sale and leaseback contracts signed, the lease terms are from one year to three years and can be renewed prior to the end of the lease terms. Interest rates are round 2.66% per annum varying based on the benchmark interest rate of the People's Bank of China. The Group has option to purchase the equipment for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Due for settlement within 12 months	**98,103**	1,351,387	**60,000**	1,322,731
Due for settlement beyond 12 months	**1,443,819**	-	**1,396,166**	-
Less: future finance charges	**85,756**	28,656	**-**	-
Present value of lease obligations	**1,456,166**	1,322,731	**1,456,166**	1,322,731

As at 31 December 2016, amounts of RMB nil (2015: RMB321,562,000) of the Group's financial lease obligations were translated from USD nil (2015: USD49,754,000).

37. Operating lease arrangements

(i) As lessor

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 and third-party companies.

As at 31 December 2016 and 2015, the Group had total future minimum lease receivables from third-party companies and CNOOC New Energy (Hainan) Bio-energy & Chemical Co., Ltd., which is a subsidiary of CNOOC, under non-cancellable operating leases falling due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**1,183**	8,425
In the second to fifth years, inclusive	**5,639**	8,919
After five years	**4,963**	3,048
	11,785	20,392

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

37. Operating lease arrangements - continued

(ii) As lessee

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 thirty years, and those for vehicles are for terms ranging from one month to four years.

At 31 December 2016 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	12,706	12,724
In the second to fifth years, inclusive	2,213	4,494
After five years	2,199	2,679
	17,118	19,897

38. Gain on loss of control of a subsidiary

The Company lost its control of CBC (Canada), a then subsidiary, when Benewood and the Company mutually agreed in writing on 1 April 2016 to establish joint control over CBC (Canada) by requiring unanimous votes in all CBC (Canada)'s resolutions, in return of the surrender of Put Option and Call Option held by Benewood and the Company, respectively.

The Company considers CBC (Canada) as a joint venture effective from 1 April 2016. Hence, the Group derecognised on the same day the carrying amounts of assets, liabilities and non-controlling interests as well as reclassified to profit or loss the amounts previously recognised in other comprehensive income in relation to CBC (Canada) and recognised at fair value its investment retained in CBC (Canada), with the resulting difference recognised as a gain in profit or loss attributable to the parent, as presented below.

	1 April 2016 RMB'000
Fair value of investment retained in CBC (Canada)	65,670
Net assets disposed of	(109,450)
Non-controlling interests	87,253
Cumulative exchange translation loss in respect of the net assets of CBC (Canada) reclassified from equity to profit or loss	(37,191)
Gain on loss of control of CBC (Canada)	6,282

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

38. Gain on loss of control of a subsidiary - continued

Analysis of assets and liabilities of CBC (Canada)	**1 April 2016** **RMB'000**
Cash and cash equivalents	**1,411**
Time deposit	**31,875**
Other receivables	**86**
Investment in associates	**76,147**
Other payables	**(69)**
Net assets disposal of	**109,450**

39. Commitments and contingent liabilities

Capital commitments

In addition to the operating lease commitments detailed in note 37(ii) above, the Group had the following capital commitments at the end of the reporting year:

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for acquisition of plant and machinery	**92,008**	99,682

Contingent Liabilities

In July 2014, Yangpoquan Coal commenced arbitration against the Company in respect of its interrupted operation in Yangpoquan Coal due to its disputes with the Company regarding the management of Yangpoquan Coal and other matters and claims compensation for damages for its losses suffered as a result of the aforesaid matters. On 19 December 2016, the Trade Arbitration Commission issued an announcement to extend the date of arbitration to 20 April 2017. The Group has been advised by its legal counsel that it is not probable that a significant liability will arise. Accordingly, no provision in relation to this claim has been recognised in these consolidated financial statements.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

40. Related party transactions

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

(1) Recurring

	2016 RMB'000	2015 RMB'000
(A) Included in revenue, other income and gains		
(a) CNOOC group companies		
Sale of goods	585,547	1,106,412
Provision of transportation services	446	828
Provision of packaging and assembling services	95,089	96,693
Provision of logistics services	7,222	25,839
Provision of labor services	-	50
Provision of utilities	1,948	56,130
(b) Other related parties		
Sale of goods	280,126	310,404
Provision of transportation services	15,919	17,674
(B) Included in cost of sales and other expenses		
(a) CNOOC group companies		
Purchase of raw materials	2,471,418	2,555,517
Lease of offices	26,588	27,942
Construction and installation services	30,490	46,638
Labor services	32,012	39,776
Network services	6,948	9,277
Logistics services	5,003	2,404
(b) The ultimate holding company		
Network services	-	237
Logistics services	3,600	-
(C) Included in loans and finance income/costs		
(a) CNOOC Finance		
Finance income from CNOOC Finance	2,683	2,846
Fees and charges paid to CNOOC Finance	1,127	1,150
Interests paid to CNOOC Finance	9,471	12,116
Loans received from CNOOC Finance	40,000	1,605,363
(D) Included in finance leaseback		
(a) CNOOC Leasing		
Finance lease charges	13,645	17,105
Interest on finance leaseback	45,307	11,518
Borrowing raised from finance leaseback	2,000,000	1,340,391

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

40. Related party transactions - continued

(1) Recurring - continued

These transactions listed above were conducted in accordance with terms agreed among the Group, its associates, CNOOC group companies and other related parties.

Except for finance income from CNOOC Finance, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(2) Balances with related parties

Details for following balances are mainly set out in notes 26, 28, 34, 35 and 36. 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.

	Due from related parties		Due to related parties	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
The ultimate holding company	**20**	-	**532**	532
CNOOC group companies (excluding CNOOC Finance)	**465,948**	469,662	**1,788,546**	1,604,762
Associates	**10,042**	8,155	**-**	-
CNOOC Finance	**-**	-	**-**	273
Other related parties	**-**	-	**7,443**	8,812

In addition, as at 31 December 2016, the deposits placed by the Group with CNOOC Finance were amounted to RMB216,641,000 (31 December 2015: RMB467,906,000), as detailed in note 29.

(3) Compensation of key management personnel of the Group

	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**6,868**	7,367
Post-employment benefits	**151**	176
Total compensation paid to key management personnel	**7,019**	7,543

Further details of directors' and supervisors' emoluments are set out in note 11.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

40. Related party transactions - continued

(4) 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, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. Certain specific and major raw materials provided by SOE suppliers are from Western Natural Gas (the "WNG") and WNG mainly supplied natural gas to CNOOC Tianye. As of 31 December 2016, the Group made a total procurement of RMB365,920,000 from WNG (2015: RMB588,324,000). Methanol sold by the Company and CNOOC Kingboard Chemical Limited to the Southern branch of Sinopec Chemical Commercial Holding Company Limited constituted most of the sales to SOEs. For the year ended 31 December 2016, the sales amount reached RMB239,793,000 (2015: RMB296,820,000). Except for the above two SOEs, sales to and procurements from other SOEs are considered as specific but not significant transactions.

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 2016, as summarised below:

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	**5,488,277**	5,288,255
Pledged bank deposits	**4,136**	4,059
Time deposits	-	30,429
	5,492,413	5,322,743
Interest-bearing bank borrowings (note 32)	**878,900**	900,000

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

41. Financial instruments by category

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

	2016		
	Loans and receivables	Available-for sale financial asset	Total
	RMB'000	RMB'000	RMB'000
Financial assets			
Available-for-sale investment	-	600	600
Trade receivables	485,951	-	485,951
Bills receivable	109,509	-	109,509
Financial assets included in deposits and other receivables	70,119	-	70,119
Pledged bank deposits	4,136	-	4,136
Cash and cash equivalents	5,698,412	-	5,698,412
	6,368,127	600	6,368,727

	2016			
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Obligations under finance lease	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Trade and bills payables	-	1,060,843	-	1,060,843
Financial liabilities included in other payables and accruals	-	658,900	-	658,900
Obligations under finance lease	-	-	1,456,166	1,456,166
Interest-bearing bank borrowings	-	878,900	-	878,900
Other long-term liabilities	-	27,604	-	27,604
	-	2,626,247	1,456,166	4,082,413

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

41. Financial instruments by category - continued

	2015		
	Loans and receivables	Available-for sale financial asset	Total
	RMB'000	RMB'000	RMB'000
Financial assets			
Available-for-sale investment	-	600	600
Trade receivables	659,092	-	659,092
Bills receivable	124,820	-	124,820
Financial assets included in deposits and other receivables	70,733	-	70,733
Pledged bank deposits	4,059	-	4,059
Time deposits	30,429	-	30,429
Cash and cash equivalents	5,313,907	-	5,313,907
	6,203,040	600	6,203,640

	2015			
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Obligations under finance lease	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Trade and bills payables	-	1,031,786	-	1,031,786
Financial liabilities included in other payables and accruals	-	888,106	-	888,106
Obligations under finance lease	-	-	1,322,731	1,322,731
Interest-bearing bank borrowings	-	967,280	-	967,280
Obligation arising from a put option to a non-controlling shareholder	82,549	-	-	82,549
Derivative financial instruments	52,133	-	-	52,133
Other long-term liabilities	-	27,758	-	27,758
	134,682	2,914,930	1,322,731	4,372,343

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

42. Obligation arising from a put option to a non – controlling shareholder and derivative financial instruments

On 28 May 2013, the Company entered into an agreement (the "Agreement") with Benewood Holdings Corporation Limited ("Benewood"), a third party to incorporate CBC (Canada). The Company and Benewood agreed to invest CAD24,000,000 (equivalent to approximately RMB141,363,000) and CAD16,000,000 (equivalent to approximately RMB94,242,000) to hold 60% and 40% equity interest in CBC (Canada) respectively.

Through initial subscription to newly issued common shares in WPC in 2013 and subsequent additional shares subscription as well as capital injection by a third party in WPC in 2015, as disclosed in the annual consolidated financial statements for the year ended 31 December 2015, CBC (Canada) held 10.1% equity interest in WPC as at 31 December 2016 and 31 December 2015.

As at 1 April 2016, the Company lost control over CBC (Canada) and significant influence over WPC held by CBC (Canada), as detailed in note 38. Prior to 1 April 2016, the Company considered CBC (Canada) as a subsidiary since its incorporation given it has unilateral control through 60% voting rights in CBC (Canada).

Pursuant to the terms in the Agreement and subsequent amendment as disclosed in the annual consolidated financial statements for the year ended 31 December 2015, the Company initially recognised an obligation, arising from the Benewood's right to sell to the Company all of its equity interest in CBC (Canada) for cash (the "Put Option"), at present value of the obligation to deliver the share redemption amount at discount rate of 3.91%, based on the interest yield curve of LIBOR. This amount had been recognised as a liability and subsequently measured at its fair value in the annual consolidated statements of financial position.

The Put Option was forgone without further extension by mutual agreement between Benewood and the Company on 15 March 2016 pursuant to an arrangement detailed in note 38 ("the Arrangement"). Hence the carrying amounts of the liability as at 15 March 2016 was credit to the non-controlling interests and the entire balance of non-controlling interests related to CBC (Canada) was subsequently derecognised on 1 April 2016 to reflect the loss of control over CBC (Canada) (note 38). During the period ended from 1 January 2016 to 15 March 2016, change in fair value of the liability amounted to RMB1,519,000 was recognised in the profit or loss.

The Put Option which will be settled other than by exchange of fixed amount of cash for a fixed number of shares of a subsidiary and a call option which was exercisable by the Company against Benewood under the conditions as disclosed in the last annual consolidated financial statements (the "Call Option"), were accounted for as derivative financial instruments and are recognised at fair value in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the Put Option and Call Option was approximately RMB52,133,000 as at 31 December 2015 and approximately RMB53,822,000 as at 15 March 2016, which was credited to the profit or loss in the current period upon expiry.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

43. Fair value and fair value hierarchy

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements not measured at fair value on a recurring basis (but fair value disclosures are required) approximate their fair values.

The following methods and assumptions were used to estimate the fair values:

The fair values of trade receivables, bills receivable, financial assets included in 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 carrying amounts of the non-current portion of interest-bearing bank borrowings approximate their fair values as the interest rates will adjust periodically based on People's Bank of China's benchmark rates and is close to market interest rate.

The recurring fair value measurement and fair value hierarchy for the derivative financial instrument and obligation arising from put option granted to a non-controlling shareholder, are as follows:

Financial liabilities	Fair value as at 31 December 2016 RMB'000	Fair value as at 31 December 2015 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Put option and Call option classified as derivative financial instruments	-	52,133	Level 3	Black-Scholes option pricing model. key inputs include expected life of the option	Expected life of the option	The longer life, the higher the fair value
Obligation arising from a put option to a non-controlling shareholder	-	82,549	Level 2	Discounted cash flow. Key input includes discount rate of interest yield curve of LIBOR	N/A	N/A

Reconciliation of Level 3 fair value measurements of derivative financial instruments:

	31 December 2016 RMB'000
Put Option and Call Option at 1 January 2016	52,133
Fair value loss recognised in profit or loss	1,689
Gain recognised in profit or loss on expiry of the Put Option and Call Option	(53,822)
At 31 December 2016	-

The management has set up a valuation team, which is headed by the Chief Financial Officer of the Company, to determine, subject to the directors' approval, the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group's valuation team performs the valuation or engages third party qualified valuers to perform the valuation considering the complexity and significance of the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

44. 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 3.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term and long-term borrowings and obligations under finance lease with floating interest rates.

As at 31 December 2016, the Group's interest-bearing bank borrowings, obligations under finance lease bear variable interest rates amounted to RMB2,335,066,000 (2015: RMB1,371,391,000).

The interest rates and the terms of repayment of the Group's bank borrowings and obligations under finance lease are disclosed in notes 32 and 36.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would be decreased/increased by approximately RMB4,661,000 (2015: decreased/increased by RMB5,177,000).

(ii) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**419,833**	843,748	**1,083,389**	786,387
HKD	**-**	-	**8**	39
CAD	**-**	82,636	**-**	31,362
EUR	**-**	-	**13,394**	22

The Group has transactional currency exposures, which arise from sales or purchases in currencies other than the functional currency of the entities comprising the Group. Approximately 25% (2015: 20%) of the Group's sales were denominated in currencies other than functional currency of the entities comprising the Group.

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

44. Financial risk management objectives and policies - continued

(ii) Foreign currency risk - continued

Foreign Currency sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in USD, HKD, EUR and CAD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, HKD, EUR and CAD respectively. 5% (2015: 5%) are the sensitivity rates used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonable possible change in foreign exchange rates. A negative number below indicates an increase in loss (or decrease in profit) and decrease in equity where the RMB strengthen against USD, HKD, EUR and CAD. For a 5% (2015: 5%) weakening of the RMB against USD, HKD, EUR and CAD, there would be an equal and opposite impact on the loss/profit or equity.

	Impact of USD		Impact of HKD		Impact of EUR		Impact of CAD	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015	**31/12/2016**	31/12/2015	**31/12/2016**	31/12/2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Sensitivity rate	**5%**	5%	**5%**	5%	**5%**	5%	**5%**	5%
Profit or loss	**(24,884)**	2,151	**-**	(1)	**(69)**	(1)	**-**	1,923
Equity	**(24,884)**	2,151	**-**	(1)	**(69)**	(1)	**-**	1,923

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of reporting period does not reflect the exposure during the year. USD denominated sales are seasonal with lower sales volumes in the last quarter of the financial year.

(iii) Credit risk

The carrying amounts of the Group's cash and cash equivalents, available-for-sale investment, 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 2016, the trade receivable of China Bluechemical (Hong Kong) Limited from China National Chemical Construction Corporation (which was the largest customer of the Group for the current and prior year, and also was a subsidiary of CNOOC) amounted to RMB413,873,000(as at 31 December 2015: RMB429,254,000), which was included in the related party transactions as disclosed in note 40. Deposits in financial institutions are not exposed to credit risk as these financial institutions are with high credit rating. No other financial assets carry a significant exposure to credit risk.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

44. Financial risk management objectives and policies - continued

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 31 December 2016, the balance of the Group's interest-bearing bank borrowings is RMB878,900,000.

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

	2016					
	On demand	Less than 3 month	3 months to 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	2,991	6,196	96,246	884,163	60,428	1,050,024
Trade payables	15,068	24,734	931,410	-	-	971,212
Bills payable	11,310	37,921	40,400	-	-	89,631
Financial liabilities included in other payables and accruals	296,505	197,670	164,725	-	-	658,900
Obligations under finance leases	-	-	98,103	1,443,819	-	1,541,922
Other long-term liabilities	-	-	-	7,234	69,574	76,808
	325,874	266,521	1,330,884	2,335,216	130,002	4,388,497

	2015					
	On demand	Less than 3 month	3 months to 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	3,471	6,977	98,522	252,123	854,662	1,215,755
Trade payables	535,983	352,332	36,200	-	-	924,515
Bills payable	14,757	27,214	65,300	-	-	107,271
Financial liabilities included in other payables and accruals	185,637	183,286	519,183	-	-	888,106
Obligations under finance leases	37,392	16,614	1,297,381	-	-	1,351,387
Obligation arising from a put option to a non-controlling shareholder	-	82,549	-	-	-	82,549
Other long-term liabilities	-	-	-	7,190	69,728	76,918
	777,240	668,972	2,016,586	259,313	924,390	4,646,501

In addition to the amounts shown in the above table as at 31 December 2016, the Group may also be required to settle the maximum exposure to loss arising from endorsed bills arrangements with full recourse as detailed in note 27 in the next 6 months, amounting to RMB183,689,000 in aggregate.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

44. 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 2016 and 2015.

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

	2016 RMB'000	2015 RMB'000
Interest-bearing debts (note)	2,335,066	2,290,011
Net assets	14,313,860	14,881,574
Net assets and interest-bearing debts	16,648,926	17,171,585
Gearing ratio	14.03%	13.34%

Note: Interest-bearing debts comprises interest-bearing bank borrowings and obligations under finance leases as detailed in notes 32 and 36 respectively.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company

(i) General information of subsidiaries

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiaries	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company	Principal activities
Subsidiaries directly and indirectly held by the Company as at 31 December 2016 and 31 December 2015:					
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	RMB470,500	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	RMB12,716	Direct Indirect	100.00 -	Manufacture and sale of woven plastic bags
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	RMB6,250	Direct Indirect	- 73.11	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	RMB6,900	Direct Indirect	100.00 -	Manufacture and sale of liquidised carbon dioxide
Basuo Port (海南八所港務有限責任公司)	PRC 25 April 2005	RMB514,034	Direct Indirect	73.11 -	Port operation
CNOOC Tianye (中海石油天野化工有限責任公司)	PRC 18 December 2000	RMB2,272,856	Direct Indirect	92.27 -	Manufacture and sale of fertilisers, and methanol
Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	RMB3,297	Direct Indirect	- 65.14	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	RMB500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
China BlueChemical Yichang Mining Ltd. (中海油化學宜昌礦業有限公司)	PRC 7 August 2008	RMB150,000	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	RMB27,000	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	RMB100,000	Direct Indirect	100.00 -	Manufacture and sales of fertilisers and chemical products

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company - continued

(i) General information of subsidiaries - continued

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below: - continued

Name of subsidiaries	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company	Principal activities
China Basuo Ocean Shipping Tally Co., Ltd. (八所中理外輪理貨有限公司)	PRC 9 May 2008	RMB300	Direct Indirect	- 61.41	Provision of overseas shipping services
CNOOC Hualu (中海油華鹿山西煤炭化工有限公司)	PRC 29 November 2005	RMB61,224	Direct Indirect	51.00 -	Preparatory work for a methanol and dimethyl ether project
Hubei Dayukou (湖北大峪口化工有限責任公司)	PRC 12 August 2005	RMB1,050,624	Direct Indirect	83.97 -	Phosphate mining and processing, manufacture and sales of MAP and DAP fertilisers
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	RMB20,000	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	RMB3,000	Direct Indirect	- 51.00	Trading of fertilisers and chemicals
CNOOC Huahe (中海石油華鶴煤化有限公司)	PRC 26 May 2006	RMB1,035,600	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan Basuo Port Labor Service Limited (海南八所港勞動服務有限公司)	PRC 14 March 2007	RMB600	Direct Indirect	- 73.11	Provision of overseas shipping services
China BlueChemical (HongKong) Limited 中海化學(香港)有限公司	Hong Kong 14 November 2013	HKD100	Direct Indirect	100.00 -	Trading of fertilisers
Convert from a subsidiary to a JCE for the current year:					
CBC (Canada) (note 38)	Canada 27 March 2013	CAD40,000	Direct Indirect	60.00 -	Investment Holding

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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company - continued

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2016	31/12/2015	**31/12/2016**	31/12/2015	**31/12/2016**	31/12/2015
				RMB'000	RMB'000	**RMB'000**	RMB'000
CNOOC Kingboard Chemical Limited	Hainan	**40.00%**	40.00%	**10,465**	(12,115)	**329,273**	318,808
Basuo Port	Hainan	**26.89%**	26.89%	**16,452**	20,744	**221,168**	212,781
CNOOC Tianye	Inner Mongolia	**7.73%**	7.73%	**(20,305)**	(9,704)	**60,903**	81,209
Hubei Dayukou	Hubei	**16.03%**	16.03%	**(24,228)**	13,113	**193,733**	217,961
China BlueChemical Yichang Mining Ltd.	Hubei	**49.00%**	49.00%	**(238)**	(352)	**201,338**	201,575

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company - continued

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

CNOOC Kingboard Chemical Limited	2016 RMB'000	2015 RMB'000
Current assets	526,429	493,104
Non-current assets	432,353	523,149
Current liabilities	(120,903)	(202,225)
Non-current liabilities	(14,697)	(17,008)
Equity attributable to owners of the Company	493,909	478,212
Non-controlling interests	329,273	318,808

	2016 RMB'000	2015 RMB'000
Revenue	958,449	1,084,892
Expenses	(932,287)	(1,115,181)
Profit/(loss) for the year	26,162	(30,289)
Profit/(loss) attributable to owners of the Company	15,697	(18,174)
Profit/(loss) attributable to the non-controlling interests	10,465	(12,115)
Profit/(loss) for the year	26,162	(30,289)
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive income/(expense) attributable to owners of the Company	15,697	(18,174)
Total comprehensive income/(expense) attributable to the non-controlling interests	10,465	(12,115)
Total comprehensive income/(expense) for the year	26,162	(30,289)
Dividends paid to non-controlling interests	-	136,602
Net cash inflow from operating activities	41,456	111,940
Net cash inflow/(outflow) from investing activities	7,994	(228,687)
Net cash outflow from financing activities	-	(341,504)
Net cash inflow/(outflow)	49,450	(458,251)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company - continued

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

Basuo Port	2016 RMB'000	2015 RMB'000
Current assets	176,813	116,831
Non-current assets	1,007,860	1,048,073
Current liabilities	(251,978)	(260,776)
Non-current liabilities	(110,205)	(112,825)
Equity attributable to owners of the Company	601,322	578,522
Non-controlling interests	221,168	212,781

	2016 RMB'000	2015 RMB'000
Revenue	313,699	359,492
Expenses	(252,512)	(282,345)
Profit for the year	61,187	77,147
Profit attributable to owners of the Company	44,735	56,403
Profit attributable to the non-controlling interests	16,452	20,744
Profit for the year	61,187	77,147
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive income attributable to owners of the Company	44,735	56,403
Total comprehensive income attributable to the non-controlling interests	16,452	20,744
Total comprehensive income for the year	61,187	77,147
Dividends paid to non-controlling interests	8,065	-
Net cash inflow from operating activities	33,995	151,342
Net cash inflow/(outflow) from investing activities	20,575	(21,866)
Net cash outflow from financing activities	(23,377)	(104,602)
Net cash inflow	31,193	24,874

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company - continued

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

CNOOC Tianye	2016 RMB'000	2015 RMB'000
Current assets	**189,376**	219,451
Non-current assets	**1,482,510**	1,485,059
Current liabilities	**(826,753)**	(624,166)
Non-current liabilities	**(57,260)**	(29,781)
Equity attributable to owners of the Company	**726,970**	969,354
Non-controlling interests	**60,903**	81,209

	2016 RMB'000	2015 RMB'000
Revenue	**737,326**	1,173,424
Expenses	**(1,000,016)**	(1,298,971)
Loss for the year	**(262,690)**	(125,547)
Loss attributable to owners of the Company	**(242,385)**	(115,843)
Loss attributable to the non-controlling interests	**(20,305)**	(9,704)
Loss for the year	**(262,690)**	(125,547)
Other comprehensive income attributable to owners of the Company	**-**	-
Other comprehensive income attributable to the non-controlling interests	**-**	-
Other comprehensive income for the year	**-**	-
Total comprehensive expenses attributable to owners of the Company	**(242,385)**	(115,843)
Total comprehensive expenses attributable to the non-controlling interests	**(20,305)**	(9,704)
Total comprehensive expenses for the year	**(262,690)**	(125,547)
Dividends paid to non-controlling interests	**-**	-
Net cash (outflow)/inflow from operating activities	**(110,240)**	34,722
Net cash outflow from investing activities	**(28,040)**	(33,986)
Net cash inflow/(outflow) from financing activities	**140,719**	(8,127)
Net cash inflow/(outflow)	**2,439**	(7,391)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company - continued

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

Hubei Dayukou	2016 RMB'000	2015 RMB'000
Current assets	**615,716**	847,044
Non-current assets	**2,256,140**	2,317,368
Current liabilities	**(1,162,587)**	(1,769,391)
Non-current liabilities	**(500,702)**	(35,313)
Equity attributable to owners of the Company	**1,014,834**	1,141,747
Non-controlling interests	**193,733**	217,961

	2016 RMB'000	2015 RMB'000
Revenue	**1,915,615**	2,480,344
Expenses	**(2,066,755)**	(2,398,540)
(Loss)/profit for the year	**(151,140)**	81,804
(Loss)/profit attributable to owners of the Company	**(126,912)**	68,691
(Loss)/profit attributable to the non-controlling interests	**(24,228)**	13,113
(Loss)/profit for the year	**(151,140)**	81,804
Other comprehensive income attributable to owners of the Company	**-**	-
Other comprehensive income attributable to the non-controlling interests	**-**	-
Other comprehensive income for the year	**-**	-
Total comprehensive (expense)/income attributable to owners of the Company	**(126,912)**	68,691
Total comprehensive (expense)/income attributable to the non-controlling interests	**(24,228)**	13,113
Total comprehensive (expense)/income for the year	**(151,140)**	81,804
Dividends paid to non-controlling interests	**-**	-
Net cash inflow/(outflow) from operating activities	**486,629**	(48,644)
Net cash outflow from investing activities	**(19,627)**	(63,962)
Net cash (outflow)/inflow from financing activities	**(437,627)**	110,330
Net cash inflow/(outflow)	**29,375**	(2,276)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

45. Particulars of principal subsidiaries of the company - continued

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

China BlueChemical Yichang Mining Ltd.	2016 RMB'000	2015 RMB'000
Current assets	21,109	27,700
Non-current assets	391,879	385,029
Current liabilities	(2,094)	(1,351)
Non-current liabilities	-	-
Equity attributable to owners of the Company	209,556	209,803
Non-controlling interests	201,338	201,575

	2016 RMB'000	2015 RMB'000
Revenue	-	-
Expenses	(485)	(718)
Loss for the year	(485)	(718)
Loss attributable to owners of the Company	(247)	(366)
Loss attributable to the non-controlling interests	(238)	(352)
Loss for the year	(485)	(718)
Other comprehensive income attributable to owners of the Company	-	-
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	-	-
Total comprehensive expenses attributable to owners of the Company	(247)	(366)
Total comprehensive expenses attributable to the non-controlling interests	(238)	(352)
Total comprehensive expenses for the year	(485)	(718)
Dividends paid to non-controlling interests	-	-
Net cash outflow from operating activities	(1,059)	(2,546)
Net cash inflow from investing activities	1,324	1,843
Net cash inflow from financing activities	-	-
Net cash inflow/(outflow)	265	(703)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

46. Statement of financial position and reserves of the company

	2016 RMB'000	2015 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	1,359,340	1,576,813
Investment properties	10,900	11,767
Prepaid lease payments	52,601	54,277
Intangible assets	304	2,302
Investments in subsidiaries	5,680,931	5,742,565
Investments in joint ventures	276,464	215,167
Investment in an associate	196,859	166,859
Deferred tax assets	185,631	197,787
	7,763,030	7,967,537
Current assets		
Inventories	187,849	248,290
Trade receivables	130,575	71,316
Prepayments, deposits and other receivables	88,450	146,658
Loans receivable	1,002,300	1,106,404
Cash and cash equivalents	2,362,853	2,197,855
	3,772,027	3,770,523
Total assets	11,535,057	11,738,060
Equity and liabilities		
Equity		
Paid-up capital	4,610,000	4,610,000
Reserves	6,237,468	6,315,077
Proposed dividends	230,500	368,800
Total equity	11,077,968	11,293,877
Non-current liabilities		
Deferred revenue	2,768	2,768
Other long-term liabilities	14,388	14,964
	17,156	17,732
Current liabilities		
Bills payable	-	5,478
Trade payables	175,991	141,224
Other payables and accruals	237,046	172,470
Derivative financial instruments	-	52,133
Income tax payable	26,896	55,146
	439,933	426,451
Total liabilities	457,089	444,183
Total equity and liabilities	11,535,057	11,738,060

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

46. Statement of financial position and reserves of the company - continued

Movement in the Company's reserves

The Company's movement in reserves and proposed dividends for the years ended 31 December 2016 and 2015 are as follows:

	Note	Capital reserve	Statutory surplus reserve	Retained profits	Proposed dividend	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016		1,366,392*	995,107*	3,953,578*	368,800	6,683,877
Profit for the year		-	-	152,891	-	152,891
Total comprehensive income for the year		1,366,392	995,107	4,106,469	368,800	6,836,768
Appropriation and utilisation of safety fund, net		-	-	-	-	-
Transfer from retained profits		-	13,111	(13,111)	-	-
Proposed 2016 final dividend		-	-	(230,500)	230,500	-
Final 2015 dividend declared	14	-	-	-	(368,800)	(368,800)
As at 31 December 2016		1,366,392*	1,008,218*	3,862,858*	230,500	6,467,968

	Note	Capital reserve	Statutory surplus reserve	Retained profits	Proposed dividend	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015		1,366,392*	940,287*	3,805,640*	553,200	6,665,519
Profit for the year		-	-	571,558	-	571,558
Total comprehensive income for the year		1,366,392	940,287	4,377,198	553,200	7,237,077
Appropriation and utilisation of safety fund, net		-	-	-	-	-
Transfer from retained profits		-	54,820	(54,820)	-	-
Proposed 2015 final dividend		-	-	(368,800)	368,800	-
Final 2014 dividend declared	14	-	-	-	(553,200)	(553,200)
As at 31 December 2015		1,366,392*	995,107*	3,953,578*	368,800	6,683,877

* These reserve accounts comprise the Company's reserves of RMB6,237,468,000 (2015: RMB6,315,077,000) in the Company's statement of financial position.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2016

47. Major non-cash transaction

During the current year, Hubei Dayukou obtained investment properties in Heilongjiang Province with fair value amounted to RMB129,999,000 as settlement of trade receivables due from one of its client.

48. Events after the reporting year

There is no material event after the reporting year.

49. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.

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	Xia Qinglong Quan Changsheng
Alternate to authorized representatives	Li Xi
Principal banker	Bank of China, Hainan Branch
Auditor	Deloitte Touche Tohmatsu 35/F One Pacific Place, 88 Queensway, 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) 22132502 Fax: (852) 25259322
Beijing	Tel: (86) 010 84521782 Fax: (86) 010 84527254
Webiste	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983