中海石油化学股份有限公司
China BlueChemical Ltd.

Annual Report 2017

HKSE CODE: 3983

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

CONTENTS

Financial Highlights

Selected consolidated income statement data

For the year ended 31 December, RMB'million

Financial Highlights	2013	2014	2015	2016	2017
Revenue	10,723.6	10,796.9	10,671.8	8,503.8	**9,799.7**
Cost of sales	(7,500.3)	(8,111.3)	(8,925.9)	(8,204.3)	**(8,114.6)**
Gross profit	3,223.3	2,685.6	1,745.9	299.5	**1,685.1**
Other income and other gains and losses	156.3	211.9	392.6	268.2	**293.7**
Selling and distribution costs	(347.0)	(425.0)	(409.4)	(344.5)	**(385.7)**
Administrative expenses	(476.3)	(518.4)	(408.3)	(450.1)	**(453.0)**
Other expenses	(76.0)	(110.2)	(17.0)	(15.5)	**(13.5)**
Finance income	10.7	8.3	9.8	8.0	**10.7**
Finance costs	(2.6)	(9.5)	(91.5)	(162.1)	**(121.4)**
Net exchange (losses)/gains	(8.8)	8.5	(22.3)	8.5	**(48.2)**
Share of losses of joint ventures	(0.3)	(0.6)	(0.6)	(1.5)	**(36.8)**
Share of gains/(losses) of associates	(9.3)	(477.0)	(68.1)	(0.2)	**1.5**
Impairment losses	(122.7)	(1,260.4)	-	-	**(442.6)**
Gain recognised on expiry of the put option and call option	-	-	-	53.8	**-**
Gain on loss of control of subsidiaries	-	-	-	6.3	**0.3**
Profit/(loss) before tax	2,347.3	113.2	1,131.1	(329.6)	**490.1**
Income tax (expenses)/benefits	(554.2)	(16.2)	(288.1)	92.9	**(382.6)**
Profit/(loss) for the year	1,793.1	97.1	843.0	(236.7)	**107.5**
Profit/(loss) for the year attributable to equity holders of the parent	1,647.1	105.3	829.7	(215.5)	**50.2**
Basic Earnings/(loss) per share attributable to ordinary owners of the Company (RMB)	0.36	0.02	0.18	(0.05)	**0.01**

Selected consolidated statement of financial position data

As at 31 December, RMB'million

Financial Highlights	2013	2014	2015	2016	2017
Assets					
Non-current assets	13,448.8	12,285.7	12,065.2	11,591.0	**9,836.0**
Current assets	5,087.0	7,653.6	8,146.7	8,075.7	**9,413.0**
Total assets	18,535.8	19,939.3	20,211.9	19,666.7	**19,249.0**
Equity and liabilities					
Total equity	15,501.2	14,749.3	14,881.6	14,313.9	**14,247.9**
Non-current liabilities	368.0	2,296.4	1,248.8	2,598.1	**2,523.3**
Current liabilities	2,666.6	2,893.6	4,081.5	2,754.7	**2,477.8**
Total equity and liabilities	18,535.8	19,939.3	20,211.9	19,666.7	**19,249.0**

Operational Highlights

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

		For the year ended 31 December					
		Production volume (tonnes)			Utilisation rate (%)		
		2017	2016	Change %	2017	2016	Change
Chemical fertilisers							
Urea	Fudao Phase I	566,184	508,511	11.3	108.9	97.8	11.1
	Fudao Phase II	749,373	614,278	22.0	93.7	76.8	16.9
	CNOOC Tianye	374,164	335,546	11.5	72.0	64.5	7.5
	CNOOC Huahe	581,527	606,549	(4.1)	111.8	116.6	(4.8)
	Group total	2,271,248	2,064,884	10.0	96.2	87.5	8.7
Phosphate fertilisers and compound fertilisers	DYK MAP	67,978	55,712	22.0	45.3	37.1	8.2
	DYK DAP Phase I (Note 1)	292,729	337,997	(13.4)	83.6	96.6	(13.0)
	DYK DAP Phase II	583,133	558,485	4.4	116.6	111.7	4.9
	Group total	943,840	952,194	(0.9)	94.4	95.2	(0.8)
Chemical products							
Methanol	Hainan Phase I	551,745	575,986	(4.2)	92.0	96.0	(4.0)
	Hainan Phase II	791,240	783,261	1.0	98.9	97.9	1.0
	CNOOC Tianye	191,829	145,812	31.6	95.9	72.9	23.0
	Group total	1,534,814	1,505,059	2.0	95.9	94.1	1.8

Note 1: In 2017, DYK DAP Phase I Plant produced 192,954 tonnes of DAP and 99,775 tonnes of compound fertilisers, respectively, amounting to 292,729 tonnes in total. In 2016, DYK DAP Phase I Plant produced 299,949 tonnes of DAP and 38,048 tonnes of compound fertilisers, respectively, amounting to 337,997 tonnes in total.

Sales volume of the Group's various plants

Unit: tonne

		For the year ended 31 December 2017	For the year ended 31 December 2016	Change %
Chemical fertilisers				
Urea	Fudao Phase I	527,173	480,445	9.7
	Fudao Phase II	738,682	627,937	17.6
	CNOOC Tianye	338,030	383,846	(11.9)
	CNOOC Huahe	675,379	525,176	28.6
	Group total	2,279,264	2,017,404	13.0
Phosphate fertilisers and compound fertilisers	DYK MAP	76,686	47,373	61.9
	DYK DAP Phase I	270,311	324,526	(16.7)
	DYK DAP Phase II	621,457	593,906	4.6
	Group total	968,454	965,805	0.3
Chemical products				
Methanol	Hainan Phase I	551,518	581,320	(5.1)
	Hainan Phase II	780,090	791,752	(1.5)
	CNOOC Tianye	201,657	136,438	47.8
	Group total	1,533,265	1,509,510	1.6

Chairman's Statement

Xia Qinglong / Chairman

Dear shareholders,

It is my honour to be elected as the Chairman of the Company on 28 March 2018 with your trust. During my term of office, I will work diligently with all the other directors of the Company and contribute to the sustainable and healthy development of the Company.

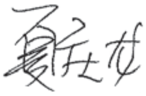
Looking back at 2017, the global grain prices moderately increased; international crude oil prices rebounded; China's economy smoothly and positively developed; the domestic chemical fertiliser and methanol industries got out of the trough; the market conditions picked up. While ensuring the long-term natural gas resources for the plants in Hainan, the Company took advantage of the favourable operation environment, actively developed the markets, strengthened the marketing capacity, and strictly controlled its costs. The Company recorded a net profit attributable to owners of the parent of RMB50 million. In view of the Company's good financial conditions, the Board has proposed annual final dividends and special dividends of RMB0.07 in total (tax inclusive) to reward our shareholders.

In 2017, to further enhance the corporate governance of the Company, the Board proposed to amend the articles of association of the Company, which was approved at the general meeting. Therefore, the corporate governance structure and decision-making mechanism have been more sophisticated and scientific. In 2017, the Independent Board Committee conscientiously reviewed the Company's continuous connected transaction agreements and the upper limits for the three years from 2018 to 2020, and sufficiently considered the needs of the Company's day-to-day operation and development, as well as protected the interests of minority shareholders. Finally, the Company's continuous connected transaction agreements and the upper limits for the three years from 2018 to 2020 were successfully approved by the independent shareholders at the general meeting. On behalf of the Board, I would like to express my sincere appreciation to Mr. Chen Bi and Mr. Xie Weizhi, who retired as directors of the Company, for their contribution to the Company during their terms of office.

Looking forward to 2018, the global demand on fertilisers from agriculture will increase steadily, driven by the steady demand growth on grain. Development in methanol-to-olefin in China will continue to be the major driving force of the demands for methanol. The Company will consolidate the current advantageous position, strictly control the risks of operation and development, pursue high-quality development, as well as strive to create good returns for our shareholders.

Finally, on behalf of the Board, I would like to express heartfelt gratitude for our shareholders' full trust and support to the Company in 2017. I wish you will continue to pay attention to the development of the Company in 2018. I would also like to appreciate the great efforts made by the management and all our staff over the year of 2017.

Xia Qinglong
Chairman



CEO's Report

Wang Weimin / CEO & President

Dear shareholders,

It is my honour to be appointed as the CEO & President of the Company on 28 March 2018 with the trust of the shareholders and the Board. At present, the issue of domestic fertiliser oversupply continues to be alleviated, resulting in the improvement in industry profitability. Development in the methanol-to-olefin industry continues to be the driving force of the demands for methanol. I will collaborate with the management of the Company to seize favourable market opportunities, actively strengthen the refined management of equipment operation, enhance the marketing capacity, reduce costs and increase efficiency and contribute to the stable operation and healthy development of the Company.

Review of 2017

In 2017, the Company coordinated the upstream advantages to ensure the overall balance of natural gas supply to the plants in Hainan, entered into Dongfang 13-2 Gasfield Natural Gas Sale and Purchase Agreement, and ensured the natural gas resources for the future long-term development of the plants in Hainan. The Company actively strengthened the management of production and operation, and strived to enhance the marketing capacity. Urea production and sales reached a record high. The Company's revenue increased by 15% as compared with 2016 to RMB 9,800 million. The Company's gross profit increased significantly to RMB1,685 million, and the Company recorded a net profit attributable to owners of the parent of RMB50 million. Therefore, the Company maintained a good financial situation.

In respect of the production management, effective and stable operation was achieved at our Hainan Fudao Phase I urea plant and our Huahe coal-based urea plant in Heilongjiang, with the utilisation rates reaching 109% and 112% respectively. DYK DAP and Huahe coal-based urea plant broke their long-cycle operation records. As a result, annual output of the Company for urea was 2.271 million tonnes, representing an increase of 206,000 tonnes from 2016. Output of phosphate fertilisers and compound fertilisers was 944,000 tonnes, representing a decrease of 8,000 tonnes from 2016. Output of methanol was 1.535 million tonnes, representing an increase of 30,000 tonnes from 2016.

In respect of the sales management, confronting fierce market competition, the Company increased its efforts on product marketing and actively explored international market. As a result, annual export volumes of urea and DAP were 488,000 tonnes and 215,000 tonnes respectively, realizing good economic benefits. The Company was market demand-oriented, and developd new value-added products and expanded the compound fertiliser market. The sales of compound fertilisers increased to 85,000 tonnes.

With our intensified efforts on reducing cost and enhancing efficiency, CNOOC Huahe actively expanded coal procurement channels which effectively reduced the raw material procurement costs. DYK increased compound fertiliser output and optimized product structures. The Company strengthened budget management, strictly managed materials and procurement, and strived to reduce costs and expenses. In 2017, the Company started a refined wealth management business, realizing wealth management gains of RMB200 million.

The Company has been consistently

DYK Chemical major phosphate facilities

upholding the 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 industry by the China Petroleum and Chemical Industry Federation for six years in a row. The Company was also selected into the demonstration list of the first batch of green manufacturing system of the Ministry of Industry and Information Technology of the PRC.

Outlook for 2018

The PRC government insists on the priority development of agriculture. Fierce competition in domestic fertiliser market and improvement of the environment standard will accelerate the elimination of backward fertiliser capacities. Development in methanol-to-olefin in China will still be the major driving forces of the demands for methanol.

In 2018, the Company will endeavor to coordinate the stable natural gas supply, and achieve safe and stable operations for each production unit by continuously strengthening HSE and refined production management. Through optimizing product structures, we will increase the production and sales proportions of compound fertilisers and new fertilisers. The Company will continue to intensify the efforts on reforming the marketing system and steadily promote the operation of the marketing business in materialization. We will continue to intensify our efforts on cost reduction, quality improvement, and efficiency enhancement. The Company will strive to lower the raw materials procurement costs, and strictly managed costs and expenses. We will also continue to research the feasibility of producing high-end chemical products by using natural gas in Hainan, as well as pay close attention to domestic and overseas development opportunities which are in line with the Company's strategies.

In 2018, the management of the Company will stand by our employees to consolidate our current advantageous position in the industry, effectively respond to market changes, and actively explore development opportunities of the Company under the leadership of the Board, aiming to create good returns for our shareholders.

Wang Weimin

CEO & President

Management Discussion and Analysis

Sector Review

Fertiliser industry

In 2017, in order to maintain steady development of agriculture, the PRC government continued to implement floor prices for wheat and grain rice as well as agricultural subsidy policies. Emphasis was placed on ensuring the absolute stability of grain supply, stabilising the planting of grain crops such as rice and wheat, and continuing to reduce grain corn in non-advantageous areas while increasing the production of high-quality edible soy beans and potatoes. The total grain production of the whole country for 2017 increased by 0.3% to 617,910,000 tonnes, representing an increase of 1,660,000 tonnes as compared to that of 2016.

Starting from 1 January 2017, the PRC government cancelled the export tariffs on nitrogen fertilisers and phosphate fertilisers and reduced the export tariff on ternary compound fertilisers. The structure of national value-added tax rates was adjusted, and the value-added tax rate for chemical fertilisers decreased from 13% to 11% starting from 1 July 2017.

After a series of reforms in the early stages, the chemical fertiliser industry in the PRC has generally achieved marketization. Coupled with the ever-rising environmental protection standards, the utilisation rates of urea and phosphate fertilisers remained low, and the profitability of the industry improved.

CNOOC Huahe plant

(1) Urea

Domestic urea production volume in 2017 was approximately 53.40 million tonnes (in kind), representing a decrease by approximately 13.8% compared to that of last year. The overall domestic market conditions were better than the international market conditions, resulting in a continued significant decrease in export volume of urea. In 2017, the PRC exported 4.66 million tonnes of urea, representing a decrease by 47.5% compared to that of last year.

In 2017, the domestic urea market basically showed a W-trend. In January and February, the market, following the trend at the end of 2016, remained at relatively high levels. After March, the market began to decline and lasted till the end of April, after which the market seesawed at low points around RMB1,300-1,400 per tonne. Starting from late August, driven by domestic and international demand, the market had been on the rise until early November, and then it fell slightly. In mid-December, due to the tight supply of natural gas, the prices of urea increased, and the ex-factory price reached RMB2,100 per tonne in some regions. The main revenue of the whole industry was better than that of last year, achieving an overall profit. According to the data of National Bureau of Statistics of China, the main revenue of the nitrogen fertiliser industry was RMB227.78 billion in 2017, representing a 15.4% increase compared to that of last year. The total profit was RMB3.8 billion, turning to profit from loss of last year.

(2) Phosphate fertilisers

The market of ammonium phosphate in 2017 was full of ups and downs, but it was clearly a year of recovery. Under the pressure of domestic environmental supervision, enterprises adopted measures such as product structure adjustments, which effectively addressed the situation of overcapacity. Some backward production capacities were eliminated, which enhanced the profitability of some large enterprises. According to the statistics of the China Phosphate Compound Fertilisers Industry Association, in 2017 the production volume of ammonium phosphate was approximately 40.75 million tonnes (in kind), representing a decrease by approximately 2% as compared to that of 2016. The demand in the international market was stable, while the PRC continued to implement the zero-tariff policy throughout the year and the export remained stable, with annual export of DAP reaching approximately 6.4 million tonnes.

In the first quarter of 2017, due to the increase in raw material prices, the ex-factory price of DAP rose to RMB2,450 per tonne. In the second quarter, the domestic market entered into the off-season, and the price turned weak and started to decline. Since the beginning of the third quarter, there has been an increase in price due to sharp rise in the prices of raw materials, decreased utilisation rate of plants in the industry, and reduced market input. As at the end of December, the mainstream ex-factory prices of factories in Hubei were RMB2,650-2,700 per tonne, representing an increase of approximately RMB300 per tonne as compared to the same period of last year.

Methanol

In 2017, the macro economy entered into a recovery cycle. With oil prices on the rise, coupled with the domestic supply-side reform and decrease in supply led by environmental protection policies, less than expected new production capacities were put into production internationally and domestically, while Hurricane Harvey and shortage of natural gas also got in the way. In the fourth quarter, with the addition of de-capacity and de-stocking, the tight balance of supply and demand continued to this day, and the methanol prices were pushed to a level that exceeded the expectations. The prices fluctuated throughout the year, with high prices at both ends and low prices in the middle. Methanol prices hit a new high since 2014, with the prices in Southern China fluctuating within RMB2,340-3,970 per tonne and the prices in Inner Mongolia fluctuating within RMB1,820-3,030 per tonne.

In 2017, the increase in domestic methanol production capacity slowed down, but the increase in production volume remained relatively high. The accumulative production volume throughout the year was 53.95 million tonnes, representing an increase by 18.9% compared to the same period last year. The annual import volume was 8.145 million tonnes, representing a decrease by 7.5% compared to the same period last year.

CNOOC Tianye methanol tanker truck

Business Review

Production management

In 2017, through refined management of the production process, safe and stable operation of various production plants was achieved, and the replacement of key equipment of Hainan Fudao Phase II urea plant was successfully completed. In addition, effective operation was achieved throughout the year at the Hainan Fudao Phase I urea plant and the coal-based urea plant of CNOOC Huahe in Heilongjiang, with the operation rates reaching 109% and 112%, respectively. The DYK DAP plant and the coal-based urea plant of CNOOC Huahe broke their own long-term operation records. Annual output of the Company for urea was 2.271 million tonnes, representing an increase of 206,000 tonnes compared to that of 2016, hitting a historical high. Annual output of phosphate fertilisers and compound fertilisers was 944,000 tonnes, representing a decrease of 8,000 tonnes compared to that of 2016. Annual output of methanol was 1.535 million tonnes, representing an increase of 30,000 tonnes compared to that of 2016.

Details of production of the Group's plants in 2017 are set out as follows:

	For the year ended 31 December			
	2017		2016	
	Production *(tonnes)*	Utilisation rate *(%)*	Production *(tonnes)*	Utilisation rate *(%)*
Chemical fertilisers				
Urea				
Fudao Phase I	566,184	108.9	508,511	97.8
Fudao Phase II	749,373	93.7	614,278	76.8
CNOOC Tianye	374,164	72.0	335,546	64.5
CNOOC Huahe	581,527	111.8	606,549	116.6
Group total	2,271,248	96.2	2,064,884	87.5
Phosphate Fertilisers and Compound Fertilisers				
DYK MAP	67,978	45.3	55,712	37.1
DYK DAP Phase I (Note 1)	292,729	83.6	337,997	96.6
DYK DAP Phase II	583,133	116.6	558,485	111.7
Group total	943,840	94.4	952,194	95.2
Chemical products				
Methanol				
Hainan Phase I	551,745	92.0	575,986	96.0
Hainan Phase II	791,240	98.9	783,261	97.9
CNOOC Tianye	191,829	95.9	145,812	72.9
Group total	1,534,814	95.9	1,505,059	94.1

Note 1: In 2017, DYK DAP Phase I Plant produced 192,954 tonnes of DAP and 99,775 tonnes of compound fertilisers, respectively, amounting to 292,729 tonnes in total. In 2016, DYK DAP Phase I Plant produced 299,949 tonnes of DAP and 38,048 tonnes of compound fertilisers, respectively, amounting to 337,997 tonnes in total.

Part of the central control room in Hainan Base

Sales management

In response to the fierce market competition, the Company strengthened its marketing capacity in 2017. Guided by market demand, new value-added products were developed to expand the compound fertiliser market. In 2017, the Company sold 2.279 million tonnes of urea, representing an increase of 13% compared to the same period last year, which hit a historical high for the same period. 1.533 million tonnes of methanol was sold, representing an increase of 2% compared to the same period last year. 968,000 tonnes of phosphate fertilisers and compound fertilisers were sold. The sales of the three products mentioned-above were all higher than those of last year. The total annual export volumes of urea and DAP were 488,000 tonnes and 215,000 tonnes, respectively.

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			
	2017		2016	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**803,959**	**35.3**	631,838	31.3
Northern China	**228,244**	**10.0**	182,088	9.0
Eastern China	**41,183**	**1.8**	53,376	2.6
South-eastern China	**68,649**	**3.0**	54,644	2.7
Southern China	**566,824**	**24.9**	380,857	18.9
Hainan	**82,803**	**3.6**	87,882	4.4
International	**487,602**	**21.4**	626,719	31.1
Total	**2,279,264**	**100.0**	2,017,404	100.0

DYK's transportation of chemical fertilizer products

Urea stevedoring in Basuo Port

Phosphate fertilisers and compound fertilisers

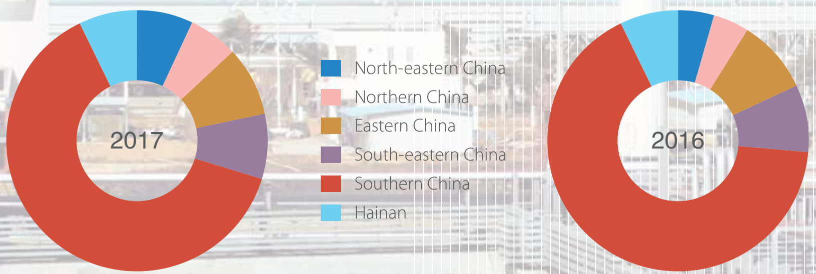
The following table sets out the Group's phosphate fertiliser and compound fertiliser sales volumes by final sales destinations of products during the preceding two financial years:

	For the year ended 31 December			
	2017		2016	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**281,713**	**29.1**	244,251	25.3
Northern China	**371,063**	**38.3**	323,754	33.5
Eastern China	**46,049**	**4.7**	21,868	2.2
South-eastern China	**41,499**	**4.3**	23,016	2.4
Southern China	**13,550**	**1.4**	24,837	2.6
International	**214,580**	**22.2**	328,079	34.0
Total	**968,454**	**100.0**	965,805	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			
	2017		2016	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**109,666**	**7.1**	67,646	4.5
Northern China	**91,991**	**6.0**	68,792	4.6
Eastern China	**133,999**	**8.7**	135,157	9.0
South-eastern China	**122,011**	**8.0**	128,746	8.5
Southern China	**967,057**	**63.1**	1,002,401	66.4
Hainan	**108,541**	**7.1**	106,768	7.0
International	**0**	**0**	0	0
Total	**1,533,265**	**100.0**	1,509,510	100.0



BB fertilisers

In 2017, the Group produced a total of 59,648 tonnes of BB fertilisers and achieved a sales volume of 56,698 tonnes.

Sea-land logistics services

In 2017, Basuo Port in Hainan completed a volume of throughput of 12.47 million tonnes.

Financial Review

Revenue

During the reporting period, the Group's revenue was RMB9,799.7 million, representing an increase of RMB1,295.9 million, or 15.2%, from RMB8,503.8 million during the same period of 2016. The increase was primarily attributable to a significant increase in selling prices of methanol and urea of the Group and an increase in sales volume of urea.

During the reporting period, the Group's external revenue from urea was RMB3,325.8 million, representing an increase of RMB823.0 million, or 32.9%, from RMB2,502.8 million during the same period of 2016. The increase was primarily attributable to (1) an increase in the sales volume of urea by 261,860 tonnes, leading to an increase in revenue by RMB324.8 million; and (2) an increase in revenue by RMB498.2 million resulted from an increase in the selling price of urea by RMB218.6 per tonne.

During the reporting period, the Group's external revenue from phosphate fertilisers and compound fertilisers was RMB2,069.5 million, representing an increase of RMB100.0 million, or 5.1%, from RMB1,969.5 million during the same period of 2016. The increase was primarily attributable to (1) an increase in the sales volume of phosphate fertilisers and compound fertilisers by 2,649 tonnes, resulting in an increase in revenue by RMB5.4 million; and (2) an increase in revenue by RMB94.6 million resulted from an increase in the selling price of phosphate fertilisers and compound fertilisers by RMB97.7 per tonne.

During the reporting period, the Group's external revenue from methanol was RMB3,458.6 million, representing an increase of RMB975.5 million, or 39.3%, from RMB2,483.1 million during the same period of 2016. The increase was primarily attributable to (1) an increase in the sales volume of methanol by 23,754 tonnes, resulting in an increase in revenue by RMB39.1 million; and (2) an increase in revenue by RMB936.4 million resulted from an increase in the selling price of methanol by RMB610.7 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 RMB602.6 million, or 38.9%, to RMB945.8 million as compared to RMB1,548.4 million during the same period of 2016, which was primarily attributable to (1) a decrease in revenue by RMB646.2 million in the trading segment of the year as compared to that of last year which was partially offset by (2) an increase in revenue of RMB14.1 million due to the increase of business volume of port loading & unloading and transportation in Basuo Port by 433,989 tonnes; (3) an increase by RMB11.1 million in revenue due to the increase of sales volume and selling price of BB fertilisers; and (4) an increase by RMB18.4 million in revenue from selling woven plastic bags, liquid ammonium and formaldehyde.

Cost of sales

During the reporting period, the Group's cost of sales was RMB8,114.6 million, representing a decrease of RMB89.7 million, or 1.1%, from RMB8,204.3 million in 2016.

During the reporting period, the Group's cost of sales for urea was RMB3,047.6 million, representing an increase by RMB397.7 million, or 15.0%, from RMB2,649.9 million in 2016. The increase was primarily attributable to: (1) an increase in cost of sales from CNOOC Huahe in Heilongjiang by RMB349.0 million resulted from an increase in sales volume of urea by 150,203 tonnes and a significant increase in the price of coal, the major raw materials; (2) an increase in cost of sales by RMB71.3 million caused by an increase in sales volume by 157,472 tonnes of urea from Fudao Phase I and Phase II urea production plants in Hainan; and (3) a decrease in cost of sales by RMB22.6 million due to a fall in the sales volume by 45,815 tonnes of CNOOC Tianye in Inner Mongolia.

The Group's cost of sales for phosphate fertilisers and compound fertilisers during the reporting period was RMB1,952.6 million, representing an increase of RMB24.6 million, or 1.3%, from RMB1,928.0 million in 2016. The increase was primarily attributable to: (1) an increase in cost of sales of RMB19.3 million resulted from a significant increase in price of raw materials for producing phosphate fertilisers and compound fertilisers; and (2) an increase in cost of sales of RMB5.3 million resulted from an increase in sales volume of phosphate fertilisers and compound fertilisers by 2,649 tonnes.

The Group's cost of sales for methanol during the reporting period was RMB2,261.7 million, representing an increase of RMB93.7 million, or 4.3%, from RMB2,168.0 million in 2016. The increase was primarily attributable to: (1) an increase in cost of sales by RMB35.0 million caused by an increase in sales volume of methanol by 23,754 tonnes; and (2) an increase in cost of sales by RMB39.7 million resulted from a year-on-year increase of repairment cost of Hainan Methanol Plant.

The Group's cost of sales from other segments during the reporting period decreased by RMB605.7 million, or 41.5%, from RMB1,458.4 million in 2016 to RMB852.7 million. The decrease was primarily attributable to: (1) a decrease in cost of trading businesses by RMB665.9 million; (2) an increase in cost of sales of Basuo Port for labour service by RMB41.7 million; (3) a year-on-year increase in cost of sales of BB fertilisers by RMB10.9 million; and (4) an increase in cost of sales of liquid ammonium, formaldehyde and others by RMB7.6 million.

Gross profit

The Group's gross profit during the reporting period was RMB1,685.1 million, representing an increase of RMB1,385.6 million, or 462.6%, from RMB299.5 million in 2016. The increase was primarily attributable to: (1) an increase in gross profit for methanol by RMB881.8 million due to a significant increase in the selling price of methanol in 2017; (2) an increase in gross profit for urea by RMB425.3 million due to a year-on-year increase in the selling price of urea and an increase in the sales volume of urea by 261,860 tonnes in 2017; (3) an increase in gross profit of phosphate fertilisers and compound fertilisers by RMB75.4 million due to a year-on-year increase in the selling price of phosphate fertilisers and compound fertilisers; and (4) an increase in gross profit of other business by RMB3.1 million.

Other income

The Group's other income during the reporting period amounted to RMB55.9 million, representing a decrease by RMB7.3 million, or 11.6%, from other income of RMB63.2 million in 2016. The decrease was primarily attributable to: (1) a decrease in government grants by RMB14.1 million, which was partially offset by (2) an increase in profit of other business by RMB7.1 million.

Other gains and losses, net

The Group's other gains and losses during the reporting period was RMB237.9 million, representing an increase by RMB32.9 million, or 16.0%, from other gains and losses of RMB205.0 million in 2016. The increase was primarily attributable to: (1) an increase in short-term bank wealth management gains (including gains on US dollar time deposits with maturity over three months) by RMB34.8 million; (2) an increase of other gains and losses by RMB5.4 million due to a decrease in provision of allowance for doubtful receivables; and (3) a decrease in net gain on disposal of non-current assets by RMB7.3 million.

Selling and distribution expenses

The Group's selling and distribution expenses during the reporting period amounted to RMB385.7 million, representing an increase of RMB41.2 million, or 12.0%, from selling and distribution expenses of RMB344.5 million in 2016. The increase was primarily attributable to (1) an increase in transportation expenses by RMB23.9 million resulted from an increase in sales volume of urea from CNOOC Huahe in Heilongjiang by 150,203 tonnes and a change of the freight settlement method; and (2) an increase in transportation expenses by RMB18.3 million resulting from the increase of freight cost in the sales of phosphate fertilisers and compound fertilisers.

Administrative expenses

The Group's administrative expenses during the reporting period amounted to RMB453.0 million, representing an increase of RMB2.9 million, or 0.6%, from administrative expenses of RMB450.1 million in 2016.

Other expenses

The Group's other expenses during the reporting period amounted to RMB13.5 million, representing an increase of RMB1.2 million, or 9.8%, from other expenses of RMB12.3 million in 2016. The increase was primarily attributable to: (1) an increase in bank handling fees and interest of bills discounting by RMB3.3 million which was partially offset by (2) a decrease in non-operating expenses by RMB2.1 million.

Temperature measurement inside a furnace

Finance income and finance costs

The Group's finance income during the reporting period increased by RMB2.7 million, or 33.8%, to RMB10.7 million from the finance income of RMB8.0 million in 2016. The increase was primarily attributable to an increase in the average daily balance of the Group's deposits in 2017 as compared to that of 2016.

The Group's finance costs during the reporting period amounted to RMB121.4 million, representing a decrease of RMB40.7 million, or 25.1%, from the finance costs of RMB162.1 million in 2016. The decrease was primarily attributable to a decrease in financial leases costs by RMB40.7 million.

During the reporting period, the Group has a good financial resources, mainly including bank borrowing and other financial institution financing.

Net exchange (losses)/gains

During the reporting period, the Group recorded an exchange loss of RMB48.2 million, whereas an exchange gain of RMB8.5 million was recorded in 2016, representing a difference of RMB56.7 million. It was primarily attributable to an exchange loss of RMB48.9 million recorded on the US dollar deposit held by the Group during the reporting period resulted from a drop of the exchange rate of US dollar.

Impairment losses

The Group's asset impairment loss during the reporting period was RMB442.6 million, representing an increase of RMB442.6 million from the asset impairment loss in 2016. It was primarily because the Company recognized assets impairment losses of RMB440.4 million for the coal-based urea plant of CNOOC Huahe and the phosphate fertilisers and compound fertilisers plants of Hubei Dayukou Chemical Co., Ltd. after conducting an impairment testing on coal-based uera plant and phosphate fertilisers and compound fertilisers plants of the Company in accordance with IAS 36, due to a significant increase of the price of raw materials such as coal and liquid ammonium.

Net gains/ (losses) of associates and joint ventures

During the reporting period, the share of losses of associates and joint ventures by the Group was RMB35.3 million, representing an increase of RMB33.6 million in the share of losses of associates and joint ventures of RMB1.7 million in 2016. The increase was mainly due to the recognition of loss on investment in CBC (Canada) Holding Corp., amounting to RMB34.5 million.

Income tax expenses

The Group's income tax expenses during the reporting period was RMB382.6 million, representing an increase of RMB475.5 million from an income tax expenses of RMB-92.9 million in 2016. It was primarily attributable to (1) a pre-tax profit of RMB490.1 million recorded by the Group for this year in contrast to the pre-tax loss of RMB329.6 million was recorded by the Group in 2016; and (2) an increase in the income tax expenses by RMB106.5 million as a result of the reversal of deferred income tax assets recognized in previous years by CNOOC Tianye in Inner Mongolia.

Net profit for the year

The Group's net profit during the reporting period was RMB107.5 million, representing an increase of RMB344.2 million from a net profit of RMB-236.7 million in 2016.

Dividends

The board of directors of the Company (the "Board") recommended the payment of final dividends of RMB23.05 million, or dividends of RMB0.005 per share for 2017 and the payment of special dividends of RMB299.65 million, or dividends of RMB0.065 per share. The proposed final dividends and special dividends for the year will be subject to the approval of the shareholders of the Company at the 2017 annual general meeting.

Capital expenditure

During the reporting period, the Group's capital expenditure in respect of property, plant and equipment as well as prepaid lease payments amounted to RMB129.6million. Capital expenditure primarily included (1) an investment of RMB29.8 million for upgrading the high pressure carbamate pool condenser at Fudao Phase II; and (2) investments of RMB998,000 in the upgrade and improvement of the Group's other production plants and purchase of equipment.

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 2017 (calculated as interest bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 13.4%, representing a decrease of 0.6% as compared to 14.0% as at 31 December 2016, which was primarily attributable to the decrease in the principal of financial leases and interest bearing borrowings from the bank by RMB128.9 million during the reporting period.

Cash and cash equivalents

As at the beginning of 2017, the Group's cash and cash equivalents were RMB5,698.4 million. In 2017, the net cash inflow from operating activities was RMB1,698.9 million, the net cash outflow from investing activities was RMB249.7 million, the net cash outflow from financing activities was

RMB493.8 million, the decrease of cash and cash equivalent caused by the changes in exchange rates was RMB48.9 million, and the increase of cash and cash equivalent classified as the assets held for sale was RMB14.6 million. As at 31 December 2017, the Group's cash and cash equivalents were RMB6,590.3 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 2017, the Group had 5,163 employees. The aggregate of employees' wages and allowances for 2017 was approximately RMB628.2 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.

As at 31 December 2017, the Company held 2,520 training courses, and recorded a total of 109,300 enrolments and 413,076 training hours according to its annual training plan during the reporting period.

Market risk

The major market risks faced by 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, liquid ammonium and sulphur), fuels (mainly natural gas and coal) and energy.

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 6.4997 and 6.9526. The fluctuation of RMB to US dollar exchange rate may affect the import of our equipment and raw materials, the export of our products as well as the financing activities in US dollar.

As at 31 December 2017, the balance of the Group's deposit in US dollar was US$143.7 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 1.8% during the reporting period, and the consumer price index of the PRC did not have any 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 on a comprehensive basis of the liquidity of financial investments and financial assets (for example, trade receivables and other financial assets) and the projected cash flows from operating activities. The Group's objective is to maintain a balance between the continuity and flexibility of funding through the use of various funding options, including but not limited to bank loans and bonds.

As at 31 December 2017, based on the carrying values shown on the financial statements, the Group had borrowings in the amount of RMB25.0 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 capital and is not exposed to liquidity risk.

Subsequent events

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

Contingent liabilities

During the reporting period, the Group had no material contingent liabilities.

Material litigation and arbitration

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

The Company received an arbitral award dated 20 October 2017 from China International Economic and Trade Arbitration Commission in relation to the arbitration with Yangpoquan Coal since 2014 (see the announcements dated 9 July 2014 and 2 December 2014), which ruled the Company should pay RMB2.55 million to Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal") and dismissed other claims for compensation of Yangpoquan Coal. The arbitral award is final with effect from the date it was made (see the announcement dated 25 October 2017).

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

During the reporting period, (1) CNOOC Fudao Limited completed the absorption and merging of CNOOC (Hainan) E&P Gas Limited in May 2017; (2) the Company completed the deregistration of China BlueChemical Baotou Coal Chemical Industry Co., Ltd. in October 2017; (3) CNOOC Tianye Chemical Limited completed the 21.6% equity transfer of Inner Mongolia Hong Feng Packaging Co., Ltd. in October 2017; (4) Guangxi Fudao Agricultural Means of Production Limited completed the absorption and merging of Guangxi Fudao Chemical Limited in December 2017; (5) Hainan Basuo Port Limited completed the 50% equity transfer of Hainan Basuo Port Labour Service Limited in December 2017; and (6) the Company completed the liquidation and dissolution of Yantai Port Fertiliser Logistics Co., Ltd in July 2017.

Sector Outlook

Looking forward to 2018, driven by the steady growth in demand for grain, the demand on fertilisers from the agriculture industry will increase steadily. The PRC government will insist on the priority development of the agriculture industry to ensure national food safety. The fully-marketized industrial environment and the upgrade of domestic environmental protection standards will accelerate the elimination of outdated fertiliser capacities. Development in methanol-to-olefin will still be the major driving force of the demands for methanol.

Our Key Tasks in 2018

1. To continue to enhance and improve HSE and refined production management, and ensure the smooth completion of the planned overhaul of each production plant on schedule;

2. To proactively co-ordinate upstream natural gas supply, and achieve the successful put-into-use of natural gas from the Dongfang 13-2 Gasfield in Hainan;

3. To continue to optimize the product structure, and increase the production and sales of NPK and value-added fertilisers;

4. To continue to intensify reformation of the marketing system, and steadily carry forward materialization of the marketing business; and

5. To further implement cost-reduction, quality-improvement and efficiency-enhancement, reduce the coal purchasing cost of CNOOC Huahe, promote the structural reformation of procurement management system, and endeavour to reduce inventory.

Rice paddy trial zone in Heilongjiang

Environmental, Social and Governance Report

Environment

The Company consistently adhere to the goal 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. Various measures are adopted to save energy and reduce emission, and environmental protection compliance management is strengthened in order to actively establish ourselves as an environmentally friendly company. As the first batch of pilot enterprises selected by the Ministry of Industry and Information Technology, the Company have built itself as a resource-saving and environment-friendly enterprise since 2013 in general. For six 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 since its launch. During the year, the Company was selected among the demonstration list of the first batch of green manufacturing systems issued by the Ministry of Industry and Information Technology of the PRC.

CNOOC Tianye Plant

Hainan Fudao Phase II Plant

Emission and its management

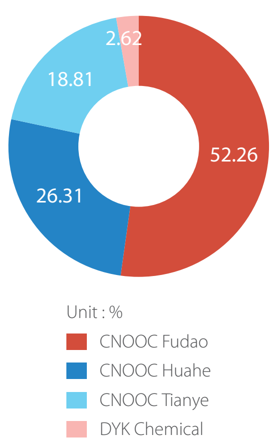
The Company produces urea and methanol with natural gas and coal as raw materials, and produces ammonium phosphate (MAP and DAP) and compound fertilisers using phosphate ores, sulphur and ammonia as raw materials, which mainly give off exhaust gases such as CO_2, SO_2 and NO_X, Chemical Oxygen Demand of industrial wastewater (COD), and solid waste such as coal ashes, as well as hazardous solid waste including catalysts and radioactive materials (cobalt and cesium) arised after 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 and treatment to minimise the impact on the environment. In 2017, the company discharged 6,353,200 tonnes of CO_2, 934.18 tonnes of SO_2, 1,323.69 tonnes of NO_X and 157.58 tonnes of COD.

Management of exhaust gas and reduction of greenhouse gases

The Company strictly complies with all the laws and regulations including Atmospheric Pollution Prevention and Control Law of the PRC, Integrated Emission Standard of Air Pollutants as well as Emission Standards of Air Pollutants for Thermal Power Plants. All our production plants fulfill the emission standards imposed by the government in respect of SO_2 and NO_X emission, with great emphasis placed on facilitating key environmentally-friendly treatment projects such as treatment of exhaust fume emitted by coal furnace, in turn significantly reducing the discharge of air pollutants. In 2017, the Company completed the CNOOC Tianye treatment project of exhaust fume emitted by coal furnace and treatment project of dust particles emitted by urea tower, altogether reducing emission of 1,238.75 tonnes of NO_X and 216.80 tonnes of urea dust. Besides, upgrade was performed on treatment project of exhaust fume emitted by emergency standby coal furnace of DYK Chemical.

The company pushes forward the greenhouse gas emission reduction work and actively constructs the emission management strategy. The Company proactively launched the inspection of carbon discharge historical data and already completed the third-party verification of carbon emission for 2016. Listed among the second batch of enterprises admitted to carbon trading and discharge management scheme in Hubei, DYK Chemical fulfilled its prescribed annual (2016) carbon emission obligations for the first time. In our CNOOC Fudao, dry ice is manufactured from CO_2 to reduce the emission of greenhouse gases, with production and sales volume reaching 5,512 tonnes in 2017. As prescribed under the Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Chemical Production Enterprises (Trial), our total carbon emission amounted to 6,353,200 tonnes (statistical figure not verified by any third party) in 2017, of which up to 3.32 million tonnes were emitted from CNOOC Fudao, accounting for the largest share of up to 52.26%, followed by CNOOC Huahe 26.31%, CNOOC Tianye 18.81%, and DYK Chemical 2.62%. Details are set out in Fig. 1.

Fig.1 Percentage of carbon emission of the Company in 2017



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.

In 2017, the Company has arranged and embarked on its benchmarking against wastewater discharge standards, with great efforts made to facilitate prevention and treatment of industrial wastewater and domestic sewage and to encourage concerted efforts to boost wastewater reuse efficiency at plants in turn reducing wastewater discharge. When facilitating the upgrade and renovation of sewage treatment plants, CNOOC Fudao collects clean wastewater to ensure compliant discharge. Meanwhile, sewage treatment plants, irrespective of size, are monitored by online charts detailing chemical oxygen demand (COD), ammonia nitrogen (NH_3-N), and total phosphorus (P) to satisfy the relevant discharge monitoring requirements. During the year, CNOOC Tianye stepped up its emergency monitoring over wastewater discharge amid operations and suspensions of plants. The DYK Chemical implemented a recycling cycle for the wastewater from production and achieved the goal of zero discharge, and expansion project of the wastewater treatment plant at tailings storehouse also boosts wastewater treatment capacity from 650 tonnes per hour to 1,450 tonnes per hour and reduce freshwater consumption. In 2017, the Company discharged an aggregate of 157.58 tonnes of COD and 9.50 tonnes of NH_3-N.

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 2017, the Company disposed of 494,750.18 tonnes of solid waste by means of resource reuse and 2,288,144 tonnes of solid waste by piling and reclamation. Organisations qualified under the state's environmental protection requirements were engaged to handle 325.44 tonnes of hazardous waste in a professional manner and another 81,737.05 tonnes were converted into formal products for sales, indicating a safe treatment rate of 100%.

Resource use

The Company is committed to conservation of energy and resource and development of circular economy. In strict compliance with the requirements under Energy Conservation Law of the PRC, various management systems have been 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. There is designated management departments currently in place for energy saving and emission reduction, to impose quotas on energy consumption and incorporate criteria related to energy conservation and emission reduction as parts of the annual appraisal. A steering team was set up in 2017 to coordinate and supervise the Company's energy conservation, emission reduction and low carbon emission functions.

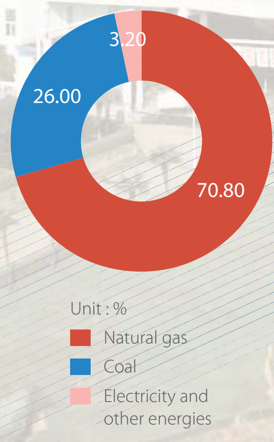
In 2017, the Company altogether consumed 59.02 million of woven bags, approximating 9,949 tonnes.

Energy use

The energy used by the Company mainly comprises natural gas, coal and electricity, among others. In 2017, the Company's comprehensive energy consumption amounted to 4,122,121.34 tonnes of standard coal, among which natural gas consumption amounted to 3,747,300,900 Nm^3, accounting for 70.80% of our total energy consumption. Coal consumption aggregated 1,476,020.53 tonnes, representing 26.00% of total energy consumption. Electricity and other energies accounted for 3.20% of our total energy consumption.

Type of energy	Unit	Actual consumption	Standard coal equivalent (Tonne of standard coal)
Natural gas	10,000Nm^3	374,730.09	2,918,770.97
Raw coal	Tonne	510,653.56	459,128.62
Fuel coal	Tonne	965,366.97	612,379.90
Electricity	kWh	68,295.51	83,935.18
Diesel	Tonne	1,951.12	2,842.98
Gasoline	Tonne	22.14	32.58
Liquefied petroleum gas	Tonne	262.37	456.99
Heat	Tonne	416,569.00	44,574.12
Total			4,122,121.34

Percentage of energy consumption of the Company



Energy conservation

The Company vigorously promotes the use of advanced energy-saving technology, equipment and so on through technological upgrades. During the year, the Company altogether implemented 30-odd projects on energy conservation and technological advancement and successfully achieved energy conservation of 38,004 tonnes of standard coal, representing 3.89% of our fuel and utilities consumption and resulting in a gain of RMB62.70 million, accounting for 5.91% of the Company's energy consumption cost. The special project undertaken by CNOOC Huahe for overall refinement of circular water altogether conserved 12 million kWh of electricity in the year in turn generating a gain of RMB6.80 million. The CNOOC Fudao projects regarding flare gas recovery from natural gas compressor seal-oil degassing tank and replacement of pre-conversion catalysts achieved energy conservation of 16,200 tonnes of standard coal in total and realised a gain of nearly RMB28 million.

Company main products comprehensive energy consumption

Products	Unit product comprehensive energy consumption (tce/t)	Energy consumption quota (tce/t)
Urea	0.1610	0.1800
Methanol	1.1752	1.5600

Note: urea unit product energy consumption standard GB/T 32035-2015.

Water resource conservation

The Company advocates water conservation and takes a proactive approach in adopting water-saving measures and implementing various technological upgrades. DYK Chemical achieved "zero discharge" of wastewater for complete recycling and reuse. The greywater reuse devices in CNOOC Fudao and CNOOC Huahe both function steadily and continuously play a role in water conservation. In 2017, the Company consumed 35,983.20 thousand tonnes of freshwater and conserved 273 thousand tonnes of water. The company's industrial cooling water system water-saving and wastewater zero-emission complete set of technology development projects won the "2016 nitrogen fertilizer, methanol technology industry first-class technological progress award."

Type	Running water	Underground water	Surface water	Total
Freshwater consumption (thousand tonne)	9,744.20	627.80	25,611.20	35,983.20

Company main products water consumption

Products	Unit product water consumption (t/t)	Water intake quota (t/t)
Urea	2.91	3.00
Methanol	5.37	/

Note: urea intake standard GB/T 18916.27-2017.

Part of DYK Chemical plant

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. After the Company awarded the Protect & Sustain certification by the International Fertiliser Industry Association (IFA) in 2016, upon which the Company continued to implement the relevant requirements and actively promote the certification to be effective.

Part of CNOOC Huahe plant

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.

The Company earnestly implemented 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 environmental risk exposures in a comprehensive manner. In 2017, the Company completed the seepage control renovation over the tailings storehouse reclaiming pond in DYK Chemical and furnace fume desulfurization and denitrification as well as prilling tower dust-removal upgrades in CNOOC Tianye. We also embarked on the leakage detection and repair (LDAR) and total volatile organic compounds (VOCs) calculation of the three methanol plants. Both CNOOC Tianye and CNOOC Huahe completed the reporting of furnace pollutant discharge. Besides, CNOOC Fudao, CNOOC Tianye and CNOOC Huahe already fulfilled their reporting duties under the pollutant discharge licenses of nitrogen fertilizer enterprises and methanol enterprises.

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 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.

Skill training for staff

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 2017, 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 strictly prohibited. The employees enjoy various kinds of leaves including annual leave, sick leave and maternity leave. Taking into account the basis of market competition and internal fairness, the Company provides employees with a sophisticated and competitive remuneration and benefit regime. 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. Hearing protection, respiratory protection and body protection equipment, etc., are 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 hygiene documentation system and raising the management standards for occupational health. In 2017, 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%.

The Company attaches great importance to safe production and holds fast to its core value of "putting safety and environmental protection as top priority, while upholding humanism and integrity of equipment". Persistent efforts have been made to refine all sorts of protective facilities to minimise the likelihood of work-related accidents or work injuries. In 2017, 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 0.02.

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, team-building and internal mentoring system. Our senior management, head cadres as well as mid- and senior-level managers of different business units undertook management trainings based on their levels within the hierarchy and the results were satisfactory. The Company places great emphasis on on-the-job training and has optimised both training contents and methods to continuously enhance the technical skills and capabilities of its professional technical team and operational team. The development, training and management of internal trainers obtained milestone results.

The Company keeps strengthening on-the-job training by joining skill competitions. We held the Fourteenth Occupational Skill Competition and dispatched a team to take part in the final round of the Ninth Occupational Skill Competition of the National Petrochemical Industry (Apparatus and Meter Repair Division), eventually bringing us the runner-up (group section) award. A staff of CNOOC Huahe were acclaimed as "Technical Experts of the National Petrochemical Industry".

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' database information. 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, etc., 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, etc.. In 2017, the quality check passing rate of the Company's urea and methanol was 100%, while the rates for goods graded as superior were 99.84% 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 2017, CNOOC Fudao launched its "protecting renewable resources on farmlands" campaigns. Through thematic talks, farmers were explained about the impact of unreasonable fertilisation on agricultural production and the ecosystem. We also solved their queries on fertiliser selection and application and handed out "caring fertilisers" as gifts to the less well-off households in the region. DYK Chemical visited Baiyun Mountain and launched its "targeted poverty alleviation and caring for left-behind children" pair-up support programs, with new clothes, stationery, food and other necessities handed out to children in the mountain area. Our staff paid heed to both physical and mental health of the left-behind children and helped them solve their learning problems and everyday challenges. We also encouraged them to embrace an optimistic attitude towards daily learning and life. CNOOC Huahe helped alleviate poverty in poor villages through industrial support, educational support and cultural support, among others. Our staff made repeated visits to poor villages, with different charitable events held to donate chemical fertilisers and present consolation items to poor farmers. We also gave talks on benefits of direct fertiliser supply and agrichemical services, provided on-site guidance on planting skills, offered subsidies to poor students and established conduits for agricultural products.

In 2017, the Company has complied with the "comply or explain" provisions set out in the ESG Reporting Guide.

Notes: ① This report covers the Company and its subsidiaries.

② In case of any discrepancy, the Chinese text of this report shall prevail over the English text.

Corporate Governance Report

The Company continued to be committed to implementing corporate governance policy and practice with a high standard in 2017, 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 promulgated by domestic and overseas regulatory bodies, and the requirements of the provisions set out in 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 set out in the Corporate Governance Code in Appendix 14 to the Listing Rules. During the reporting period, the Company continued to pursue professional governance standard and continued to improve the corporate governance system of the Company. The information disclosure is compliant, timely and accurate. Through holding roadshows for 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 in the capital market. Following the requirements of the Listing Rules, the Company finalised, announced and submitted the connected transaction and the proposed cap for 2018 to 2020 for approval by independent shareholders, which guarantees the smooth development of the major operating business of the Company for the next three years and have safeguarded the interests of minority shareholders. Directors and Supervisors have been timely and comprehensively provided with the production and operation information. The internal control system has been maintained and improved. The non-competition and others are in compliance with the requirements.

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, the Company held one annual general meeting, one H shareholders' class meeting, one domestic shareholders' class meeting and two extraordinary general meetings, at which 19 resolutions were considered and passed, including, among others, the amendments of the Articles, the appointments of Directors and Supervisors, the continuing connected transaction and the annual caps for 2018 to 2020, the 2016 annual financial reports, the report of the Board, the report of the Supervisory Committee, the profit distribution proposal, the 2017 budget proposal and the grant of the general mandate to the Board to repurchase H Shares.

Mr. Xie Weizhi, the former director of the Company who resigned on 24 October 2017, did not attend the extraordinary general meeting held on 24 October 2017, due to work commitments (his attendance rate was 75%). All other Directors attended the general meetings of the Company held during their respective terms of office in 2017 (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

As at 31 December 2017, the Board 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 37 to 38 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.

As at 31 December 2017, the 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
Meng Jun	Non-executive Director	24 October 2017
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

Directors appointed by the Company have entered into service contracts 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. However, if new Directors are not elected promptly when the terms of office of the existing Directors expire, the existing Directors shall, in accordance with the provisions of the laws, regulations, and the Articles of the Company, discharge their duties as Directors prior to the election at the general meeting held by the Company in the year when their terms of office expire. Directors can offer themselves for re-election upon the expiry 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 six physical meetings and three interim meetings 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 2017 are as follows:

Board member	Number of meetings attended / held	Attendance rate (%)
Chen Bi	6/6	100
Xia Qinglong	6/6	100
Meng Jun	2/2(Note 1)	100
Guo Xinjun	6/6	100
Lee Kit Ying	6/6	100
Lee Kwan Hung	6/6	100
Yu Changchun	6/6	100
Xie Weizhi	3/4(Note 2)	75

Note 1: Mr. Meng Jun was appointed as non-executive Director of the Company on 24 October 2017. During the period from 24 October 2017 to 31 December 2017, two Board meetings were held.

Note 2: Mr. Xie Weizhi ceased to be the non-executive Director of the Company on 24 October 2017 due to work commitments. During the period from 1 January 2017 to 24 October 2017, four Board meetings were held. Mr. Xie Weizhi attended three Board meetings in person, and attended and voted at one Board meeting by his proxy, Mr. Guo Xinjun, due to 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 internally by the Company, trainings provided by other institutes and reading relevant materials. In particular, all the Directors (including Chen Bi, Xia Qinglong, Meng Jun, Guo Xinjun, Lee Kit Ying, Lee Kwan Hung and Yu Changchun) attended an internal onsite training organised by the Company on 24 October 2017 in relation to the changes to the Listing Rules, disclosure of inside information, and the responsibilities and obligations of directors. The Company also circulated by mail to all Directors on 1 December 2017, seven sets of learning materials in written form concerning the Review of Disclosure in Issuers' Annual Reports to Monitor Rule Compliance issued by the Hong Kong Stock Exchange, and the Directors completed the training by reading through such materials. Mr. Lee Kwan Hung and Mr. Yu Changchun, being independent non-executive Directors of the Company, made a field investigation to the Hainan base of the Company to further understand the operation of its production plants and sales of products.

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 some provisions of the Articles to further ensure the legal status of the Party organization in the structure of corporate governance, reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and its 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 policies 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.

In addition, during the reporting period, the Board established independent board committee in relation to continuing connected transaction subject to the review and approval by independent shareholders. The independent board committee had reviewed the necessity and pricing of the continuing connected transaction and/or the reasonableness and fairness of the annual cap of the Company for the next three years, and advised independent shareholders in relation to the voting over the relevant continuing connected transaction.

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. Meng Jun and Mr. Guo Xinjun. Among those, Ms. Lee Kit Ying is the Chairperson. The qualifications of the chairperson 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 four meetings during the reporting period and the work it performed is summarised as follows:

- Reviewed the 2016 financial statements and the 2017 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 2018 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 2017;
- 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 2017 and approved the internal audit plan of the Company for 2018 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 (Chairperson)	4/4	100
Lee Kwan Hung	4/4	100
Yu Changchun	4/4	100
Meng Jun	2/2(Note 1)	100
Guo Xinjun	4/4	100
Xie Weizhi	1/2(Note 2)	50

Note 1: Mr. Meng Jun was appointed as a member of the Audit Committee of the Company on 24 October 2017. During the period from 24 October 2017 to 31 December 2017, two meetings were held by the Audit Committee of the Company.

Note 2: Mr. Xie Weizhi ceased to be a member of the Audit Committee of the Company on 24 October 2017. During the period from 1 January 2017 to 24 October 2017, two meetings were held by the Audit Committee of the Company. Mr. Xie Weizhi attended one Audit Committee meeting in person, and attended and voted at one meeting by his proxy, Mr. Guo Xinjun, due to work commitments.

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. Meng Jun. Among those, 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 2017 are set out in Note 11 to the financial statements.

During the reporting period, the Remuneration Committee held three meetings, at which the remuneration for new Supervisor and senior management were determined and the remuneration for new independent non-executive Director was recommended 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)	3/3	100
Lee Kit Ying	3/3	100
Meng Jun	1/1(Note 1)	100
Xie Weizhi	2/2(Note 2)	100

Note 1: Mr. Meng Jun was appointed as member of the Remuneration Committee of the Company on 24 October 2017. During the period from 24 October 2017 to 31 December 2017, one meeting was held by the Remuneration Committee of the Company.

Note 2: Mr. Xie Weizhi ceased to be member of the Remuneration Committee of the Company on 24 October 2017. During the period from 1 January 2017 to 24 October 2017, two meetings were held by the Remuneration Committee of the Company.

Nomination Committee

During the reporting period, the Nomination Committee consists of three members, including non-executive Director Mr. Chen Bi, and independent non-executive Directors Mr. Lee Kwan Hung and Mr. Yu Changchun. Among those, 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 meetings during the reporting period, at which the candidates for new Director and senior management of the Company were proposed, and the structure, size and composition (including the skills, knowledge and experience) of the Board and its subordinated committees in 2017 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)	3/3	100
Lee Kwan Hung	3/3	100
Yu Changchun	3/3	100

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. Meng Jun 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.

During the reporting period, the Investment Review Committee held one physical meeting and three interim meetings by written resolutions, based on actually working practicality, 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 physical committee meeting during the reporting period are set out as follows:

Investment Review Committee member	Number of meetings attended / held	Attendance rate (%)
Yu Changchun (Chairman)	1/1	100
Lee Kit Ying	1/1	100
Lee Kwan Hung	1/1	100
Meng Jun	-/-(Note 1)	-
Guo Xinjun	1/1	100
Xie Weizhi	1/1(Note 2)	100

Note 1: Mr. Meng Jun was appointed as a member of the Investment Review Committee of the Company on 24 October 2017. During the period from 24 October 2017 to 31 December 2017, no meeting of the Investment Review Committee was held by the Company.

Note 2: Mr. Xie Weizhi ceased to be a member of the Investment Review Committee of the Company on 24 October 2017. During the period from 1 January 2017 to 24 October 2017, 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 the following authorities in accordance with the law:

- To review the financial matters of the Company;
- To supervise the behaviour 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 55 to 56 of this annual report.

5 Senior management

The senior management consists of the chief executive officer, 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 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), QHSE monthly report, market sales monthly report and risk management monthly report 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 guarantee 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 2017 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. Chen Bi acted as the chairman of the Company. Mr. Xia Qinglong served as the chief executive officer/president of the Company. 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

During the reporting period, Mr. Quan Changsheng served as the Company Secretary during the period from 1 January 2017 to 7 July 2017. Ms. Wu Xiaoxia and Ms. Ng Sau Mei were the Joint Company Secretaries during the period from 7 July to 31 December 2017. Ms. Wu Xiaoxia 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 are entitled to obtain the advice and services from the Company Secretary to ensure the Board procedures and all applicable laws, rules and regulations are complied.

Upon enquiry by the Board, Mr. Quan Changsheng, Ms. Wu Xiaoxia and Ms. Ng Sau Mei have confirmed their compliance with all requirements stipulated in the Listing Rules in relation to qualifications, experience and training during their respective terms of office. The major contact of Ms. Ng Sau Mei, the external service provider from TMF Hong Kong Limited, in the Company is Ms. Wu Xiaoxia.

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 organised by investment banks, invitation of investors/analysts to visit our sites, as well as interviews or teleconferences with investors.

During the reporting period, the Company made amendments to some provisions of the Articles to further ensure the legal status of the Party organization in the structure of corporate governance. For details, please see the circular dated 8 September 2017 and the Articles dated 24 October 2017 issued by the Company.

10 Risk management and internal control

The Company maintains internal audit function. In strict compliance with the relevant requirements under the Listing Rules 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.

The Company formed a three-tier risk management structure consisting of Risk Management Committee, the risk management department and the subsidiaries. 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. During the reporting period, the Company operated with the objectives of "Competent, Efficient, Useful, Practical ", and adhering to the requirements for system in the Articles, with the mindset determined by orienting towards risk aversion, in order to proceed with "Streamlining and Optimisation" in the internal control system. Meanwhile, the risk management monthly reporting mechanism was continued to improve. In 2017, the Board reviewed the risk management and internal control system of the Company. The Audit Committee of the Board held two reporting sessions and discussed on the risk management and internal control system of the Company.

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 2017, (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 2017, the audit fees amounted to RMB 4.3 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 58 to 59 of this annual report.

12 2017 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 2018, the Company and CNOOC held the 2017 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 those disclosed by the Company 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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Executive Directors

①Mr. **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 from June 2016 to March 2018, 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. He was appointed as the Chairman of the Company in March 2018.

Non-executive Directors

②Mr. **Meng Jun**, born in 1960, graduated with a MBA degree from Open University of Hong Kong in December 2004 and an EMBA degree from Sun Yat-sen University in June 2007. He was awarded the title of senior accountant in December 2003. He worked successively as accountant, leader of the finance group, deputy section chief, section chief and chief accountant of the finance department of CNOOC Nanhai West Corporation from April 1978 to January 1997. He worked as manager of the planning and finance department of CNOOC Chemical Limited and chief accountant of CNOOC Fudao Limited from January 1997 to June 2001. He worked as chief financial officer of CNOOC Fudao Limited from June 2001 to October 2005. He worked as Chief Financial Officer of CNOOC Chemical Limited from October 2005 to April 2006. He worked as vice president, secretary to the board of directors and company secretary of China BlueChemical Ltd. from April 2006 to April 2007. He worked as deputy general manager of the financial management department of CNOOC from April 2007 to December 2011. He worked as deputy general manager of the financial and assets management department of CNOOC from December 2011 to July 2017. He has been a director of Offshore Oil Engineering Co., Ltd. (listed on the Main Board of the Shanghai Stock Exchange, stock code: 600583) since January 2014. He has been the general manager of the financial and assets department of CNOOC since July 2017. He was appointed as a non-executive Director of the Company in October 2017. And he has been a non-executive director of China Oilfield Services Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 2883; the Main Board of the Shanghai Stock Exchange, stock code: 601808) since December 2017.

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.

Independent non-executive Directors

④Ms. **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 Hong Kong 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) (listed on Toronto Stock Exchange, Canada) and an independent non-executive director of Gemilang International Limited (彭順國際有限公司) (listed on the main board of the Hong Kong Stock Exchange, stock code: 06163). Ms. Lee served as an independent non-executive director of Tianjin Capital Environmental Protection Group Company Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1065; the Main Board of the Shanghai Stock Exchange, stock code: 600874) in the past three years.

⑤Mr. **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 Hong Kong 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 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 Vestate Group Holdings Limited (formerly known as "Walker Group Holdings Limited") and Futong Technology Development Holdings Limited (both are companies listed on the Main Board of the Hong Kong Stock Exchange) in the past three years. Mr. Lee currently holds the positions of independent non-executive director respectively at Embry Holdings Limited, NetDragon Websoft Holdings Limited, Asia Cassava Resources Holdings Limited, Newton Resources Ltd., Tenfu (Cayman) Holdings Company Limited, Landsea Green Properties Co., Ltd.(now known as Landsea Green Group Co., Ltd., listed on the Main Board of the Hong Kong Stock Exchange, stock code: 106), 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 Hong Kong Stock Exchange.

⑥Mr. **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.

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Supervisors

⑦Mr. **Tang Quanrong**, born in 1965, graduated with a bachelor's degree in Economics from Hunan Finance and Economics Institute (now known as Hunan University) in July 1987 majoring in finance and accounting in industrial enterprises. He was awarded the title of senior auditor in October 2000. He worked successively as staff member, senior staff member, principle staff member, deputy director, and director of the Wuhan Resident Office of the National Audit Office of the PRC from July 1987 to December 2006, during which Mr. Tang visited and worked at the Accounting Office of the National Audit Office of the PRC in the Ministry of Foreign Affairs. He worked as the director of the first office of audit and supervision department of CNOOC from December 2006 to December 2009. He worked successively as chairman of the supervisory committee and other positions in CNOOC Ningbo Daxie Petrochemical Co., Ltd., CNOOC Zhoushan Petrochemical Co., Ltd., CNOOC Chemical Import and Export Co., Ltd., Zhonghai Trust Co., Ltd., CNOOC Finance Co., Ltd., CNOOC Investment Holding Co., Ltd. and CNOOC Insurance Ltd. from December 2009 to December 2013. He worked successively as deputy general manager and chief accountant in Shandong Haihua Group Co., Ltd and chairman of the board of Shandong Haihua Company Limited (listed on the Main Board of the Shenzhen Stock Exchange, stock code: 000822) from December 2013 to November 2016. He has been a deputy general manager of the audit department of CNOOC since November 2016. He was appointed as a supervisor representing the Shareholders and chairman of the Supervisory Committee of the Company in October 2017.

⑧Mr. **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 doctoral 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 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.

⑨Ms. **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 the 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, February 2015 and January 2018 respectively, and has been the chairman of the supervisor committee of CNOOC Tianye Chemical Limited since October 2014.

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Senior management

⑩Mr. **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 SACF from June 1994 to December 1995; production plant manager of SACF 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 from August 2012 to March 2018. 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. He was appointed as the Chief Executive Officer and president of the Company in March 2018.

⑪Mr. **Miao Qian**, born in 1963, graduated from Fuzhou University majoring in 1983 magering in civil construction with a bachelor's degree and obtained a master's degree in management engineering from China University of Petroleum (Beijing) in 2007. He was subsequently qualified as a senior engineer. He served successively as deputy head of the engineering management division of CNOOC Nanhai West Corporation, head of the engineering management division of CNOOC Nanhai West Real Estate Company and manager of CNOOC Nanhai West Jianyuan Company from August 1983 to May 2002. He served successively as assistant to the general manager of the CNOOC Chemical Limited, manager of the methanol project cost control department as well as deputy general manager and general manager of the methanol project from May 2002 to October 2005,. He served as deputy general manager of the CNOOC Chemical Limited from October 2005 to April 2006. He served as vice president of the Company from April 2006 to September 2014. He was appointed as chairman/executive director of Hegang Huahe Coal Chemical Ltd. (was subsequently renamed as CNOOC Huahe Coal Chemical Co., Ltd.) from September 2010 to September 2014,. He served as the deputy general manager of the preparation team for the Ordos coal-based gas project from September 2014 to January 2015. He served as the deputy general manager of CNOOC Inner Mongolia Energy Investment Company Limited (中海油內蒙古能源投資有限責任公司) and CNOOC Ordos Energy Chemical Company Limited (中海油鄂爾多斯能源化工有限責任公司) from January 2015 to May 2017. He was appointed as vice president of the Company in June 2017, the chairman of the supervisor committee of CNOOC Kingboard Chemical Limited in July 2017, and the chairman of CNOOC Tianye Chemical Limited in March 2018.

⑫Mr. **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


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(Canada) Holding Corp in May 2013. He was appointed as the chairman of CNOOC Tianye Chemical Limited from October 2014 to March 2018.

⑬Ms. **Wu Xiaoxia**, born in 1973, graduated with a bachelor's degree from Beijing Institute of Machinery (now known as Beijing Information Science and Technology University) in 1995 majoring in industrial accounting, and was later awarded the title of senior accountant. She served as cashier and then accountant of CNOOC Marketing Co., Ltd. from August 1995 to October 1999 and accountant of CNOOC Oil & Gas Development & Utilization Co., Ltd. from November 1999 to June 2000. She worked successively as chief of fund, chief accountant and senior chief accountant of CNOOC Limited(listed on the Hong Kong Stock Exchange, stock code:883) from July 2000 to June 2005. She worked as director of the information division of the financial management department and head of the finance and fund team of the ERP project group of CNOOC from July 2005 to March 2006; director of the accounting division of finance and assets department of CNOOC from April 2006 to March 2013 and deputy manager of finance and assets department of CNOOC from April 2013 to May 2017. She was appointed as the vice president and chief financial officer of the Company in June 2017, and Board secretary, Joint Company Secretary and a director of CNOOC Kingboard Chemical Limited in July 2017.

Ms. **Ng Sau Mei**, born in 1977, graduated with a bachelor's degree from City University of Hong Kong in 2001 majoring in Laws and is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom since 2007. She is a senior manager of the listing services department of TMF Hong Kong Limited and is responsible for provision of corporate secretarial and compliance services to listed company clients. She currently serves as the joint company secretary for various companies listed, including China Reinsurance (Group) Corporation (listed on Main Board of the Hong Kong Stock Exchange, stock code: 1508), Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 520) and Beijing Digital Telecom Co., Ltd. (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 6188). She was appointed as Joint Company Secretary in July 2017.

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 2017.

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 2017 and the financial position of the Company and the Group as at that date are set out on pages 60 to 67 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 17 and Independent Auditors' Report on page 57 to 59, respectively. Particulars of the important events affecting the Company that have occurred since the end of the financial year 2017 is set out in Note 47 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 17. 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 18 to 25; 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 18 to 25, and "major customers and suppliers" and "connected transactions" of this Report of Directors.

Dividends

The board of Company recommended the payment of final dividends of RMB23.05 million for the year of 2017, and special dividends of RMB299.65 million, in aggregate RMB 0.07 per share (tax inclusive). The proposed dividend for the year will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

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 2017 are set out in Note 44 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 17 to the financial statements.

Share capital

As at 31 December 2017 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 2017 are set out in Note 31 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 2017.

Equity-linked agreements

No equity-linked agreements were entered into by the Company during the year ended 31 December 2017.

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 2017.

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 2017, the reserves available for distribution of the Company was RMB6,546.7 million.

Charitable donations

During the year, the Group made charitable donations of RMB0.19 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's five largest customers accounted for 8% of the total sales for the year and sales to the largest customer included therein amounted to 1% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 42% of the total purchases for the year and purchases from the largest supplier accounted for 30% of the total purchases for the year.

The Group purchased raw materials from certain companies under the common control of the same ultimate holding company as the Company, details of which are set out in "Connected Transactions" below. Save as aforesaid, none of the Directors or any of their 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 2017 were:

Executive Director:	
Xia Qinglong	Appointed on 20 July 2016
Non-executive Directors:	
Chen Bi	Appointed on 29 September 2016
Meng Jun	Appointed on 24 October 2017
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:	
Tang Quanrong	Appointed on 24 October 2017
Li Xiaoyu	Appointed on 28 May 2015
Liu Lijie	Elected at a meeting of the employee representatives held on 6 February 2015

Note 1: Mr. Xie Weizhi ceased to be a non-executive Director of the Company with effect on 24 October 2017 due to other work commitments; Mr. Liu Jianyao ceased to be a Supervisor of the Company with effect on 24 October 2017 due to other work commitments.

Note 2: Ms. Liu Lijie was re-elected as the Supervisor representing the Company's employees of the fifth session of the Supervisory Committee of the Company in a meeting of the employee representatives convened on 30 January 2018 by the Company.

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 37 to 41 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. She 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 her term of office expires.

At the AGM of the Company held on 31 May 2016, Mr. Guo Xinjun was appointed as a non-executive Director of the Company and Mr. Yu Changchun was appointed as an independent non-executive Director of the Company. They entered into service contracts with the Company, and their terms of office shall begin from the date of approval of their appointments 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 was appointed as a non-executive Director of the Company at the extraordinary general meeting held on 29 September 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. Meng Jun was appointed as a non-executive Director of the Company and Mr. Tang Quanrong was appointed as the Supervisor representing the shareholders of the Company at the extraordinary general meeting convened on 24 October 2017. 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 extraordinary general meeting until a new session of Directors and Supervisors are approved at the annual general meeting for 2017 by the shareholders, upon which they are eligible for re-election.

A meeting of the employee representatives was convened on 30 January 2018 by the Company in which Ms. Liu Lijie was elected as the Supervisor representing the Company's employees of the fifth session of the Supervisory Committee of the Company. She 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 her term of office expires.

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

Remunerations of Directors and Supervisors

Details of the remunerations of current and past Directors and Supervisors are set out in Note 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 2017 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 2017, 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 Hong Kong 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 Hong Kong 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 2017, 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	259,238,000(L)	H Shares	14.64(L)	5.62(L)
Hermes Investment Management Ltd	Investment manager	177,338,000(L)	H Shares	10.01(L)	3.85(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	101,634,000(L)	H Shares	5.74(L)	2.20(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. Meng Jun, 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 Limited, Commonwealth Insurance Holding Limited, Colonial First State Group Ltd, First State Investments Managers (Asia) Limited, First State Investments (UK Holdings) Limited, 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 2017, 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 2017 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 2017, the annual expenses paid by the Group for the properties leasing and management services from CNOOC Group were RMB27,565,000.

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 2017, the aggregate expenses of the Group on purchases of natural gas from CNOOC China Limited amounted to RMB2,561,149,000.

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 2017 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB194,055,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB367,131,000.

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 2017, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB499,993,000.

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 2017, the annual costs paid by the Group for the finance lease services provided by CNOOC Leasing under the Finance Lease Agreemnt amounted to RMB64,750,000.

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 2017, the aggregate revenue of the Group from Hong Kong Kingboard and its associates for sales of products and provision of related services amounted to RMB386,505,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2017 are set out below:

	Annual cap amount for 2017 (RMB'000)	Actual transaction amounts for 2017 (RMB'000)
A. Continuing connected transactions with CNOOC and its associates		
(1) Leasing of properties by the Group from CNOOC Group under the Properties Leasing Agreement	29,942	27,565
(2) Purchases of natural gas by the Group from CNOOC China Limited under the Natural Gas Sale and Purchase Agreements	3,379,107	2,561,149
(3) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by CNOOC Group to the Group	243,390	194,055
(b) Provision of services, supplies and sales of products by the Group to CNOOC Group	2,481,607	367,131
(4) Financial Services Agreement		
(a) Deposits placed in CNOOC Finance by the Group (Note 1)	500,000	499,993
(5) Provision of finance lease services by CNOOC to the Group under the Finance Lease Agreement	2,424,200	64,750
B. Continuing connected transactions 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	655,179	386,505

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 2017 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 Company has received an arbitral award dated 20 October 2017 from China International Economic and Trade Arbitration Commission in relation to the arbitration between the Company and Yangpoquan Coal from 2014 (see announcements dated 9 July 2014 and 2 December 2014). It has ruled that the Company should pay RMB2.55 million to Yangpoquan Coal and dismissed other claims for compensation of Yangpoquan Coal. The arbitral award is final with effect from the date it was made (see announcement dated 25 October 2017).

Compliance with laws and regulations

For the year ended 31 December 2017, 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 18 to 25.

Audit Committee

The 2017 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 2017 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 2 June 2017, 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 2016 annual general meeting of the Company.

The financial statements of the year have been audited by Deloitte Touche Tohmatsu Certified Public Accountants, whose service terms will expire at the conclusion of the forthcoming AGM of the Company and will not extend. This will not affect the disclosure of the Company's financial statements of the year. A resolution has been proposed at the AGM by the Board of the Company, which propose to appoint BDO Limited and BDO China Shu Lun Pan CPAs to be the overseas and domestic auditors of the Company for the year of 2018 respectively. During the past 5 years, the Company has not changed its auditors.

For and on behalf of the Board
Chen Bi
Chairman

Guangzhou the PRC, 27 March 2018

Report of the Supervisory Committee

In 2017, 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 2017, 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 2017 was held in Guangzhou, Guangdong Province on 27 March 2017, at which the 2016 Report of the Supervisory Committee of China Bluechemical Ltd. was considered and passed, the 2016 financial report of the Company was reviewed, and the key tasks of the Supervisory Committee for 2017 were discussed.

(2) The Second Meeting of the Supervisory Committee in 2017 was held in Shenzhen, Guangdong Province on 28 August 2017, at which the 2017 interim financial report of the Company was reviewed, the resolutions on the new candidate of the shareholders' representative Supervisor to be appointed and his remuneration were considered and passed.

(3) The Third Meeting of the Supervisory Committee in 2017 was held in Beijing on 24 October 2017, at which the Chairman of the Supervisory Committee of the Company was elected.

2 Principal inspection and supervision work carried out by the Supervisory Committee in 2017

(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, Shareholders' class meetings and the extraordinary general meeting held on 24 October, and Mr. Tang Quanrong, chairman of the Supervisory Committee acted as scrutineer for the voting at the extraordinary general meetings on 28 December, respectively.

(3) Members of the Supervisory Committee attended six 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 operating condition, development plan, and all significant decision-making and significant events of the Company.

(5) In 2017, members of the Supervisory Committee visited the production bases of the Company in Hubei, Heilongjiang and Inner Mongolia to carry out on-site inspection on the production and operations of production facilities, sales conditions and problems in management.

3 Independent opinions issued by the Supervisory Committee on relevant matters

(1) Operation and management of the Company

During the reporting period, the Company grasped the favourable opportunities of market rebound to consolidate its production management, firmly promote the marketing system reform and explore different options for improving product quality and production efficiency. Driven by risk prevention, it adhered to the principle of "simplicity, high efficiency, useful and practical" to streamline and optimise the internal control system. 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 2017 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

The Supervisory Committee also reviewed each of the proposed continued connected transaction agreements of the Company and the caps of transactions for 2018 to 2020, and concurred with the letter of advice from the independent financial adviser of 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 2018, the Supervisory Committee will continue to closely monitor the Company's day-to-day operations and significant initiatives in business development, continue to conduct investigation and research, 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
Tang Quanrong
Chairman of the Supervisory Committee

Guangzhou, the PRC, 27 March 2018

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 60 to 139, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 fertiliser segments	
We identified the impairment on certain non-current assets related to urea, phosphorus and compound fertiliser 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 fertiliser 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 17, respectively, to the consolidated financial statements.	Our procedures in relation to the impairment on certain non-current assets related to urea, phosphorus and compound fertiliser 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; • reconciling input data used in the underlying cash flows to supporting evidence; and • comparing the current year actual results with the 2017 figures included in the prior years' forecast.

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 25, 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 assist us in assessing and challenging 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 issued by the IASB 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 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	6	9,799,678	8,503,792
Cost of sales		(8,114,588)	(8,204,309)
Gross profit		1,685,090	299,483
Other income	6	55,888	63,241
Other gains and losses, net	7	237,892	204,967
Selling and distribution expenses		(385,743)	(344,473)
Administrative expenses		(452,993)	(450,128)
Other expenses		(13,462)	(12,256)
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 recognised on expiry of the put option and call option		-	53,822
Gains on loss of control of subsidiaries	44 (i)	307	6,282
Finance income	8	10,680	7,974
Finance costs	9	(121,419)	(162,102)
Net exchange (losses)/gains		(48,233)	8,537
Share of losses of joint ventures	22	(36,833)	(1,541)
Share of gains/(losses) of associates	23	1,535	(168)
Impairment losses	17, 20	(442,640)	-
Profit/(loss) before tax	10	490,069	(329,570)
Income tax (expenses)/benefits	13	(382,557)	92,900
Profit/(loss) for the year		107,512	(236,670)
Profit/(loss) for the year attributable to:			
Owners of the Company		50,232	(215,504)
Non-controlling interests		57,280	(21,166)
		107,512	(236,670)
Earnings/(loss) per share attributable to ordinary owners of the Company			
- Basic for the year (RMB)	16	0.01	(0.05)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Profit/(loss) for the year	107,512	(236,670)
Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax:		
Fair value gains on unlisted investment during the year	236,888	202,041
Reclassification adjustment relating to disposal upon maturity	(236,888)	(202,041)
	-	-
Exchange differences arising on translation of foreign operations	293	6,808
Share of other comprehensive income of joint ventures, net of related income tax	-	1,865
Cumulative translation losses released to profit or loss upon loss of control over a subsidiary	-	37,191
Other comprehensive income for the year, net of tax	293	45,864
Total comprehensive income/(expense) for the year	107,805	(190,806)
Total comprehensive income/(expense) for the year attributable to:		
Owners of the Company	50,525	(169,640)
Non-controlling interests	57,280	(21,166)
	107,805	(190,806)

Details of the dividends payable and proposed for the year are disclosed in Note 15 to the consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	7,661,025	9,013,942
Mining and exploration rights	18	137,743	469,036
Prepaid lease payments	19	589,032	604,569
Investment properties	20	122,273	130,656
Intangible assets	21	30,331	28,148
Investments in joint ventures	22	229,476	278,443
Investments in associates	23	218,470	214,804
Available-for-sale investment	24	600	600
Deferred tax assets	25	840,105	847,845
Other long-term prepayment		6,900	3,000
		9,835,955	11,591,043
CURRENT ASSETS			
Inventories	26	1,210,432	1,279,001
Trade receivables	27	267,428	485,951
Bills receivable	28	31,138	109,509
Prepayments, deposits and other receivables	29	321,710	212,318
Tax recoverable		286,001	286,323
Pledged bank deposits	30	6,942	4,136
Time deposits with original maturity over three months	30	287,505	-
Cash and cash equivalents	30	6,590,294	5,698,412
		9,001,450	8,075,650
Assets classified as held for sale	14	411,587	-
		9,413,037	8,075,650
TOTAL ASSETS		19,248,992	19,666,693
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Issued capital	31	4,610,000	4,610,000
Reserves		8,222,770	8,476,141
Proposed dividends	15	322,700	230,500
		13,155,470	13,316,641
Non-controlling interests		1,092,459	997,219
TOTAL EQUITY		14,247,929	14,313,860

Consolidated Statement of Financial Position - continued

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Benefits liability	32	65,852	67,581
Interest-bearing bank borrowings	33	785,000	810,000
Deferred tax liabilities	25	47,079	51,007
Deferred revenue	34	175,210	158,865
Obligation under finance lease	37	1,336,118	1,396,166
Other long-term liabilities		114,057	114,535
		2,523,316	2,598,154
CURRENT LIABILITIES			
Interest-bearing bank borrowings	33	25,000	68,900
Trade payables	35	876,622	971,212
Bills payable	35	12,900	89,631
Other payables and accruals	36	1,369,394	1,517,352
Obligations under finance lease	37	60,000	60,000
Income tax payable		132,609	47,584
		2,476,525	2,754,679
Liabilities associated with assets classified as held for sale	14	1,222	-
		2,477,747	2,754,679
TOTAL LIABILITIES		5,001,063	5,352,833
TOTAL EQUITY AND LIABILITIES		19,248,992	19,666,693
NET CURRENT ASSETS		6,935,290	5,320,971
TOTAL ASSETS LESS CURRENT LIABILITIES		16,771,245	16,912,014
NET ASSETS		14,247,929	14,313,860

Xia Qing Long
Director

Lee Kit Ying
Director

Consolidated Statement of Changes in Equity

At 31 December 2017

	Attributable to owners of the Company			
	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 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	-	-	-	-
Loss of control over a subsidiary	-	-	2,739	-
Transfer from retained profits	-	-	13,111	-
Appropriation and utilisation of safety fund, net	-	-	-	15,275
Proposed 2016 dividends	-	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-
Final 2015 dividends declared	-	-	-	-
Balance at 31 December 2016	4,610,000	1,007,237*	1,010,957*	55,408*
Balance at 1 January 2017	**4,610,000**	**1,007,237***	**1,010,957***	**55,408***
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Decrease in interest in a subsidiary without losing control (Note 44 (i))	-	**18,465**	-	-
Loss of control over subsidiaries	-	-	-	-
Transfer from retained profits	-	-	**61,041**	-
Appropriation and utilisation of safety fund, net	-	-	-	**(7,196)**
Proposed 2017 dividends	-	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-
Final 2016 dividends declared	-	-	-	-
Balance at 31 December 2017	**4,610,000**	**1,025,702***	**1,071,998***	**48,212***

* These reserve accounts comprise the consolidated reserves of approximately RMB8,222,770,000 (2016: RMB8,476,141,000) 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
6,878,044*	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
6,400,915*	**230,500**	**1,624***	**13,316,641**	**997,219**	**14,313,860**
50,232	**-**	**-**	**50,232**	**57,280**	**107,512**
-	**-**	**293**	**293**	**-**	**293**
50,232	**-**	**293**	**50,525**	**57,280**	**107,805**
-	**-**	**-**	**18,465**	**61,535**	**80,000**
339	**-**	**-**	**339**	**(1,279)**	**(940)**
(61,041)	**-**	**-**	**-**	**-**	**-**
7,196	**-**	**-**	**-**	**-**	**-**
(322,700)	**322,700**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(22,296)**	**(22,296)**
-	**(230,500)**	**-**	**(230,500)**	**-**	**(230,500)**
6,074,941*	**322,700**	**1,917***	**13,155,470**	**1,092,459**	**14,247,929**

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES			
Profit/(loss) before tax		**490,069**	(329,570)
Adjustments for:			
Other gains or losses, net	7	**(237,892)**	(204,967)
Finance income	8	**(10,680)**	(7,974)
Finance costs	9	**121,419**	162,102
Share of losses of joint ventures	22	**36,833**	1,541
Share of (gains)/losses of associates	23	**(1,535)**	168
Impairment of non-current assets	17, 20	**442,640**	-
Depreciation and amortisation	10	**983,555**	1,000,608
Release of government grants	34	**(6,452)**	(3,804)
Write-down of inventories to net realisable value		**37,038**	19,825
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 recognised on expiry of the put option and call option		**-**	(53,822)
Gains on loss of control of subsidiaries		**(307)**	(6,282)
		1,854,688	581,033
Decrease in inventories		**28,795**	107,417
Net decrease in trade receivables and bills receivable, prepayments, deposits and other receivables		**239,112**	110,432
Net (decrease)/ increase in trade payables, bills payable, other payables and accruals, and other long-term liabilities		**(125,651)**	411,605
(Decrease)/Increase in defined benefits liability		**(1,729)**	26,305
Cash generated from operations		**1,995,215**	1,236,792
Income tax paid		**(296,349)**	(121,966)
Net cash flows from operating activities		**1,698,866**	1,114,826

Consolidated Statement of Cash Flows - continued

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Interest received		10,680	7,974
Purchases of property, plant and equipment		(217,708)	(489,957)
Proceeds from disposal of property, plant and equipment		14,072	4,732
Purchases of intangible assets		(8,297)	-
Proceeds of disposal of prepaid lease payment		-	6,405
Addition to investment in an associate		-	(30,000)
Dividends received from associates		-	250
Disposal of investment in an joint venture	22	13,194	-
Purchase of available-for-sale investment		(14,175,000)	(18,186,000)
Disposal of available-for-sale investment		14,405,816	18,388,041
Government grants received		19,900	25,000
Placement of time deposits with original maturity over three months		(771,841)	(25,683)
Withdrawal of time deposits with original maturity over three months		462,222	26,159
Net cash outflow on loss of control of subsidiaries	44 (i)	(2,690)	(1,411)
Net cash flows used in investing activities		(249,652)	(274,490)
FINANCING ACTIVITIES			
Bank borrowings raised		1,610,000	3,121,202
Repayment of bank borrowings		(1,678,900)	(3,214,077)
Borrowings raised from sales and leaseback		-	2,000,000
Repayment of obligations under finance lease		(60,000)	(1,866,565)
Interest paid related to obligations under finance lease		(44,579)	(45,307)
Interest paid		(66,119)	(94,628)
Dividends paid		(230,500)	(368,800)
Dividends paid to non-controlling shareholders		(3,473)	(8,086)
Transaction charge paid for financial lease		(20,218)	(6,625)
Net cash flows used in financing activities		(493,789)	(482,886)
Net increase in bank balances and cash		955,425	357,450
Cash and cash equivalents at 1 January		5,698,412	5,313,907
Effect of foreign exchange rate changes		(48,904)	27,055
Cash and cash equivalents at 31 December	30	6,604,933	5,698,412
Represented by:			
Cash and cash equivalents included in assets classified as held for sale		14,639	-
Cash and cash equivalents in the consolidated statement of financial position		6,590,294	5,698,412

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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. Application of new and revised International Financial Reporting Standards ("IFRSs")

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 IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of Annual Improvements to IFRS Standards 2014-2016 Cycle

Except as described below, 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.

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 46. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 46, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

2. Application of new and revised International Financial Reporting Standards ("IFRSs") - continued

2.2 New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instrument[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
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 9	Prepayment Features with Negative Compensation[2]
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 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	As part of the Annual Improvements to IFRS Standards 2015-2017 Cycle[2]

[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 2021

Except for the new and amendments to IFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the Group's consolidated financial statements in the foreseeable future.

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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

2. Application of new and revised International Financial Reporting Standards ("IFRSs") - continued

2.2 New and revised IFRSs in issue but not yet effective - continued

IFRS 9 *Financial Instrument* - continued

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised 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 generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at 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.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), 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 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as FVTPL 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 recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement:

- Bills receivable as disclosed in Note 28 are held within a business model whose objective is achieved by both collecting cash flows and endorsing the bills receivable to suppliers or discounting to banks, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly bills receivable will be subsequently measured at FVTOCI upon the application of IFRS 9, with the fair value gains or losses accumulated in reserve subsequently reclassified to profit or loss upon derecognition. However, the directors of the Company do not anticipate this will have a material impact on the amounts recognised in other comprehensive income as the fair value of bills receivable is close to their carrying amounts given all bills receivable will mature within one year.
- Equity security classified as available-for-sale investment carried at cost less impairment as disclosed in Note 24: the security qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure the security at fair value at the end of subsequent reporting periods with fair value gains or losses recognised as other comprehensive income and accumulated in the investments revaluation reserve, which will not be subsequently reclassified to profit or loss.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

2. Application of new and revised International Financial Reporting Standards ("IFRSs") - continued

2.2 New and revised IFRSs in issue but not yet effective - continued

IFRS 9 *Financial Instrument* - continued

- The Group's wealth management in licensed bank carried at fair value as disclosed in Note 24 are held within a business model whose objective is not solely receiving payments of principal and interest on the principal outstanding or selling the financial instruments in open market. Accordingly, the Group will measure these instruments at fair value with subsequent fair value gains or losses to be recognised in profit or loss.
- All other financial assets and financial liabilities will continue to be measured on the same basis as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables, prepayments, deposit and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 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.

- 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

2. Application of new and revised International Financial Reporting Standards ("IFRSs") - continued

2.2 New and revised IFRSs in issue but not yet effective - continued

IFRS 15 *Revenue from Contracts with Customers* - continued

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 respective reporting periods.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balances of equity at 1 January 2018.

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. Upon application of 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 by the Group.

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.

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 2017, the Group has non-cancellable operating lease commitments of RMB6,196,000 as disclosed in Note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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.

In addition, based on the definition of lease payments under IFRS 16, refundable rental deposits paid by the Group are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advanced lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

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 consolidated 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

3. Significant accounting policies - continued

Basis of consolidation - continued

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 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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, 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, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. 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.

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. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

3. Significant accounting policies - continued

Investments in associates and joint ventures - continued

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) upon disposal/ partial disposal of the relevant associate or joint venture.

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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

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%.

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

3. Significant accounting policies - continued

Investment properties - continued

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 2017

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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

3. Significant accounting policies - continued

Leases - continued

Sale and leaseback

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.

Assets held under finance leases are initially recognised 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 recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised 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 FVTPL, 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 24. 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 2017

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 2017

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 FVTPL 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 change in fair value of derivative financial instruments 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 payments or 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 2017

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).

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, 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 CGUs, 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 or a CGU 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 recognised immediately in profit or loss.

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 recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

3. Significant accounting policies - continued

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 year are measured at the amount expected to be recovered from or paid to the tax authorities, based on taxable profit for the year and 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 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.

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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

3. Significant accounting policies - continued

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 recognises 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 2017

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 ("Hainan 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 32. 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.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

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 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 2017, management of the Group assessed and provided impairment for certain non-current assets the details of which are disclosed and further explained in Note 17.

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 25.

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 26.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

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 27 and Note 29.

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 2017 is disclosed in Note 17.

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 profit/(loss) before tax in the consolidated financial statements. However, the Group's financing (including finance costs and finance income), unallocated administrative expenses, exchange gains/(losses), bank charges, other income, changes on fair value of derivative financial instruments, other unallocated income, other expenses, share of results of associates and joint ventures, gain on disposal of subsidiaries, 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 2017

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 2017						
Segment revenue:						
Sales to external customers	3,325,834	2,069,489	3,458,594	945,761	-	9,799,678
Inter-segment sales	958	-	-	171,300	(172,258)	-
Total	3,326,792	2,069,489	3,458,594	1,117,061	(172,258)	9,799,678
Segment (loss) /profit before tax	(412,829)	(191,442)	931,734	118,009	-	445,472
Interest and unallocated income						249,277
Corporate and other unallocated expenses						(121,456)
Exchange losses, net						(48,233)
Share of losses of joint ventures						(36,833)
Share of gains of associates						1,535
Gains on loss of control of subsidiaries						307
Profit before tax						490,069
As at 31 December 2017						
Total segment assets	7,887,600	2,496,027	2,067,471	2,242,478	(33,553)	14,660,023
Unallocated						4,588,969
Total assets						19,248,992
Total segment liabilities	2,520,129	1,274,113	515,023	629,248	(33,553)	4,904,960
Unallocated						96,103
Total liabilities						5,001,063
Other segment information:						
Depreciation and amortisation	446,482	242,522	218,523	76,028	-	983,555
Investments in associates	-	-	-	218,470	-	218,470
Investments in joint ventures	-	-	-	229,476	-	229,476
Impairment of property, plant and equipment	333,882	106,487	-	-	-	440,369
Impairment of investment property	-	-	-	2,271	-	2,271
Capital expenditure *	76,242	39,061	3,458	10,856	-	129,617

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

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 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 gains, 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 recognised on expiry of the Put Option and Call Option						53,822
Gain recognised 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 2017

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 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.

3 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

	2017 RMB'000	2016 RMB'000
Sales to external customers:		
- PRC	8,689,131	7,136,007
- Others	1,110,547	1,367,785
	9,799,678	8,503,792

(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 2017 and 2016.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

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:

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of goods	9,423,013	8,141,186
Rendering of services	376,665	362,606
	9,799,678	8,503,792
Other income		
Income from sale of other materials	39,365	10,746
Income from rendering of other services	3,042	15,905
Gross rental income	5,004	10,469
Government grants	8,260	22,399
Indemnities received	217	3,722
	55,888	63,241

7. Other gains and losses, net

	2017 RMB'000	2016 RMB'000
Gains on maturity of unlisted investments	236,888	202,041
Provision of allowance for doubtful receivables	(391)	(5,786)
Gain on disposal of property, plant and equipment	1,335	2,796
Gain on disposal of a joint venture (Note 22)	60	-
Gains on disposal of prepaid lease payments	-	5,916
	237,892	204,967

8. Finance income

Finance income represents interest income on bank and financial institution deposits for the years ended 31 December 2017 and 2016.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

9. Finance costs

	2017 RMB'000	2016 RMB'000
Interest on bank and financial institution borrowings	**66,085**	93,721
Finance charges payable under other-long term liabilities and obligations under finance lease	**55,334**	68,381
Total interest expense on financial liabilities not at FVTPL	**121,419**	162,102

10. Profit/(loss) before tax

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**7,754,459**	7,899,624
Cost of services provided		**323,091**	284,860
Depreciation and amortisation:			
Depreciation of property, plant and equipment	17	**953,619**	975,031
Amortisation of mining rights	18	**2,173**	2,892
Amortisation of prepaid lease payments	19	**15,537**	16,122
Amortisation of investment properties	20	**6,112**	25
Amortisation of intangible assets included in administrative expense	21	**6,114**	6,538
		983,555	1,000,608
Auditors' remuneration		**4,300**	4,200
Employee benefit expense (including directors' and supervisors' remunerations explained in Note 11):			
Wages and salaries		**671,850**	626,794
Defined contribution pension scheme		**93,349**	95,716
Early retirement benefits and post-employment allowances		**15,170**	35,484
Medical benefit costs		**38,999**	37,756
Housing fund		**53,815**	55,876
Write-down of inventories to net realisable value, included in cost of sales		**37,038**	19,825

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

11. Key management personnel remuneration

Details of the directors' and supervisors' remunerations for the year disclosed pursuant to the applicable Listing Rules and CO are as follows:

	Group	
	2017	2016
	RMB'000	RMB'000
Fees	**-**	-
Other emoluments:		
Salaries and other allowances	**1,210**	1,146
Discretionary bonuses	**855**	820
Pension scheme contributions	**16**	29
	2,081	1,995

The remunerations of each of the directors and supervisors of the Group for the year ended 31 December 2017 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				
Guo Xinjun	-	-	-	-
Chen Bi	-	-	-	-
Xie Weizhi (Note 1)	-	-	-	-
Meng Jun (Note 2)	-	-	-	-
	-	-	-	-

No remuneration was paid or payable to the non-executive directors shown above during the year ended 31 December 2017.

Executive directors				
Xia Qinglong (Chief Executive)	**427**	**533**	**11**	**971**

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	**240**	-	-	**240**
Lee Kwan Hung	**240**	-	-	**240**
Yu Changchun	**120**	-	-	**120**
	600	-	-	**600**

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

11. Key management personnel remuneration - continued

The remunerations of each of the directors and supervisors of the Group for the year ended 31 December 2017 is set out below: - continued

	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Supervisors				
Liu Jianyao (Note 3)	-	-	-	-
Liu Lijie	123	322	5	450
Li Xiaoyu	60	-	-	60
Tang Quanrong (Note 4)	-	-	-	-
	183	322	5	510

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

Total	1,210	855	16	2,081

Notes:

1 Xie Weizhi was appointed as Non-Executive director on 29 September 2016; and resigned as Non-Executive director on 24 October 2017.

2 Meng Jun was appointed as Non-Executive director on 24 October 2017.

3 Liu Jianyao was appointed as Supervisor on 31 May 2016; and resigned as Supervisor on 24 October 2017.

4 Tang Quanrong was appointed as Supervisor on 24 October 2017.

The remunerations 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 RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total 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.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

11. Key management personnel remuneration - continued

The remunerations 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
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.

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.

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 supervisors of the Company or its subsidiaries.

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 2017

12. Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2017 and 2016 are analysed as follows:

	2017	2016
Directors and supervisors	1	1
Non-director and non-supervisor employees	4	4
	5	5

Details of the remunerations of non-director and non-supervisor highest paid employees during the years ended 31 December 2017 and 2016 are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other allowances	1,220	1,494
Discretionary bonuses	1,783	1,364
Pension scheme contributions	36	86
	3,039	2,944

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

	2017	2016
HK$ nil to HK$1,000,000	4	4

13. Income tax expenses/(benefits)

	2017 RMB'000	2016 RMB'000
Current tax		
PRC Enterprise Income Tax	380,672	82,282
Deferred tax (Note 25)	3,812	(174,200)
	384,484	(91,918)
Over provision in prior year	(1,927)	(982)
	382,557	(92,900)

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

13. Income tax expenses/(benefits) - 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"), were 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. Commencing from 1 January 2017, these two subsidiaries were subject to EIT rate of 25%.

(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 profit/(loss) per the consolidated statement of profit or loss as follows:

	2017 RMB'000	2016 RMB'000
Profit/(loss) before tax	490,069	(329,570)
Tax at the statutory tax rate of 25%	122,517	(82,392)
Effect of income that is exempt from taxation	-	(1,570)
Income tax on concessionary rate	(106)	(18,500)
Over provision in respect of prior years	(1,927)	(982)
Tax effect of share of losses of joint ventures and associates	8,824	427
Tax effect of tax losses not recognised	28,757	309
Reversal of tax losses previously recognised	106,544	-
Tax effect of deductible temporary differences not recognised	113,381	9,314
Utilisation of deductible temporary difference previously not recognised	-	(5,534)
Expenses not deductible for tax	4,567	6,028
Income tax	382,557	(92,900)
The Group's effective income tax rate	78%	28%

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

14. A disposal group classified as held for sale

On 19 July 2017, the directors of the Company resolved to dispose the Group's 51% owned subsidiary, China BlueChemical Yichang Mining Ltd. ("Yichang Mining") in others segment. The disposal was effected in order to direct the Group's resources to its core segments of business. Yichang Mining has been in construction stage since it received the mining right in 2016.

The disposal was completed on 26 February 2018, on which date control of Yichang Mining passed to the independent acquirers. The net disposal proceed of RMB271,965,000 exceeded the Company's share of net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

The major classes of assets and liabilities of Yichang Mining as at 31 December 2017, which have been presented separately in the consolidated statement of financial position, are as follows:

	2017 RMB'000
Property, plant and equipment	66,852
Mining and exploration rights	329,120
Cash and cash equivalents	14,639
Prepayments, deposits and other receivables	976
Total assets classified as held for sale	411,587
Other payables and accruals	(1,222)
Total liabilities associated with assets classified as held for sale	(1,222)
Net carrying amount of the relevant assets and liabilities	410,365

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

15. Proposed dividends

	2017 RMB'000	2016 RMB'000
Proposed dividends – RMB0.07 (2016: RMB0.05) per ordinary share	322,700	230,500

The proposed 2016 special dividends were approved at the annual general meeting on 2 June 2017. The proposed 2017 final and special dividends are subject to the approval of the Company's shareholders at the forthcoming 2017 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% EIT 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 dividends after deducting EIT of 10%.

16. Earnings/(loss) per share attributable to owners of the company

	2017 RMB'000	2016 RMB'000
For the purposes of basic earnings per share:		
Earnings/(loss)		
Profit/(loss) for the year attributable to owners of the Company	50,232	(215,504)

	Number of shares	
	2017 '000	2016 '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 2017

17. 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 2017:							
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
Cost as at 1 January 2017, net of accumulated depreciation and impairment	3,139,867	5,272,979	52,520	139,840	275,790	132,946	9,013,942
Additions	45	2,207	-	2,508	23,664	92,896	121,320
Disposals	(7)	(12,072)	(274)	(232)	(6)	-	(12,591)
Transfer	10,785	82,984	4,173	2,986	713	(101,641)	-
Impairment	(156,686)	(280,517)	(292)	(2,832)	(42)	-	(440,369)
Loss of control of a subsidiary	(15)	(763)	-	(28)	-	-	(806)
Depreciation for the year	(225,763)	(615,538)	(7,650)	(52,001)	(52,667)	-	(953,619)
Transfer to assets classified as held for sale (Note 14)	-	(38)	(97)	(32)	-	(66,685)	(66,852)
Cost as at 31 December 2017, net of accumulated depreciation and impairment	2,768,226	4,449,242	48,380	90,209	247,452	57,516	7,661,025
As at 31 December 2017:							
Cost	5,910,845	13,730,030	175,828	1,090,326	568,499	122,353	21,597,881
Accumulated depreciation and impairment	(3,142,619)	(9,280,788)	(127,448)	(1,000,117)	(321,047)	(64,837)	(13,936,856)
Net carrying amount	2,768,226	4,449,242	48,380	90,209	247,452	57,516	7,661,025

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

17. 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 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

During the years of 2017 and 2016, the Group has no capitalised borrowing costs on qualifying assets.

As at 31 December 2017, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB1,062,694,000 (2016: RMB1,223,675,000). 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 RMB1,274,024,000 as at 31 December 2017 (31 December 2016: RMB1,546,306,000). The details of the arrangement and the amount of obligation under finance lease are disclosed in Note 37.

As disclosed in Note 4a, given the prolonged weak prices of urea, phosphorus and compound fertiliser in 2017 and the extended increases in the price of key raw materials, including coal, the performance of certain Group's subsidiaries was affected and is expected to persist. The directors of the Company considered this as an impairment indication and performed impairment assessment on the relevant non-current assets of the aforesaid subsidiaries, each of which is a separate CGU, including CNOOC Tianye, CNOOC Huahe Coal Chemical Ltd ("CNOOC Huahe") in the urea segment and Hubei Dayukou in the phosphorus and compound fertiliser segment.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

17. Property, plant and equipment - continued

As the result of the impairment assessment, the directors of the Company recognised assets impairment losses of RMB333,882,000 for the urea plant of CNOOC Huahe, and RMB106,487,000 for the phosphate fertiliser and compound fertiliser plants of Hubei Dayukou for the year ended at 31 December 2017. After the aforesaid impairment losses, the total carrying amount of the relevant non-current assets of CNOOC Huahe and Hubei Dayukou as at 31 December 2017 is RMB2,955,071,000 and RMB1,526,468,000, respectively. Besides, management has determined that there is no impairment in CNOOC Tianye.

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 2018 to 2022 of CNOOC Tianye's urea, CNOOC Huahe's urea, Hubei Dayukou's DAP and Hubei Dayukou's compound fertiliser are 2.5%, 6.1%, 3.1% and 3.4% (2016: 4.9%, 6.7%, 2.6% and 4.3%) 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 14% (2016: 11%).

Budgeted cash flows, which include budgeted sales, gross margin, and raw material price inflation have been determined based on past performance and management's expectations for the market development. Growth rate estimates for those three CGUs, after the year ended 2017, 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 additional impairment losses.

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.

The recoverable amounts 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 additional impairment provision (sensitivity amount):

	Sensitivity rate	Sensitivity amount RMB'000
CNOOC Huahe – urea selling price	**(5%)**	**234,700**
CNOOC Huahe – urea selling volume	**(5%)**	**95,275**
CNOOC Huahe – urea unit variable cost	**5%**	**105,172**
CNOOC Huahe – discount rate	**1%**	**144,921**
Hubei Dayukou – DAP selling price	**(5%)**	**294,243**
Hubei Dayukou – DAP selling volume	**(5%)**	**41,547**
Hubei Dayukou – DAP unit cost	**5%**	**251,143**
Hubei Dayukou – compound fertiliser selling price	**(5%)**	**115,991**
Hubei Dayukou – compound fertiliser selling volume	**(5%)**	**23,743**
Hubei Dayukou – compound fertiliser unit cost	**5%**	**92,254**
Hubei Dayukou – discount rate	**1%**	**61,578**

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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

18. Mining and exploration rights

	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Cost as at 1 January 2017, net of accumulated amortisation	**469,036**	**-**	**469,036**
Amortisation for the year	**(2,173)**	**-**	**(2,173)**
Transfer to assets classified as held for sale (Note 14)	**(329,120)**	**-**	**(329,120)**
Cost as at 31 December 2017, net of accumulated amortisation	**137,743**	**-**	**137,743**
As at 31 December 2017:			
Cost	**158,665**	**-**	**158,665**
Accumulated amortisation	**(20,922)**	**-**	**(20,922)**
Net carrying amount	**137,743**	**-**	**137,743**
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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

19. Prepaid lease payments

	2017 RMB'000	2016 RMB'000
Carrying amount as at 1 January	**619,773**	634,277
Transfer from property, plant and equipment	-	2,130
Transfer to investment properties	-	(23)
Disposal	-	(489)
Amortisation for the year	**(15,537)**	(16,122)
Carrying amount as at 31 December	**604,236**	619,773
Current portion included in prepayments, deposits and other receivables	**(15,204)**	(15,204)
Non-current portion	**589,032**	604,569

As of the date of issuance of the consolidated 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 2016: RMB26,339,000), presented under "Other long term liabilities" and "Other payables and accruals", are no longer payable.

20. Investment properties

	Total RMB'000
Cost	
At 1 January 2016	-
Addition	129,999
Transfer	682
31 December 2016 and 31 December 2017	**130,681**
Depreciation and impairment	
At 1 January 2016	-
Depreciation for the year	(25)
At 31 December 2016	(25)
Depreciation for the year	(6,112)
Impairment	(2,271)
At 31 December 2017	**(8,408)**
Carrying values	
At 31 December 2017	**122,273**
At 31 December 2016	130,656

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

20. Investment properties - continued

As disclosed in prior year's annual report, Hubei Dayukou had obtained investment properties in Heilongjiang Province in December 2016 with fair value amounted to RMB129,999,000 as settlement of trade receivables due from one of its client.

As at 31 December 2017, the carrying value of the aforesaid investment properties was RMB123,938,000, and the directors of the Company carried out the review of the recoverable amounts of the investment properties using the fair value based on a valuation carried out by China Enterprise Appraisals Consultation Co. Ltd., an independent valuer not connected with the Group. The fair value was determined based on the direct comparison approach and there has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The review led to the recognition of an impairment loss of RMB2,271,000, which had been recognised in profit or loss for the year ended 31 December 2017.

21. Intangible assets

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2017, net of accumulated amortisation	**6,061**	**22,087**	**28,148**
Additions	**8,297**	**-**	**8,297**
Amortisation for the year	**(4,175)**	**(1,939)**	**(6,114)**
Cost as at 31 December 2017, net of accumulated amortisation	**10,183**	**20,148**	**30,331**
As at 31 December 2017:			
Cost	**61,175**	**152,690**	**213,865**
Accumulated amortisation	**(50,992)**	**(132,542)**	**(183,534)**
Net carrying amount	**10,183**	**20,148**	**30,331**

	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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

22. Investment in joint ventures

	2017 RMB'000	2016 RMB'000
Cost of investment in joint ventures	**265,299**	280,837
Share of post-acquisition profits and other comprehensive income, net of dividends received	**(35,823)**	(2,394)
	229,476	278,443

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

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. ("Yantai Port Fertiliser") (煙台港化肥物流有限公司) (Note i)	PRC 20 July 2011	RMB122,500	Direct Indirect	**-** **-**	Cargo handling, warehousing, packaging and domestic freight forwarding
CBC (Canada) Holding Corp ("CBC (Canada)") (中海化學(加拿大)控股公司) (Note ii)	Canada 28 May 2013	CAD24,000	Direct Indirect	**60.00** **-**	Investment holding
Hainan Basuo Port Labour Service Limited ("Basuo Labour Service ") (海南八所港務勞動服務有限公司) (Note 44(i))	PRC 14 March 2007	RMB5,000	Direct Indirect	**-** **36.56**	Provison of overseas shipping services

Note i: In July 2017, the Group's 27% interest in Yantai Port Fertiliser was terminated as Yantai Port Fertiliser's Board of Directors' unanimously agreement to dissolve Yantai Port Fertiliser by way of liquidation, which resulted in a cash proceed of RMB13,194,000 and recognition of a gain of RMB60,000 in profit or loss.

Note ii: As at 1 April 2016, the Company lost control and retained joint control over CBC (Canada), as detailed disclosed in the annual consolidated financial statements for the year ended 31 December 2016 and the Group accounts for CBC (Canada) as a joint venture.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

22. Investment in joint ventures - continued

As at 31 March 2017, Western Potash Corporation ("WPC", a listed company on Toronto Stock Exchange ("TSX")), in which CBC (Canada) held 10.1% equity interest, announced that it had completed a corporate reorganisation by way of a court approved plan of arrangement under the Business Corporations Act (British Columbia) (the "Arrangement") with Western Resources Corp. ("WRC"), pursuant to which WRC acquired all of the issued and outstanding common shares of WPC and WPC became a wholly-owned subsidiary of WRC. Under the terms of the Arrangement, former WPC shareholders received WRC's shares on the basis of 0.2 of a WRC common share for each one WPC common share. Upon the completion of the Arrangement, the proportionate ownership interests of the WRC shareholders in WRC were identical to their respective proportionate ownership interests in WPC before giving effect to the Arrangement. On 5 April 2017, WRC became the TSX listed successor company to WPC. WPC's shares were delisted from the TSX and WRC's shares commenced trading simultaneously.

In 2017, the Company recognised its share of CBC (Canada)'s losses amounted to RMB34,491,000, based on the management's assessment of recoverable amount of WRC's net assets and CBC (Canada)'s share of 10.1% interest in WRC. The recoverable amount of WRC is determined based on the stock price of WRC using the market approach.

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

	2017 RMB'000	2016 RMB'000
The Group's share of (loss)/profit and other comprehensive (expenses) /income	(36,833)	324
Aggregate carrying amount of the Group's investment in the joint ventures	229,476	278,443

23. Investment in associates

	2017 RMB'000	2016 RMB'000
Cost of investment in associates	670,031	667,900
Share of post-acquisition profits and other comprehensive income, net of dividends received	(451,561)	(453,096)
	218,470	214,804

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 29.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

23. Investment in associates - continued

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 2017	2016	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	49.00 -	49.00 -	Mining and sale of coal
China Basuo Overseas Shipping Agency Co., Ltd. ("Basuo Overseas Shipping") (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
Inner Mongolia Hong Feng Packaging Co., Ltd ("Inner Mongolia Hong Feng") (內蒙古鴻豐包裝有限責任公司) (Note 44 (i))	PRC 9 December 1999	RMB3,297	Direct Indirect	- 45.21	- N/A	Manufacture and sale of woven plastic bags
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	30.00 -	30.00 -	Merchandising

Note i: As of the date of issuance of the consolidated financial statements, Shanxi Jiaochangping Energy Industries Group Limited Company ("JCP Group"), which took over defaulted outstanding debts payable by Yangpoquan Coal ("the Debts") from China Cinda Asset Management Co., Ltd. ("Cinda"), which bought the Debts from Industrial and Commercial Bank of China Limited ("ICBC") in 2015, on 7 December 2017, has not initiated any proceeding to exercise its rights assumed from Cinda. 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 financial year.

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

	2017 RMB'000	2016 RMB'000
The Group's share of profit/(loss) total comprehensive expenses	1,535	(168)
Dividends received from the associate during the year	-	250
Aggregate carrying amount of the Group's investment in the associates	218,470	214,804

24. Available-for-sale investment

	2017 RMB'000	2016 RMB'000
Non-current		
Unlisted equity investment, at cost	600	600
Current		
Wealth management in licensed bank	-	-

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

25. 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:

	2017	2016
	RMB'000	RMB'000
Deferred tax assets	**840,105**	847,845
Deferred tax liabilities	**(47,079)**	(51,007)
	793,026	796,838

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

	Accelerated tax depreciation	Impairment losses	Wages and salaries	Financial instruments fair value changes	Fair value adjustment on acquisition of subsidairies	Unused tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 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 and 1 January 2017	**25,527**	**524,750**	**16,057**	**-**	**(51,007)**	**276,626**	**4,885**	**796,838**
(Charge)/credit to profit or loss	**(2,031)**	**5,573**	**(36)**	**-**	**3,928**	**(20,748)**	**9,502**	**(3,812)**
As at 31 December 2017	**23,496**	**530,323**	**16,021**	**-**	**(47,079)**	**255,878**	**14,387**	**793,026**

As at 31 December 2017, the Group has unused tax losses of RMB1,799,495,000 (31 December 2016: RMB1,419,115,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1,023,513,000 (31 December 2016: RMB1,106,504,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB775,982,000 (31 December 2016: RMB312,611,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB775,982,000 (31 December 2016: RMB312,611,000) that will expire in stages in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB579,915,000 (31 December 2016: RMB126,393,000) 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 2017

26. Inventories

	2017 RMB'000	2016 RMB'000
Raw materials and spare parts	463,557	448,532
Work in progress	316,459	298,940
Finished goods	472,302	556,200
	1,252,318	1,303,672
Write-down	(41,886)	(24,671)
Net realisable value	1,210,432	1,279,001

27. Trade receivables

Sales of the Group's fertilisers and chemicals including urea, MAP, DAP and methanol 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 customers other than the above are mainly on credit. The credit period is generally one month, except for some high-credit customers, where payments may be extended.

	2017 RMB'000	2016 RMB'000
Trade receivables	267,789	486,319
Less: allowance for doubtful debts	(361)	(368)
	267,428	485,951

An aging 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:

	2017 RMB'000	2016 RMB'000
Within six months	266,313	484,190
Over six months but within one year	713	1,160
Over two years	402	601
	267,428	485,951

The allowance for doubtful debts relate to an allowance made for individually impaired trade receivables with an aggregate carrying amount of RMB361,000 (2016: RMB368,000), which were in financial difficulties and none of these receivables is expected to be recovered.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

27. Trade receivables - continued

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	266,715	485,759
Less than one month past due	600	33
One to three months past due	113	159
	267,428	485,951

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 2017, the amounts due from CNOOC (the "ultimate holding company"), its subsidiaries, associates (other than the ultimate holding company collectively referred to as the "CNOOC group companies"), and the Company's subsidiaries' non-controlling shareholders and the non-controlling shareholders' subsidiaries (the "other related parties") included in the above trade receivable balances in aggregate was RMB236,604,000 (2016:RMB447,532,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

28. Bills receivable

The bills receivable of the Group as at 31 December 2017 and 2016 are all mature within six months.

At 31 December 2017, the Group has transferred bills receivable 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 RMB266,366,000 (2016: RMB183,689,000). The Group has derecognised these bills receivable 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 2017, 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 RMB266,366,000 (2016: RMB183,689,000).

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

29. Prepayments, deposits and other receivables

	2017 RMB'000	2016 RMB'000
Prepayments	**175,514**	126,961
Prepaid lease payments	**15,204**	15,204
Deposits and other receivables	**138,616**	77,777
Less: allowance for doubtful debts	**(7,624)**	(7,624)
	321,710	212,318

The allowance for doubtful debts relate to an allowance made for individually impaired other receivables with an aggregate carrying amount of RMB7,624,000 (2016: RMB7,624,000), which were in financial difficulties and none of these 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:

	2017 RMB'000	2016 RMB'000
Ultimate holding company	**20**	20
CNOOC group companies	**42,167**	18,416
Associates	**11,960**	10,042
	54,147	28,478

30. Cash and cash equivalents, pledged bank deposits and time deposits with maturity over three months

	2017 RMB'000	2016 RMB'000
Cash and bank and financial institution balances	**6,899,380**	5,702,548
Less: Pledged bank deposits	**(6,942)**	(4,136)
Time deposits with original maturity over three months	**(287,505)**	-
Cash and cash equivalents in the consolidated statement of cash flows	**6,604,933**	5,698,412
Less: Cash and cash equivalents included in assets classified as held for sale	**(14,639)**	-
Cash and cash equivalents in the consolidated statement of financial position	**6,590,294**	5,698,412

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

30. Cash and cash equivalents, pledged bank deposits and time deposits with maturity over three months - continued

The Group's cash and bank balances were denominated in RMB as at 31 December 2017 and 2016, except for amounts of RMB938,981,000 (2016: RMB667,435,000) which was translated from USD143,702,000 (2016: USD96,214,000); and RMB1,092,000 (2016: RMB8,000) which was translated from HKD1,306,000 (2016: HKD9,000); and RMB24,000 (2016: RMB13,394,000) which was translated from EUR3,000 (2016: EUR1,833,000).

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 2017, included in the Group's cash and cash equivalents were RMB395,220,000 (2016: RMB216,641,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"), a subsidiary of the ultimate holding company and a licensed financial institution.

Cash at banks and financial institution 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.

31. Issued capital

	Number of shares '000	Nominal value RMB'000
Registered capital	4,610,000	4,610,000
Issued and fully paid:		
Domestic shares of RMB1 each, currently not listed:		
- State-owned shares	2,739,000	2,739,000
- Other legal person shares	75,000	75,000
Unlisted foreign shares of RMB1 each	25,000	25,000
H shares of RMB1 each	1,771,000	1,771,000
As at 31 December 2017 and 2016	**4,610,000**	**4,610,000**

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

32. 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. Hainan Basuo Port, the Group's non-wholly owned subsidiary, provides early retirement benefits to qualifying retirees.

	2017 RMB'000	2016 RMB'000
Post-employment allowances	**12,962**	15,165
Early retirement benefits	**52,890**	52,416
Total benefit liability	**65,852**	67,581

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 2016	15,587	25,689
Current service cost	61	-
Past service cost - plan amendments	-	33,607
Net interest cost	442	1,374
Benefits paid	(925)	(8,254)
As at 31 December 2016 and 1 January 2017	**15,165**	**52,416**
Past service cost - plan amendments (Note i)	**(1,694)**	**15,114**
Net interest cost	**392**	**1,358**
Benefits paid	**(901)**	**(15,998)**
As at 31 December 2017	**12,962**	**52,890**

Note i: During the year, CNOOC Tianye recorded additional early retirement benefits liability due to its additional qualifying early retirees in accordance with an internal retirement plan, and made modification of the items of post-employment allowances, which were considered as plan amendments to past service cost.

The principal assumptions used in determining post-employment allowances and early retirement benefits of the Group as at 31 December 2017 are shown below:

	Post-employment Allowances 2017	Early Retirement Benefits 2017
Discount rate		
- CNOOC Tianye	**4.00%**	**4.00%**
- Hainan Basuo Port	**N/A**	**3.75%**
Annual growth rate of employee benefits		
- CNOOC Tianye	**0.00%**	**7.00%**
- Hainan Basuo Port	**N/A**	**0.00%**

The directors of the Company have reviewed the actuarial valuation as at 31 December 2017 which was performed by Towers Watson Consultant (Shanghai) Ltd., an independent actuary service provider, using the valuation method detailed under the heading "Benefits liability" in Note 3, and considered that the Group's current provision for the net benefit expenses was adequate as at 31 December 2017. 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 2017

33. Interest-bearing bank borrowings

	2017 RMB'000	2016 RMB'000
Unsecured bank loans repayable:		
Within one year	**25,000**	68,900
More than one year, but not more than five years	**735,000**	750,000
More than five years	**50,000**	60,000
	810,000	878,900
Analysed for reporting purposes as:		
Current	**25,000**	68,900
Non-current	**785,000**	810,000

The unsecured bank loans have effective interest rates of 4.28%-4.41%, payable within 2018 to 2023. The amounts due are based on the scheduled repayment dates set out in the loan agreements.

34. Deferred revenue

Deferred revenue represents unconditional 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.

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	**158,865**	137,669
Additions	**22,797**	25,000
Credited to the consolidated statement of profit or loss during the year	**(6,452)**	(3,804)
Balance at end of the year	**175,210**	158,865

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

35. Trade and bills payables

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

	2017 RMB'000	2016 RMB'000
Within six months	837,939	1,021,041
Over six months but within one year	12,942	12,674
Over one year but within two years	22,485	12,061
Over two years but within three years	3,613	2,002
Over three years	12,543	13,065
	889,522	1,060,843

As at 31 December 2017, the amounts due to CNOOC group companies included in the above trade payable and bills payables balances amounted to RMB283,433,000 (2016: RMB254,646,000).

36. Other payables and accruals

	2017 RMB'000	2016 RMB'000
Advances from customers	585,038	627,067
Accruals	21,426	15,641
Accrued payroll	172,822	179,255
Other payables	244,265	239,214
Long-term liabilities due within one year in relation to CNOOC Hualu land use right	1,798	1,798
Interest payable	1,148	1,182
Dividends payable	18,823	102
Payable to government	21,848	97,603
Other tax payables	53,344	34,691
Port construction fee payable	164,656	164,656
Payables in relation to the construction and purchase of property, plant and equipment	84,226	156,143
	1,369,394	1,517,352

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:

	2017 RMB'000	2016 RMB'000
Due to the ultimate holding company	532	532
Due to CNOOC group companies	94,683	75,464
Due to other related parties	3,284	7,443
	98,499	83,439

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

37. 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 three years and can be renewed prior to the end of the lease terms. Interest rates are around 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	
	31/12/2017	31/12/2016	**31/12/2017**	31/12/2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Due for settlement within 12 months	**96,507**	98,103	**60,000**	60,000
Due for settlement beyond 12 months	**1,347,312**	1,443,819	**1,336,118**	1,396,166
Less: future finance charges	**(47,701)**	(85,756)	**-**	-
Present value of lease obligations	**1,396,118**	1,456,166	**1,396,118**	1,456,166
Analysed for reporting purposes as:				
Current			**60,000**	60,000
Non-current			**1,336,118**	1,396,166

38. 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 ten years to CNOOC group companies and third-party companies.

As at 31 December 2017 and 2016, 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:

	2017	2016
	RMB'000	RMB'000
Within one year	**1,528**	1,183
In the second to fifth year, inclusive	**5,668**	5,639
After five years	**3,491**	4,963
	10,687	11,785

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

38. 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 eighteen years, and those for vehicles are for terms ranging from one month to one year.

At 31 December 2017 and 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**3,004**	12,706
In the second to fifth year, inclusive	**1,233**	2,213
After five years	**1,959**	2,199
	6,196	17,118

39. Commitments and contingent liabilities

Capital commitments

In addition to the operating lease commitments detailed in Note 38(ii) above, the Group had the following capital commitments at the end of the reporting year:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for		
acquisition of plant and machinery	**78,527**	92,008

Contingent liabilities

Yangpoquan Coal commenced arbitration against the Company since 2014 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. The Group had been advised by its legal counsel that it was not probable that a significant liability would arise. Accordingly, no provision in relation to this claim had been recognised in the past consolidated financial statements.

On 20 October 2017, the Trade Arbitration Commission made a final ruling that the Company was judged to compensate RMB2,550,000 to Yangpoquan Coal and to afford 40% of arbitration fee amounted to RMB2,809,000. The Company had accrued the total amount RMB5,359,000 presented under "Other payables and accruals" accordingly as at 31 December 2017. The Group has been advised by its legal counsel that in according to the Arbitration Law of PRC, both the Company and Yangpoquan Coal retains rights of applying to the People's Court to revoke the final ruling within six months after the arbitration date, i.e. before 20 April 2018. The directors of the Company intend to accept the final ruling, and by the date of issuing these consolidated financial statements, the legal counsel have not received any documents or notice of Yangpoquan Coal's application for revocation of the arbitration's final ruling. The directors of the Company are in the view that it is not probable that further significant liability will arise, and accordingly, no additional 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 2017

40. Related party transactions

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

(1) Recurring

	2017 RMB'000	2016 RMB'000
(A) Included in revenue, other income		
(a) CNOOC group companies		
Sale of goods	**265,647**	585,547
Provision of packaging and assembling services	**94,061**	95,089
Provision of utilities	**7,238**	1,948
Provision of transportation services	**161**	446
Provision of logistics services	**24**	7,222
(b) Other related parties		
Sale of goods	**371,283**	280,126
Provision of transportation services	**15,222**	15,919
(B) Included in cost of sales and other expenses		
(a) CNOOC group companies		
Purchase of raw materials	**2,667,182**	2,471,418
Transportation services	**3,790**	-
Labour services	**33,417**	32,012
Construction and installation services	**28,075**	30,490
Lease of offices	**27,565**	26,588
Logistics services	**5,600**	5,003
Network services	**5,546**	6,948
(b) Other related parties		
Purchase of raw materials	**7,507**	-
(c) The ultimate holding company		
Logistics services	**4,087**	3,600
(C) Included in loans and finance income/costs		
(a) CNOOC Finance		
Finance income from CNOOC Finance	**3,938**	2,683
Fees and charges paid to CNOOC Finance	**1,548**	1,127
Interests paid to CNOOC Finance	**5,424**	9,471
Loans received from CNOOC Finance	**195,000**	40,000
(D) Included in finance leaseback		
(a) CNOOC Leasing		
Finance lease charges	**20,218**	13,645
Interest on finance leaseback	**44,532**	45,307
Borrowing raised from finance leaseback	**-**	2,000,000

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

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 27, 29, 35, 36 and 37. 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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	**20**	20	**532**	532
CNOOC group companies (excluding CNOOC Finance)	**277,339**	465,948	**1,774,187**	1,788,546
Associates	**11,960**	10,042	**-**	-
CNOOC Finance	**-**	-	**47**	-
Other related parties	**1,432**	-	**3,284**	7,443

In addition, as at 31 December 2017, the deposits placed by the Group with CNOOC Finance were amounted to RMB395,220,000 (31 December 2016: RMB216,641,000), as detailed in Note 30.

(3) Compensation of key management personnel of the Group

	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	**7,590**	6,868
Post-employment benefits	**83**	151
Total compensation paid to key management personnel	**7,673**	7,019

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 2017

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 ("WNG") and WNG mainly supplied natural gas to CNOOC Tianye. During the year ended 31 December 2017, the Group made a total procurement of RMB545,325,000 from WNG (2016: RMB365,920,000). 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 2017, the sales amount reached RMB318,794,000 (2016: RMB239,793,000). Except for the above two SOEs, sales to and procurements from other SOEs are considered as not significant transactions.

In addition, the Group has certain of its bank deposits, pledged bank deposits and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2017, as summarised below:

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	6,550,913	5,488,277
Pledged bank deposits	6,942	4,136
Time deposits	287,505	-
	6,845,360	5,492,413
Interest-bearing bank borrowings (Note 33)	810,000	878,900

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 2017

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:

	2017		
	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	267,428	-	267,428
Bills receivable	31,138	-	31,138
Financial assets included in deposits and other receivables	128,447	-	128,447
Pledged bank deposits	6,942	-	6,942
Timing deposits	287,505	-	287,505
Cash and cash equivalents	6,604,933	-	6,604,933
	7,326,393	600	7,326,993

	2017		
	Financial liabilities at amortised cost	Obligations under finance lease	Total
	RMB'000	RMB'000	RMB'000
Financial liabilities			
Trade and bills payables	889,522	-	889,522
Financial liabilities included in other payables and accruals	534,966	-	534,966
Obligations under finance lease	-	1,396,118	1,396,118
Interest-bearing bank borrowings	810,000	-	810,000
Other long-term liabilities	27,454	-	27,454
	2,261,942	1,396,118	3,658,060

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

41. Financial instruments by category - continued

	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 amortised cost	Obligations under finance lease	Total
	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 2017

42. 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 and obligations under finance lease 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 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 team'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 2017

43. Financial risk management objectives and policies

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 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 2017, the Group's interest-bearing bank borrowings, obligations under finance lease bear variable interest rates amounted to RMB2,206,118,000 (2016: RMB2,335,066,000).

The interest rates and the terms of repayment of the Group's bank borrowings and obligations under finance lease are disclosed in Notes 33 and 37.

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 2017 would be decreased/increased by approximately RMB8,273,000 (2016: decreased/increased by RMB4,661,000).

(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	
	31/12/2017	31/12/2016	**31/12/2017**	31/12/2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**195,687**	419,833	**847,620**	1,083,389
HKD	**-**	-	**1,092**	8
EUR	**-**	-	**24**	13,394

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 11% (2016: 25%) 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 and EUR. The Group was exposed to foreign currency risk arising from the changes in the exchange rates of USD, HKD, and EUR 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 2017

43. 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 and EUR.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, HKD and EUR respectively. 5% (2016: 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 a decrease in profit (2016: an increase in loss) and decrease in equity where the RMB strengthen against USD, HKD and EUR. For a 5% (2016: 5%) weakening of the RMB against USD, HKD and EUR, there would be an equal and opposite impact on the loss/profit or equity.

	Impact of USD		Impact of HKD		Impact of EUR	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sensitivity rate	5%	5%	5%	5%	5%	5%
Profit or loss	(24,447)	(24,884)	(41)	-	(1)	(69)
Equity	(24,447)	(24,884)	(41)	-	(1)	(69)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the 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 2017, the trade receivable of China Bluechemical (Hong Kong) Limited from China National Chemical Construction Corporation (which was a subsidiary of CNOOC) amounted to RMB196,144,000 (as at 31 December 2016: RMB413,873,000), 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 2017

43. Financial risk management objectives and policies - continued

(iv) Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 31 December 2017, the balance of the Group's interest-bearing bank borrowings is RMB810,000,000.

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:

	2017					
	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	2,975	5,949	48,706	841,079	50,367	949,076
Trade payables	16,156	35,427	825,039	-	-	876,622
Bills payable	9,910	-	2,990	-	-	12,900
Financial liabilities included in other payables and accruals	240,735	160,490	133,741	-	-	534,966
Obligations under finance leases	-	-	96,507	1,347,312	-	1,443,819
Other long-term liabilities	-	-	-	7,190	69,424	76,614
	269,776	201,866	1,106,983	2,195,581	119,791	3,893,997

	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

In addition to the amounts shown in the above table as at 31 December 2017, 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 28 in the next 6 months, amounting to RMB266,366,000 in aggregate.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

43. Financial risk management objectives and policies - continued

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividends 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 2017 and 2016.

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:

	2017	2016
	RMB'000	RMB'000
Interest-bearing debts (Note)	**2,206,118**	2,335,066
Net assets	**14,247,929**	14,313,860
Net assets and interest-bearing debts	**16,454,047**	16,648,926
Gearing ratio	**13.41%**	14.03%

Note: Interest-bearing debts comprises interest-bearing bank borrowings and obligations under finance leases as detailed in Notes 33 and 37 respectively.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

44. 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 2017 and 31 December 2016:					
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	RMB477,400 (31 December 2017) RMB470,500 (31 December 2016)	Direct Indirect Direct Indirect	100.00 - 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
Hainan 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
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
Yichang Mining (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
CNOOC Fudao(Shanghai) Chemical Limited. (海油富島(上海)化學有限公司) (Former "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 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 (中海油华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

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

44. 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
Hubei Dayukou (湖北大峪口化工有限責任公司) (Note i)	PRC 12 August 2005	RMB1,103,127	Direct Indirect	79.98 -	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
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
China BlueChemical (Hong Kong) Limited 中海化學(香港)有限公司	Hong Kong 14 November 2013	HKD100	Direct Indirect	100.00 -	Trading of fertilisers
CNOOC (Hainan) E&P Gas Limited (中海石油(海南)環保氣體有限公司) (Note ii)	PRC 8 November 2004	-	Direct Indirect	- -	Manufacture and sale of liquidised carbon dioxide
China BlueChemical Baotou Coal Chemical Industry Co., Ltd. (中海油化學包頭煤化工有限公司) (Note ii)	PRC 11 September 2008	-	Direct Indirect	- -	Manufacture and sales of fertilisers and chemical products
Guangxi Fudao Chemical Limited (廣西富島化工有限公司) (Note ii)	PRC 8 February 2006	-	Direct Indirect	- -	Trading of fertilisers and chemicals
Basuo Labour Service (海南八所港勞動服務有限公司) (Note iii)	PRC 14 March 2007	RMB5,000	Direct Indirect	- -	Provision of overseas shipping services
Inner Mongolia Hong Feng (內蒙古鴻豐包裝有限責任公司) (Note iii)	PRC 9 December 1999	RMB3,297	Direct Indirect	- -	Manufacture and sale of woven plastic bags

Note i: Pursuant to a resolution made in 2017, the Group entered into an agreement in 23 November 2017 with a creditor in Hubei Dayukou, a then 83.97% subsidiary, to issue new capital in place of the current liability amounted to RMB80,000,000, of which fair value approximated the carrying amount, and on the same day the creditor holds 4.76% of the total outstanding equity interest in Hubei Dayukou. The difference between the Group's share of carrying amount of Hubei Dayukou's net assets before and after the issuance of 4.76% new capital amounting to RMB18,465,000 was recognised directly in equity and attributed to owners of the parent. The arrangement was also constituted the Group's major non-cash transaction in 2017.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

44. 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

Note ii: Pursuant to a resolution made in 2017, the Group completed the liquidation of its subsidiaries CNOOC (Hainan) E&P Gas Limited, China BlueChemical Baotou Coal Chemical Industry Co., Ltd. and Guangxi Fudao Chemical Limited, in May, October and December 2017, respectively. The directors of the Company consider that there is no significant gain or loss arising from the aforesaid liquidation.

Note iii: Pursuant to a resolution made in 2017, the Company lost its control in Basuo Labour Service on 11 December 2017, a then 73.11% subsidiary, pursuant to a capital injection by Hainan Basuo Port and its associate Basuo Overseas Shipping with the amount of RMB197,000 and RMB1,000,000 respectively. After the aforesaid capital injection, the Company is having joint control with the remaining direct shareholding of 50% through a non-wholly owned subsidiary, with indirect shareholding of 36.56%, as all Basuo Labour Service's resolutions require unanimous votes.

Pursuant to a resolution made in 2017, the Company disposed partial equity interest and lost its control in Inner Mongolia Hong Feng on 30 October 2017, a then 65.14% subsidiary, to a third party. After the aforesaid disposal, the Company is having significant influence with representation of directorship in this investee and the remaining indirect shareholding of 45.21%.

The Group considers Basuo Labour Service as a joint venture and Inner Mongolia Hong Feng as an associate, effective from 11 December 2017 and 30 October 2017, respectively. Hence, the Group derecognised on the same day the carrying amounts of assets, liabilities and non-controlling interests as well as reclassified the amounts previously recognised in other comprehensive income to profit or loss, if any, in relation to Basuo Labour Service and Inner Mongolia Hong Feng and recognised at fair value its investment retained in Basuo Labour Service of RMB1,000,000 and Inner Mongolia Hong Feng of RMB2,131,000, with the resulting total difference of RMB307,000 recognised as gains in profit or loss attributable to the Company. Proceeds upon the disposal of net assets of Basuo Labour Service and Inner Mongolia Hong Feng is amounted to RMB2,690,000.

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 collectively 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.

(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	
		31/12/2017	31/12/2016	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016
				RMB'000	RMB'000	**RMB'000**	RMB'000
CNOOC Kingboard Chemical Limited	Hainan	**40.00%**	40.00%	**107,968**	10,465	**433,776**	329,273
Hainan Basuo Port	Hainan	**26.89%**	26.89%	**6,992**	16,452	**209,337**	221,168
CNOOC Tianye	Inner Mongolia	**7.73%**	7.73%	**(19,597)**	(20,305)	**41,306**	60,903
Hubei Dayukou	Hubei	**20.02%**	16.03%	**(39,464)**	(24,228)	**215,804**	193,733
Yichang Mining	Hubei	**49.00%**	49.00%	**(361)**	(238)	**200,976**	201,338

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 2017

44. 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	2017 RMB'000	2016 RMB'000
Current assets	**900,439**	526,429
Non-current assets	**349,453**	432,353
Current liabilities	**(153,063)**	(120,903)
Non-current liabilities	**(12,389)**	(14,697)
Equity attributable to owners of the Company	**650,664**	493,909
Non-controlling interests	**433,776**	329,273

	2017 RMB'000	2016 RMB'000
Revenue	**1,268,224**	958,449
Expenses	**(998,304)**	(932,287)
Profit for the year	**269,920**	26,162
Profit and total comprehensive income for the year attributable to owners of the Company	**161,952**	15,697
Profit and total comprehensive income for the year attributable to the non-controlling interests	**107,968**	10,465
Profit and total comprehensive income for the year	**269,920**	26,162
Dividends paid to non-controlling interests	**3,465**	-
Net cash inflow from operating activities	**361,435**	41,456
Net cash (outflow)/inflow from investing activities	**(81,844)**	7,994
Net cash outflow from financing activities	**(8,662)**	-
Net cash inflow	**270,929**	49,450

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

44. Particulars of principal subsidiaries of the company - continued

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

Hainan Basuo Port	2017 RMB'000	2016 RMB'000
Current assets	**224,212**	176,813
Non-current assets	**969,331**	1,007,860
Current liabilities	**(307,873)**	(251,978)
Non-current liabilities	**(107,176)**	(110,205)
Equity attributable to owners of the Company	**569,157**	601,322
Non-controlling interests	**209,337**	221,168

	2017 RMB'000	2016 RMB'000
Revenue	**320,615**	313,699
Expenses	**(294,604)**	(252,512)
Profit for the year	**26,011**	61,187
Profit and total comprehensive income for the year attributable to owners of the Company	**19,019**	44,735
Profit and total comprehensive income for the year attributable to the non-controlling interests	**6,992**	16,452
Profit and total comprehensive income for the year	**26,011**	61,187
Dividends paid to non-controlling interests	**18,823**	8,065
Net cash inflow from operating activities	**68,517**	33,995
Net cash (outflow)/inflow from investing activities	**(45,793)**	20,575
Net cash outflow from financing activities	**-**	(23,377)
Net cash inflow	**22,724**	31,193

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

44. Particulars of principal subsidiaries of the company - continued

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

CNOOC Tianye	2017 RMB'000	2016 RMB'000
Current assets	261,064	189,376
Non-current assets	1,261,753	1,482,510
Current liabilities	(931,335)	(826,753)
Non-current liabilities	(57,118)	(57,260)
Equity attributable to owners of the Company	493,058	726,970
Non-controlling interests	41,306	60,903

	2017 RMB'000	2016 RMB'000
Revenue	994,039	737,326
Expenses	(1,247,548)	(1,000,016)
Loss for the year	(253,509)	(262,690)
Loss and total comprehensive expense for the year attributable to owners of the Company	(233,912)	(242,385)
Loss and total comprehensive expense for the year attributable to the non-controlling interests	(19,597)	(20,305)
Loss and total comprehensive expense for the year	(253,509)	(262,690)
Dividends paid to non-controlling interests	-	-
Net cash outflow from operating activities	(128,514)	(110,240)
Net cash inflow/ (outflow) from investing activities	4,718	(28,040)
Net cash inflow from financing activities	122,225	140,719
Net cash (outflow) /inflow	(1,571)	2,439

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

44. Particulars of principal subsidiaries of the company - continued

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

Hubei Dayukou	2017 RMB'000	2016 RMB'000
Current assets	544,275	615,716
Non-current assets	1,960,776	2,256,140
Current liabilities	(943,528)	(1,162,587)
Non-current liabilities	(483,583)	(500,702)
Equity attributable to owners of the Company	862,136	1,014,834
Non-controlling interests	215,804	193,733

	2017 RMB'000	2016 RMB'000
Revenue	2,074,341	1,915,615
Expenses	(2,286,343)	(2,066,755)
Loss for the year	(212,002)	(151,140)
Loss and total comprehensive expense for the year attributable to owners of the Company	(172,538)	(126,912)
Loss and total comprehensive expense for the year attributable to the non-controlling interests	(39,464)	(24,228)
Loss and total comprehensive expense for the year	(212,002)	(151,140)
Dividends paid to non-controlling interests	-	-
Net cash inflow from operating activities	228,586	486,629
Net cash outflow from investing activities	(9,123)	(19,627)
Net cash outflow from financing activities	(238,645)	(437,627)
Effect of foreign exchange rate changes	(5,335)	-
Net cash (outflow) /inflow	(24,517)	29,375

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

44. Particulars of principal subsidiaries of the company - continued

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

Yichang Mining	2017 RMB'000	2016 RMB'000
Current assets	**15,615**	21,109
Non-current assets	**395,972**	391,879
Current liabilities	**(1,431)**	(2,094)
Non-current liabilities	**-**	-
Equity attributable to owners of the Company	**209,180**	209,556
Non-controlling interests	**200,976**	201,338

	2017 RMB'000	2016 RMB'000
Revenue	**-**	-
Expenses	**(737)**	(485)
Loss for the year	**(737)**	(485)
Loss and other comprehensive expenses for the year attributable to owners of the Company	**(376)**	(247)
Loss and other comprehensive expenses for the year attributable to the non-controlling interests	**(361)**	(238)
Loss and other comprehensive expenses for the year	**(737)**	(485)
Dividends paid to non-controlling interests	**-**	-
Net cash outflow from operating activities	**(1,653)**	(1,059)
Net cash inflow from investing activities	**15,082**	1,324
Net cash inflow from financing activities	**-**	-
Net cash inflow	**13,429**	265

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

45. Statement of financial position and reserves of the company

	2017 RMB'000	2016 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	1,144,754	1,359,340
Investment properties	10,034	10,900
Prepaid lease payments	50,924	52,601
Intangible assets	2,774	304
Investments in subsidiaries	5,367,751	5,680,931
Investments in joint ventures	228,779	276,464
Investment in an associate	196,859	196,859
Deferred tax assets	188,697	185,631
Prepayment for property, plant and equipment	6,900	-
	7,197,472	7,763,030
Current assets		
Inventories	177,661	187,849
Trade receivables	64,796	130,575
Prepayments, deposits and other receivables	182,172	88,450
Loans receivable	1,084,213	1,002,300
Cash and cash equivalents	2,988,548	2,362,853
Time deposits with original maturity over three months	130,684	-
Investments in subsidiary classified as held for sale	213,180	-
	4,841,254	3,772,027
Total assets	12,038,726	11,535,057
Equity and liabilities		
Equity		
Paid-up capital	4,610,000	4,610,000
Reserves	6,546,737	6,237,468
Proposed dividends	322,700	230,500
Total equity	11,479,437	11,077,968
Non-current liabilities		
Deferred revenue	2,768	2,768
Other long-term liabilities	13,812	14,388
	16,580	17,156
Current liabilities		
Trade payables	236,878	175,991
Other payables and accruals	229,300	237,046
Income tax payable	76,531	26,896
	542,709	439,933
Total liabilities	559,289	457,089
Total equity and liabilities	12,038,726	11,535,057

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

45. 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 2017 and 2016 are as follows:

	Note	Capital reserve	Statutory surplus reserve	Special reserve	Retained profits	Proposed dividends	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017		**1,366,392***	**1,008,218***	**-**	**3,862,858***	**230,500**	**6,467,968**
Profit and other comprehensive income for the year		**-**	**-**	**-**	**631,969**	**-**	**631,969**
Total comprehensive income for the year		**1,366,392**	**1,008,218**	**-**	**4,494,827**	**230,500**	**7,099,937**
Appropriation and utilisation of safety fund, net		**-**	**-**	**163**	**(163)**	**-**	**-**
Transfer from retained profits		**-**	**61,041**	**-**	**(61,041)**	**-**	**-**
Proposed 2017 final dividends	15	**-**	**-**	**-**	**(322,700)**	**322,700**	**-**
Final 2016 dividends declared		**-**	**-**	**-**	**-**	**(230,500)**	**(230,500)**
As at 31 December 2017		**1,366,392***	**1,069,259***	**163***	**4,110,923***	**322,700**	**6,869,437**

	Note	Capital reserve	Statutory surplus reserve	Special reserve	Retained profits	Proposed dividends	Total equity
		RMB'000	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 and other comprehensive income 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
Transfer from retained profits		-	13,111	-	(13,111)	-	-
Proposed 2016 final dividends	15	-	-	-	(230,500)	230,500	-
Final 2015 dividends declared		-	-	-	-	(368,800)	(368,800)
As at 31 December 2016		1,366,392*	1,008,218*	-	3,862,858*	230,500	6,467,968

* These reserve accounts comprise the Company's reserves of RMB6,546,737,000 (2016: RMB6,237,468,000) in the Company's statement of financial position.

Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2017

46. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest-bearing bank borrowings RMB'000	Obligation under finance lease RMB'000	Interest payable RMB'000	Dividends payable RMB'000	Total RMB'000
Notes	Note 33	Note 37	Note 36	Note 36	
At 1 January 2017	878,900	1,456,166	1,182	102	2,336,350
Financial cash flows	(68,900)	(124,797)	(66,119)	(233,973)	(493,789)
Interest expense (Note 9)	-	55,334	66,085	-	121,419
VAT payable for obligation under finance lease	-	9,415	-	-	9,415
Dividends declared to non-controlling shareholders	-	-	-	22,296	22,296
Final 2016 dividends declared	-	-	-	230,500	230,500
Loss of control over subsidiaries	-	-	-	(102)	(102)
	810,000	1,396,118	1,148	18,823	2,226,089

47. Events after the reporting year

There is no material event after the reporting year.

48. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

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;
Urea	$H_2N\text{-}CO\text{-}NH_2$, 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
Joint Company Secretary	Wu Xiaoxia Ng Sau Mei
Authorized representatives	Xia Qinglong Wu Xiaoxia
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 55th Floor, One Island East, Taikoo Place, Quarry Bay, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
Investor Relations/Public Relations	
Hong Kong	Tel: (852) 22132533 Fax: (852) 25259322
Beijing	Tel: (86) 010 84521782 Fax: (86) 010 84527254
Webiste	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983