# ANNUAL REPORT 2018

HKSE CODE: 3983

中海石油化学股份有限公司
China BlueChemical Ltd.

The production facilities in Hainan

The production facilities in Inner Mongolia

The production facilities in Hubei

The production facilities in Heilongjiang

# 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.

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# Financial Highlights

## Selected consolidated income statement data

For the year ended 31 December, RMB'million

| Financial Highlights | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Revenue** | 10,796.9 | 10,671.8 | 8,503.8 | 9,799.7 | **11,259.6** |
| Cost of sales | (8,111.3) | (8,925.9) | (8,204.3) | (8,114.6) | **(8,501.3)** |
| **Gross profit** | 2,685.6 | 1,745.9 | 299.5 | 1,685.1 | **2,758.3** |
| Other income and other gains and losses | 211.9 | 392.6 | 268.2 | 293.7 | **434.7** |
| Selling and distribution costs | (425.0) | (409.4) | (344.5) | (385.7) | **(418.5)** |
| Administrative expenses | (518.4) | (408.3) | (450.1) | (453.0) | **(455.6)** |
| Other expenses | (110.2) | (17.0) | (15.5) | (13.5) | **(161.6)** |
| Finance income | 8.3 | 9.8 | 8.0 | 10.7 | **11.2** |
| Finance costs | (9.5) | (91.5) | (162.1) | (121.4) | **(104.6)** |
| Net exchange (losses)/gains | 8.5 | (22.3) | 8.5 | (48.2) | **13.3** |
| Share of losses of joint ventures | (0.6) | (0.6) | (1.5) | (36.8) | **(0.2)** |
| Share of gains/(losses) of associates | (477.0) | (68.1) | (0.2) | 1.5 | **1.2** |
| Impairment losses | (1,260.4) | - | - | (442.6) | **(0.9)** |
| Gain recognised on expiry of the put option and call option | - | - | 53.8 | - | **-** |
| Gain on disposal of a subsidiary | - | - | - | - | **62.9** |
| Gain on loss of control of subsidiaries | - | - | 6.3 | 0.3 | **-** |
| **Profit/(loss) before tax** | 113.2 | 1,131.1 | (329.6) | 490.1 | **2,140.2** |
| Income tax (expenses)/benefits | (16.2) | (288.1) | 92.9 | (382.6) | **(611.9)** |
| **Profit/(loss) for the year** | 97.1 | 843.0 | (236.7) | 107.5 | **1,528.3** |
| Profit/(loss) for the year attributable to equity holders of the parent | 105.3 | 829.7 | (215.5) | 50.2 | **1,378.9** |
| Basic Earnings/(loss) per share attributable to ordinary owners of the Company (RMB) | 0.02 | 0.18 | (0.05) | 0.01 | **0.3** |

## Selected consolidated statement of financial position data

As at 31 December, RMB'million

| Financial Highlights | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Non-current assets | 12,285.7 | 12,065.2 | 11,591.0 | 9,836.0 | **9,207.8** |
| Current assets | 7,653.6 | 8,146.7 | 8,075.7 | 9,413.0 | **10,741.4** |
| **Total assets** | 19,939.3 | 20,211.9 | 19,666.7 | 19,249.0 | **19,949.2** |
| **Equity and liabilities** | | | | | |
| **Total equity** | 14,749.3 | 14,881.6 | 14,313.9 | 14,247.9 | **15,127.6** |
| Non-current liabilities | 2,296.4 | 1,248.8 | 2,598.1 | 2,523.3 | **1,089.4** |
| Current liabilities | 2,893.6 | 4,081.5 | 2,754.7 | 2,477.8 | **3,732.2** |
| **Total equity and liabilities** | 19,939.3 | 20,211.9 | 19,666.7 | 19,249.0 | **19,949.2** |

# Operational Highlights

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

| | | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|---|
| | | Production volume (tonnes) | | | Utilisation rate (%) | | |
| | | **2018** | 2017 | Change % | **2018** | 2017 | Change |
| **Chemical fertilisers** | | | | | | | |
| Urea | Fudao Phase I | **468,786** | 566,184 | (17.2) | **90.2** | 108.9 | (18.7) |
| | Fudao Phase II | **863,562** | 749,373 | 15.2 | **107.9** | 93.7 | 14.2 |
| | CNOOC Tianye | **443,030** | 374,164 | 18.4 | **85.2** | 72.0 | 13.2 |
| | CNOOC Huahe | **594,005** | 581,527 | 2.1 | **114.2** | 111.8 | 2.4 |
| | **Group total** | **2,369,383** | 2,271,248 | 4.3 | **100.4** | 96.2 | 4.2 |
| Phosphate fertilisers and compound fertilisers | DYK MAP | **60,435** | 67,978 | (11.1) | **40.3** | 45.3 | (5) |
| | DYK DAP Phase I (Note 1) | **282,452** | 292,729 | (3.5) | **80.7** | 83.6 | (2.9) |
| | DYK DAP Phase II | **608,341** | 583,133 | 4.3 | **121.7** | 116.6 | 5.1 |
| | **Group total** | **951,228** | 943,840 | 0.8 | **95.1** | 94.4 | 0.7 |
| **Chemical products** | | | | | | | |
| Methanol | Hainan Phase I | **574,175** | 551,745 | 4.1 | **95.7** | 92.0 | 3.7 |
| | Hainan Phase II | **787,363** | 791,240 | (0.5) | **98.4** | 98.9 | (0.5) |
| | CNOOC Tianye | **161,445** | 191,829 | (15.8) | **80.7** | 95.9 | (15.2) |
| | **Group total** | **1,522,983** | 1,534,814 | (0.8) | **95.2** | 95.9 | (0.7) |
| POM | CNOOC Tianye (Note 2) | **10,275** | - | - | **102.8** | - | 102.8 |
| | **Group total** | **10,275** | - | - | **102.8** | - | 102.8 |

Note 1: In 2018, DYK DAP Phase I Plant produced 72,043 tonnes of DAP and 210,409 tonnes of compound fertilisers, respectively, amounting to 282,452 tonnes in total. 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.

Note 2: Line A of CNOOC Tianye POM Plant has resumed since the end of June 2018. Its production volume in 2018 was calculated from the date of resume only.

## Sales volume of the Group's various plants

Unit: tonne

| | | **For the year ended 31 December 2018** | For the year ended 31 December 2017 | Change % |
|---|---|---|---|---|
| **Chemical fertilisers** | | | | |
| Urea | Fudao Phase I | **425,802** | 527,173 | (19.2) |
| | Fudao Phase II | **834,584** | 738,682 | 13.0 |
| | CNOOC Tianye | **464,916** | 338,030 | 37.5 |
| | CNOOC Huahe | **600,256** | 675,379 | (11.1) |
| | **Group total** | **2,325,557** | 2,279,264 | 2.0 |
| Phosphate fertilisers and compound fertilisers | DYK MAP | **56,944** | 76,686 | (25.7) |
| | DYK DAP Phase I | **263,575** | 270,311 | (2.5) |
| | DYK DAP Phase II | **594,153** | 621,457 | (4.4) |
| | **Group total** | **914,672** | 968,454 | (5.6) |
| **Chemical products** | | | | |
| Methanol | Hainan Phase I | **558,377** | 551,518 | 1.2 |
| | Hainan Phase II | **751,333** | 780,090 | (3.7) |
| | CNOOC Tianye | **141,508** | 201,657 | (29.8) |
| | **Group total** | **1,451,218** | 1,533,265 | (5.4) |
| POM | CNOOC Tianye | **9,985** | - | - |
| | **Group total** | **9,985** | - | - |

# Chairman's Statement

**Dear shareholders,**

**In 2018, the domestic chemical fertiliser and methanol industries witnessed a turnaround. While grasping market opportunities, the Company continued to enhance its refined management on production, edged up its marketing capabilities and comprehensive sales management as well as exerted strict control on costs and expenses, and hence attained excellent performance.**

Xia Qinglong / Chairman

Looking back at 2018, China's economy showed a positive and stable trend, the elimination of excessive chemical fertilisers production capacity achieved initial success, and prices of domestic chemical fertilisers and methanol stayed at high level with increasing profitability in the industry. The Company capitalised on the favourable operation environment, co-ordinated upstream resources, optimised products structure and actively developed the markets. During the reporting period, the Company recorded a net profit attributable to owners of the Company of RMB1,379 million. In view of the Company's good financial conditions, the Board has proposed 2018 final dividends of RMB 0.15 (tax inclusive) to reward our shareholders, representing a payout ratio of 50%.

In 2018, 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 complete and scientific. In 2018, the Company has thoroughly rationalised the rules of procedures of all specialised committees under the Board. The rules of procedures of the Audit Committee and the Nomination Committee under the Board were amended pursuant to the latest terms of the Hong Kong Listing Rules and the requirements under the Guidance for Boards and Directors, which aligns our corporate governance practices with the latest regulatory requirements. The Board continued to optimise the internal control and risk control systems while placed emphasis on the management of operational risks. Apart from maintaining solid financial policies, the Company also enhanced its mechanism on securing shareholders' interests.

Looking forward to 2019, the global demand on fertilisers will maintain stable growth, while domestically, requirements on environmental protection and further supply-side reform will foster the elimination of excessive chemical fertilisers production capacity. Development in alternative energy and methanol-to-olefin in China will remain as the major driving forces of the demands for methanol. The Company will consolidate the current advantageous position, continue to enhance refined management on production and build up marketing capabilities, pursue high-quality development. Meanwhile, the Company will proactively keep abreast of and promote researches on domestic and foreign development opportunities with an aim to create good returns for our shareholders.

Finally, on behalf of the Board, I would like to express gratitude for our shareholders' full trust and support to the Company in 2018. I wish you will continue to pay attention to the development of the Company in 2019. I would also like to appreciate the dedicated efforts made by the management and all our staff over the year of 2018 for the operation and development of the Company.

Xia Qinglong
Chairman

# CEO's Report

Wang Weimin / CEO & President

## Dear shareholders,

**Looking back at 2018, domestic economy stably improved, success was achieved in the elimination of excessive chemical fertiliser production capacity, and the industry recorded sound profitability. Development of alternative energies and methanol-to-olefin continued to drive the demands for methanol. The management of the Company collaborated to seize favourable market opportunities, enhance refined production management, strengthen the marketing capacity, reduce costs and increase efficiency, and recorded excellent operating results.**

## Review of 2018

In 2018, the Company actively coordinated the upstream gas resources, and strengthened the management of production and operation. With the long-cycle operation of various plants, both urea production and sales reached a record high. By optimising product structure and striving to enhance marketing capacity, the production and sales of compound fertilisers also hit a new high. The Company's revenue increased by 15% as compared to 2017 to RMB11,260 million. The Company's gross profit increased to RMB2,758 million, and the Company recorded a net profit attributable to owners of the Company of RMB1,379 million. Therefore, the Company maintained its leading profitability in the industry.

In respect of the production management, effective and stable operation was achieved at the Hainan Fudao Phase II urea plant and the coal-based urea plant of CNOOC Huahe in Heilongjiang, with the operation rates reaching 108% and 114%, respectively. The Company also successfully resumed the production of line A in its POM plant. As a result, in 2018, annual ouput of the Company for urea was 2.369 million tonnes, representing an increase of 98,000 tonnes compared to that of 2017. Output of phosphate fertilisers and compound fertilisers was 951,000 tonnes, and output of methanol was 1.523 million tonnes, both staying at the same level with that of 2017. Output of POM was 10,000 tonnes.

In respect of the sales management, materialisation of the marketing business showed competitive edges, while initial success was attained for the centralised deployment of marketing resources. While placing great efforts on domestic sales, the Company also proactively explored international market by fully capitalising on advantages in terms of brand, geographical location, exporting logistics. The annual export volumes of urea and DAP were 166,000 tonnes and 221,000 tonnes, respectively. With significant achievement in the adjustment of product structure, sales of compound fertilisers reached 177,000 tonnes.

The Company continued to exert intensified efforts on cost reduction and efficiency enhancement. CNOOC Huahe fostered energy conservation and consumption reduction in its plants and continuously optimised its coal supply channels; DYK Chemical optimised its product structure and increased the production volume of compound fertilisers; Hainan Phase I Methanol Plant changed absorbents to lower production cost; the Company consolidated its budget management, exerted strict management and control on resources and procurement, and strived to reduce costs and expenses; the Company commenced refined wealth management business during the period and recorded wealth management gains of RMB320 million.

Besides, the Company continued to promote product innovation and successfully developed two new products during the period, namely fertiliser for side deep fertilisation in paddy field and special fertiliser for potato.

| CNOOC Huahe Urea Plant

The Company has been consistently 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 seven years in a row. The Company was also conferred the "2017 Advanced Enterprise on Energy Conservation in Methanol Industry" by the China Nitrogen Fertiliser Industry Association.

## Outlook for 2019

Global demand on fertiliser from agriculture will increase steadily, driven by the steady demand growth on grain. With the marketisation of operation environment and the upgrade of environmental protection standards, domestic chemical fertiliser industry will undergo further integration. Development in methanol-to-olefin in China will continue to be the major driving force for the demands for methanol.

In 2019, the Company will continue to enhance HSE and refined production management to attain the safe and smooth operation of all production plants. While continuing to enhance fundamental management and striving to increase the digitalisation of production and operation management, the Company will also optimise the product structure and increase the profitability in adaption to market demand. The Company will continue to intensify reformation of the marketing system, steadily carry forward materialisation of the marketing business, further implement cost-reduction, quality-improvement and efficiency-enhancement, and endeavour to control costs and expenses. Continuous researches will be conducted on the viability of utilisation of natural gas to produce high-end chemical products in Hainan, as well as pay close attention to domestic and overseas development opportunities in line with the Company's strategies.

In 2019, the management of the Company will stand by our employees to consolidate our current advantageous position in the industry, enhance operation efficiency, effectively respond to market changes, and actively explore development opportunities of the Company under the guidance of the Board, aiming to create good returns for our shareholders.

Wang Weimin

CEO & President

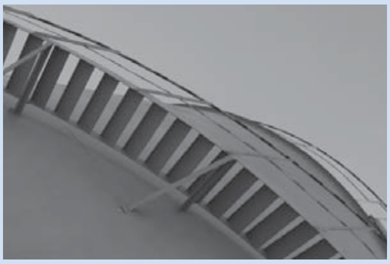
# Management Discussion and Analysis

## *Sector Review*

### Chemical fertiliser industry

In 2018, the PRC government initiated to improve the quality of agricultural development and continuously highlighted the importance of ensuring food safety in China. Constant efforts were made to implement the policy of minimum purchase price for grain rice and wheat and to stabilise the planted areas of grain crops such as grain rice and wheat. The PRC government also proactively developed high quality rice as well as strong-gluten and weak-gluten wheat, and promoted the development of potato as a staple. According to data from National Bureau of Statistics of China, the total grain production of the PRC for 2018 was 657,890,000 tonnes, almost at the same level as 2017.

China's export tariff on NPK compound fertiliser has been revised from 20% on an ad valorem basis to a weight-based levy of RMB100 per tonne since 1 January 2018. The PRC government has lowered the value-added tax rate for goods, such as chemical fertilisers, from 11% to 10% since 1 May 2018. Starting from 1 January 2019, export tariff is no longer levied on domestic chemical fertilisers.



In 2018, the chemical fertiliser industry in the PRC has generally achieved marketisation. Under the influence of, among others, structural reform on the supply side and the upgrade of environmental protection standards, the utilisation rates of urea and phosphate fertilisers remained low, and the profitability of the industry further improved.

Hainan Fudao Phase I Plant

### (I) Urea

Domestic urea production volume in 2018 was approximately 52.07 million tonnes (in kind), reaching the record low over more than a decade. Affected by tight domestic supply and the fact that the domestic market sentiment was better than that in international market, the export volume of urea from the PRC declined. In 2018, the PRC exported approximately 2.447 million tonnes of urea, representing a decrease by 46.3% compared to that of last year.

In 2018, the domestic urea market continued to linger at high level. In the first quarter, the market was weak and hit a low point at RMB1,890 per tonne in mid-April. In the second quarter, driven by domestic demand, the domestic market, which was different from the international market, showed an upward trend, with import occurring in this period and reaching a high point at RMB1,988 per ton in mid-June. In the third quarter, despite insufficient domestic demand, the market had been on the rise led by the international market, and the domestic ex-factory price increased to around RMB2,100 per tonne in early October. With insufficient demand in both domestic and international market in the fourth quarter, the market retreated to around RMB1,950 per tonne at the end of the year. According to the data of National Bureau of Statistics of China, the main revenue of the nitrogen fertiliser industry in 2018 was RMB210.76 billion, representing an increase by 12.9% compared to that of last year. The total profit was RMB10.55 billion.

### (II) Phosphate fertilisers

The market of ammonium phosphate in 2018 was better than that of 2017, mainly due to production limitation under environmental protection, increase in raw materials price and increasing export market. Since supply decreased while demand remained relatively steady, domestic DAP market was stable with price maintaining at high level throughout the year, representing an increase by RMB300 to 350 per tonne as compared to that of last year. In 2018, domestic production volume of ammonium phosphate was approximately 33.07 million tonnes (in kind), representing a decrease of approximately 20% as compared to that of 2017. Due to stable demand in international market coupled with the continued implementation of the zero-tariff policy on phosphate fertiliser export in the PRC, the export volume of DAP for the year raised to 7.47 million tonnes.

In the first quarter of 2018, driven by the demand from storage for winter, the ex-factory price of DAP rose to RMB2,600 per tonne. In the second quarter, the domestic market entered into the off-season, but with the demand from export, the market remained stable and the ex-factory price remained at around RMB2,600 per tonne. Since the beginning of the third quarter, there has been a significant price surge due to the 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 remained at RMB2,700 per tonne or above.

## Methanol

In 2018, the methanol market stayed in the upward cycle with sharp price rise as compared to that of 2017. The price surge was mainly due to the price increase of crude oil, tightening supply and shortfall of import expectation. In the fourth quarter, as global macro-economy turned weak, crude oil price witnessed a significant decline, and some methanol-to-olefins plants suspended production, resulting in insufficient support to the demand and a corresponding decline in methanol price. Over the year, domestic methanol price showed significant fluctuations, with the prices in Southern China fluctuating within RMB2,390–3,890 per tonne and the prices in Inner Mongolia fluctuating within RMB1,850–3,030 per tonne.

In 2018, the increase in domestic production capacity fell short of expectation. The accumulative production volume throughout the year was 55.75 million tonnes, representing an increase by 3.3% compared to the same period last year. The annual import volume was 7.43 million tonnes, representing a decrease by 9% compared to the same period last year.

## POM

The production volume of POM in China hit a record high at 295,000 tonnes for 2018 due to the growth in downstream demand, and the average annual growth rate of the production volume for POM in China reached 11.8% during 2016–2018.

In 2018, the upside market sign of second half of 2017 carried on with the market price stalely goes up in the first quarter; in the second quarter, taking the advantage of the increasing demand, the market price continued to hike; in the third quarter, the overall decline was limited as the supply sources generally rose with weakness and steadily declined in short term; in the forth quarter, the support from cost was gradually weakened while the market price ongoingly dropped.

| Product quality control

# *Business Review*

## Production management

In 2018, the Company continued to strengthen the management of production and operation, while effective and stable operation was achieved at the Hainan Fudao Phase II urea plant and the coal-based urea plant of CNOOC Huahe in Heilongjiang, with the operation rates reaching 108% and 114%, respectively. Both Hainan Phase I and II plants successfully underwent long-cycle operations across years, while the urea plant and methanol plant in CNOOC Tianye have both broken their own long-term operation records. CNOOC Tianye also successfully resumed the production of line A in its POM plant. In 2018, annual output of 2018 of the Company for urea was 2.369 million tonnes, representing an increase of 98,000 tonnes compared to that of 2017, hitting a historical high. Output of phosphate fertilisers and compound fertilisers was 951,000 tonnes, among which the output of compound fertilisers hit a record high, reaching 210,000 tonnes. Output of methanol was 1.523 million tonnes, staying at the same level as 2017. Output of POM was 10,000 tonnes.

Details of production of the Group's plants in 2018 are set out as follows:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Production *(tonnes)* | Utilisation rate *(%)* | Production *(tonnes)* | Utilisation rate *(%)* |
| **Chemical fertilisers** | | | | |
| Urea | | | | |
| Fudao Phase I | **468,786** | **90.2** | 566,184 | 108.9 |
| Fudao Phase II | **863,562** | **107.9** | 749,373 | 93.7 |
| CNOOC Tianye | **443,030** | **85.2** | 374,164 | 72.0 |
| CNOOC Huahe | **594,005** | **114.2** | 581,527 | 111.8 |
| **Group total** | **2,369,383** | **100.4** | 2,271,248 | 96.2 |
| Phosphate Fertilisers and Compound Fertilisers | | | | |
| DYK MAP | **60,435** | **40.3** | 67,978 | 45.3 |
| DYK DAP Phase I (Note 1) | **282,452** | **80.7** | 292,729 | 83.6 |
| DYK DAP Phase II | **608,341** | **121.7** | 583,133 | 116.6 |
| **Group total** | **951,228** | **95.1** | 943,840 | 94.4 |
| **Chemical products** | | | | |
| Methanol | | | | |
| Hainan Phase I | **574,175** | **95.7** | 551,745 | 92.0 |
| Hainan Phase II | **787,363** | **98.4** | 791,240 | 98.9 |
| CNOOC Tianye | **161,445** | **80.7** | 191,829 | 95.9 |
| **Group total** | **1,522,983** | **95.2** | 1,534,814 | 95.9 |
| POM | | | | |
| CNOOC Tianye (Note 2) | **10,275** | **102.8** | - | - |
| **Group total** | **10,275** | **102.8** | - | - |

Note 1: In 2018, DYK DAP Phase I Plant produced 72,043 tonnes of DAP and 210,409 tonnes of compound fertilisers, respectively, amounting to 282,452 tonnes in total. 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.

Note 2: Line A of CNOOC Tianye POM Plant has resumed since the end of June 2018. Its production volume in 2018 was calculated from the date of resume only.

Urea plant inspection

## Sales management

In response to fierce market competition, the Company further underwent reforms and achieved success in the materialisation of the marketing business. The Company fully capitalised on the market conditions and precisely priced its products at market level. Guided by market demand, new value-added products were developed to expand the compound fertiliser market. In 2018, the Company sold 2.326 million tonnes of urea, representing an increase of 2% compared to the same period last year, which hit a historical high for the same period; 1.451 million tonnes of methanol was sold, representing a decrease of 5% compared to the same period last year; 915,000 tonnes of phosphate fertilisers and compound fertilisers were sold, among which the sale volumes of compound fertilisers reached 177,000 tonnes, doubling that of 2017; 10,000 tonnes of POM was sold. The total annual export volumes of urea and DAP were 166,000 tonnes and 221,000 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 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Sales region | Volume (tonnes) | Percentage (%) | Volume (tonnes) | Percentage (%) |
| North-eastern China | 699,814 | 30.1 | 803,959 | 35.3 |
| Northern China | 455,326 | 19.6 | 228,244 | 10.0 |
| Eastern China | 36,253 | 1.6 | 41,183 | 1.8 |
| South-eastern China | 131,047 | 5.6 | 68,649 | 3.0 |
| Southern China | 749,087 | 32.2 | 566,824 | 24.9 |
| Hainan | 88,366 | 3.8 | 82,803 | 3.6 |
| International | 165,664 | 7.1 | 487,602 | 21.4 |
| **Total** | 2,325,557 | 100.0 | 2,279,264 | 100.0 |

Urea ship-loading operation

### 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 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Sales region | Volume *(tonnes)* | Percentage *(%)* | Volume *(tonnes)* | Percentage *(%)* |
| North-eastern China | 229,023 | 25.0 | 281,713 | 29.1 |
| Northern China | 284,627 | 31.1 | 371,063 | 38.3 |
| Eastern China | 67,186 | 7.3 | 46,049 | 4.7 |
| South-eastern China | 55,456 | 6.1 | 41,499 | 4.3 |
| Southern China | 57,388 | 6.3 | 13,550 | 1.4 |
| International | 220,992 | 24.2 | 214,580 | 22.2 |
| **Total** | 914,672 | 100.0 | 968,454 | 100.0 |


Railway transportation platform

## 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 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Volume | Percentage | Volume | Percentage |
| Sales region | *(tonnes)* | *(%)* | *(tonnes)* | *(%)* |
| North-eastern China | **87,083** | **6.0** | 109,666 | 7.1 |
| Northern China | **54,455** | **3.8** | 91,991 | 6.0 |
| Eastern China | **168,704** | **11.6** | 133,999 | 8.7 |
| South-eastern China | **37,709** | **2.6** | 122,011 | 8.0 |
| Southern China | **1,005,432** | **69.3** | 967,057 | 63.1 |
| Hainan | **97,835** | **6.7** | 108,541 | 7.1 |
| International | **0** | **0** | 0 | 0 |
| **Total** | **1,451,218** | **100.0** | 1,533,265 | 100.0 |


| CNOOC Tianye POM Plant

Hazardous chemical terminal zone II at Basuo Port

## POM

In 2018, the Group produced a total of 10,275 tonnes of POM and achieved a sales volume of 9,985 tonnes.

## BB fertilisers

In 2018, the Group produced a total of 49,373 tonnes of BB fertilisers and achieved a sales volume of 50,398 tonnes.

## Sea-land logistics services

In 2018, Basuo Port in Hainan completed a volume of throughput of 10.03 million tonnes.

# *Financial Review*

| CNOOC Tianye Urea Plant

## Revenue

During the reporting period, the Group's revenue was RMB11,259.6 million, representing an increase of RMB1,459.9 million, or 14.9%, from RMB9,799.7 million for the same period of 2017. The increase was primarily attributable to a significant increase in selling prices of methanol, phosphate fertilisers and compound fertilisers and urea of the Group.

During the reporting period, the Group's external revenue from urea was RMB4,160.7 million, representing an increase of RMB834.9 million, or 25.1%, from RMB3,325.8 million during the same period of 2017. The increase was primarily attributable to (1) an increase in the sales volume of urea by 46,293 tonnes, leading to an increase in revenue by RMB67.6 million; and (2) an increase in revenue by RMB767.3 million resulted from an increase in the selling price of urea by RMB329.9 per tonne.

During the reporting period, the Group's external revenue from phosphate fertilisers and compound fertilisers was RMB2,260.9 million, representing an increase of RMB191.4 million, or 9.2%, from RMB2,069.5 million for the same period of 2017. The increase was primarily attributable to (1) an increase in the selling price of phosphate fertilisers and compound fertilisers by RMB334.9 per tonne, resulting in an increase in revenue by RMB306.3 million; and (2) a decrease in revenue by RMB114.9 million resulted from a decrease in the sales volume of phosphate fertilisers and compound fertilisers by 53,779 tonnes, which partially offset the above increase.

During the reporting period, the Group's external revenue from methanol was RMB3,717.1 million, representing an increase of RMB258.5 million, or 7.5%, from RMB3,458.6 million for the same period of 2017. The increase was primarily attributable to (1) an increase in the selling price of methanol by RMB305.7 per tonne, resulting in an increase in revenue by RMB443.6 million; and (2) a decrease in revenue by RMB185.1 million resulted from a decrease in the sales volume of methanol by 82,047 tonnes, which partially offset the above increase.

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 POM, BB fertilisers and woven plastic bags) increased by RMB175.1 million, or 18.5%, to RMB1,120.9 million as compared to RMB945.8 million during the same period of 2017, which was primarily attributable to (1) the operation of POM plant resumed this year, resulting in an increase in revenue by RMB104.4 million; (2) an increase in revenue by RMB78.1 million in the trading segment of the current year compared to that of last year; (3) an increase in revenue resulting from the sales of liquid ammonium, concentrated phosphoric acid and carbon dioxide by RMB17.4 million; (4) a decrease in revenue of RMB18.9 million due to the decrease of business volume of transportation in Basuo Port by 2,444,058 tonnes; and (5) a decrease by RMB5.9 million in revenue from selling BB fertilisers and woven plastic bags, which partially offset the above increase.

## Cost of sales

During the reporting period, the Group's cost of sales was RMB8,501.3 million, representing an increase of RMB386.7 million, or 4.8%, from RMB8,114.6 million in 2017.

During the reporting period, the Group's cost of sales for urea was RMB3,147.0 million, representing an increase by RMB99.4 million, or 3.3%, from RMB3,047.6 million in 2017. The increase was primarily attributable to (1) an increase in cost of sales by RMB123.6 million due to a rise in the sales volume by 126,886 tonnes of CNOOC Tianye in Inner Mongolia; (2) an increase in cost by RMB41.2 million caused by an increase in repairment cost of Fudao Phase I and Phase II urea production plants in Hainan as compared with that of last year and rising prices of natural gas; and (3) a decline in cost of sales from CNOOC Huahe in Heilongjiang by RMB65.4 million resulted from a drop in sales volume by 75,124 tonnes compared with that of last year, which partially offset the above increase.

The Group's cost of sales for phosphate fertilisers and compound fertilisers during the reporting period was RMB2,000.4 million, representing an increase of RMB47.8 million, or 2.4%, from RMB1,952.6 million in 2017. The increase was primarily attributable to (1) an increase in cost of sales of RMB165.4 million resulted from a significant increase in price of raw materials for producing phosphate fertilisers and compound fertilisers; and (2) a decrease in cost of sales of RMB117.6 million resulted from a decrease in sales volume of phosphate fertilisers and compound fertilisers by 53,779 tonnes, which partially offset the increase.

The Group's cost of sales for methanol during the reporting period was RMB2,305.1 million, representing an increase of RMB43.4 million, or 1.9%, from RMB2,261.7 million in 2017. The increase was primarily attributable to (1) an increase in cost of sales by RMB173.7 million resulted from a year-on-year increase of repairment cost of Hainan Methanol Plant and the price surge of natural gas; and (2) a decrease in cost of sales by RMB130.3 million caused by a decline in sales volume of methanol by 82,047 tonnes, which partially offset the above increase.

The Group's cost of sales from other segments during the reporting period increased by RMB196.0 million, or 23.0%, from RMB852.7 million in 2017 to RMB1,048.7 million. The increase was primarily attributable to (1) the operation of POM plant resumed this year, resulting in an increase in cost of sales by RMB124.7 million; (2) an increase in cost of trading businesses by RMB78.6 million; and (3) a year-on-year decrease in cost of sales of Basuo Labour Service, BB fertilisers and liquid ammonia by RMB7.3 million, which partially offset the above increase.

## Gross profit

The Group's gross profit during the reporting period was RMB2,758.3 million, representing an increase of RMB1,073.2 million, or 63.7%, from RMB1,685.1 million in 2017. The increase was primarily attributable to (1) an increase in gross profit for urea by RMB735.5 million due to a significant increase in the selling price of urea in 2018; (2) an increase in gross profit for methanol by RMB215.0 million due to a greater impact of year-on-year increase in the selling price of methanol comparing with that of the year-on-year decrease in sales volume in 2018; (3) an increase in gross profit for phosphate fertilisers and compound fertilisers by RMB143.7 million due to a greater impact of year-on-year increase in the selling price of phosphate fertilisers and compound fertilisers than the impact of a drop in sales volume and an increase in unit cost; and (4) a decline in gross profit for other business by RMB21.0 million.

## Other income

The Group's other income during the reporting period amounted to RMB131.4 million, representing an increase by RMB75.5 million, or 135.1%, from other income of RMB55.9 million in 2017. The increase was primarily attributable to (1) an increase in profit of RMB56.9 million from other business; and (2) an increase in government grants and other non-operating income by RMB18.6 million.

## Other gains and losses

The Group's other gains and losses during the reporting period was RMB303.3 million, representing an increase by RMB65.4 million, or 27.5%, from other gains and losses of RMB237.9 million in 2017. The increase was primarily attributable to (1) an increase in short-term bank wealth management gains (including gains on US dollar fix term deposits with maturity over three months) by RMB83.2 million; and (2) a decline in other gains and losses by RMB16.8 million due to an increase of credit impairment losses, which partially offset the above increase.

## Selling and distribution expenses

The Group's selling and distribution expenses during the reporting period amounted to RMB418.5 million, representing an increase of RMB32.7 million, or 8.5%, from selling and distribution expenses of RMB385.7 million in 2017. The increase was primarily attributable to (1) a year-on-year increase of RMB27.6 million in direct sales expenses such as transportation expenses due to the change in freight settlement mode of CNOOC Huahe in Heilongjiang and the change of sales model during the current year; and (2) a year-on-year increase by RMB5.8 million in advertisement and exhibition costs.

## Administrative expenses

The Group's administrative expenses during the reporting period amounted to RMB455.6 million, representing an increase of RMB2.6 million, or 0.6%, from administrative expenses of RMB453.0 million in 2017.

## Other expenses

The Group's other expenses during the reporting period amounted to RMB161.6 million, representing an increase of RMB148.1 million, or 1,097.0%, from other expenses of RMB13.5 million in 2017. The increase was primarily attributable to (1) an increase in expenses of "Three Supplies and One Property" by RMB127.5 million; (2) an increase in damage and retirement losses of assets inactive for three years or above by RMB18.6 million; and (3) an increase in bank handling fees and interest of bills discounting and contribution expenses by RMB2.0 million.

## Finance income and finance costs

The Group's finance income during the reporting period increased by RMB0.5 million, or 4.7%, to RMB11.2 million from the finance income of RMB10.7 million in 2017. The increase was primarily attributable to the impact of changes in the average daily balance of the Group's deposits.

The Group's financing costs during the reporting period amounted to RMB104.6 million, representing a decrease of RMB16.8 million, or 13.8%, from the finance costs of RMB121.4 million in 2017. The decrease was primarily attributable to a decrease in financing costs due to the decline in the scale of bank borrowings and financial leases.

## Net exchange (losses)/gains

During the reporting period, the Group recorded a net exchange gain of RMB13.3 million, whereas an exchange loss of RMB48.2 million was recorded in 2017, representing a difference of RMB61.5 million. It was primarily attributable to an exchange gain of RMB21.4 million recorded on the US dollar deposit held by the Group resulted from an increase in the exchange rate of US dollar and the exchange loss brought by foreign currency transactions partially offset the above exchange gain.

## Impairment of long-term assets

The Group's asset impairment loss during the reporting period was RMB0.9 million, representing a drop of RMB441.7 million from the asset impairment loss of RMB442.6 million in 2017. It was primarily attributable to the Company's assets impairment provision of RMB440.4 million in 2017 for the coal-based urea plant of CNOOC Huahe and the phosphate fertilisers and compound fertilisers plants of Hubei Dayukou after conducting an impairment test on coal-based urea 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 gains of associates and joint ventures by the Group was RMB1.0 million, representing a decrease in losses of RMB36.3 million in the share of losses of associates and joint ventures of RMB35.3 million in 2017. The increase was primarily attributable to the


| Technical workers checking instrument

recognition of loss on investment in CBC (Canada) Holding Corp., amounting to RMB34.5 million in 2017.

## Income tax expenses

The Group's income tax expenses during the reporting period was RMB611.9 million, representing an increase of RMB229.3 million from income tax expenses of RMB382.6 million in 2017. It was primarily attributable to (1) a pre-tax profit of RMB2,140.2 million recorded by the Group for the current year as compared to the pre-tax profit of RMB490.1 million recorded by the Group in 2017; and (2) an increase in the income tax expenses by RMB31.7 million as a result of the impact of the reversal of deferred income tax assets recognized by CNOOC Tianye in Inner Mongolia.

## Net profit for the year

The Group's net profit during the reporting period was RMB1,528.3 million, representing an increase of RMB1,420.8 million from a net profit of RMB107.5 million in 2017.

## Dividends

The board of directors of the Company (the "Board") recommended the payment of final dividends of RMB691.5 million, or dividends of RMB0.15 per share for 2018. The proposed final dividends for 2018 will be subject to the approval of the shareholders of the Company at the 2018 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 RMB205.7 million. Capital expenditure primarily included (1) the project of reclaimed waste water in Hainan Base areas of RMB11.9 million; (2) the tug boat project of Basuo Labour Service of RMB22.4 million; and (3) investments of RMB171.4 million 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 ranking 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 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 2018 (calculated as interest bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 12.3%, representing a decrease of 1.1% as compared to 13.4% as at 31 December 2017, which was primarily attributable to the increase in the Company's capital by RMB879.7 million in 2018 and the decrease in the principal of financial leases and interest bearing bank borrowings by RMB85.0 million.

## Cash and cash equivalents

As at the beginning of 2018, the Group's cash and cash equivalents were RMB6,604.9 million. In 2018, the net cash inflow from operating activities was RMB2,004.2 million, the net cash outflow from investing activities was RMB4,539.2 million, the net cash outflow from financing activities was RMB691.3 million, and the increase of cash and cash equivalents caused by an increase in exchange rates was RMB21.4 million. As at 31 December 2018, the Group's cash and cash equivalents were RMB3,400.0 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 2018, the Group had 4,960 employees. The aggregate of employees' wages and allowances for 2018 was approximately RMB710.1 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 Group effectively provides incentive to its staff. The Group determines staff remuneration according to their positions, performance and capability.

As at 31 December 2018, the Company held 2,926 training courses, and recorded a total of 86,177 enrolments and 330,908 training hours according to its annual training plan during the reporting period. The Company also held 6,639 training courses for workplace safety with a total of 89,327 enrolments and 235,001 training hours.

## 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.

As at 31 December 2018, the balance of the Group's interest-bearing bank borrowings and obligations under finance leases is RMB2,121,131,000, all of which is under floating interests.

## 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 6.2764 and 6.9670. 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 2018, the balance of the Group's deposit in US dollar was US$53.8 million.

The Group continues to closely monitor risks in interest and exchange rate. In 2018, the Group carried out the lock sinks in relation to the trade export proceeds. In 2018, financing activities of the Group were all conducted in Renminbi, and the interest rates were adjusted based on the benchmark interest rates published by the People's Bank of China, of which the fluctuation of the financing interest rate was stable and the risk was relatively controllable. Therefore, the Group currently has no hedging arrangement for such financing activities.

## Inflation and currency risk

According to the data of National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.1% during the reporting period, and the consumer price index of the PRC did not have any significant effect on the Group's operating results in 2018.

## 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 2018, based on the carrying values of borrowings as shown in the consolidated financial statements, the Group had borrowings of RMB100.0 million and financial leases with a principal in the amount of RMB1,335.0 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.

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

During the reporting period, disposing 51% of the equity interests of China BlueChemical Yichang Mining Ltd. by means of equity transfer through public tender was completed, at the transfer price of approximately RMB272.0 million, to realise revenue in equity interest investment of approximately RMB62.9 million.

Details of the Group's significant investments and their performance in 2018 are set out in Note 22 and Note 23 of the consolidated financial statement.

## *Sector Outlook*

Looking forward to 2019, the global demand on chemical fertilisers will maintain a stable growth. The PRC government will maintain the zero-tariff policy on the export of chemical fertilisers in the PRC. Continuous implementation of supply-side reform and the upgrade of environmental protection standards will further foster the integration in domestic chemical fertiliser industry. Domestic development of methanol-to-olefin and alternative energies will continue to be the major driving force for the demands for methanol.

## *Our Key Tasks in 2019*

1. To continue to enhance and improve HSE and refined production management, and ensure the safe and smooth operation of all production plants;
2. To enhance fundamental management, and strive to increase the digitialisation of production and operation management;
3. To continue to optimise the product structure, increase the profitability in adaption to market demand, and increase the production and sales of NPK and value-added fertilisers;
4. To continue to intensify reformation of the marketing system, steadily carry forward materialization of the marketing business and further polish brand image and increase influence;
5. To further implement cost-reduction, quality-improvement and efficiency-enhancement, facilitate the joint development of Xinhua coal mine, continue to promote the structural reformation of procurement management system, and endeavour to control costs; and
6. To continue to conduct researches on the viability of utilisation of natural gas to produce high-end chemical products in Hainan, and place awareness on domestic and foreign development opportunities in line with corporate strategies.

Fruit Sharing Lychee Harvest Day at Fudao

# Environmental, Social and Governance Report

## *Environment*

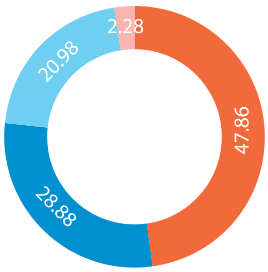
**The Company consistently adhere to the goal to build a green chemical company, we perform our work in environmental protection and resource conservation with utmost earnestness and pay close attention to the demands therein from interested parties of the Company. Various measures are adopted to save 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 seven 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. Hainan Phase I plant ranked the first among enterprises of methanol production with natural gas as raw material in the petroleum and chemical industry for the year 2017; and Fudao Phase I plant ranked the third among enterprises of ammonia production with natural gas as raw material in the petroleum and chemical industry for the year 2017.**

| CNOOC Huahe Urea 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 2018, the company discharged 6,334,000 tonnes of $CO_2$ (statistical figure not verified by any third party), 1,008.03 tonnes of $SO_2$, 1,290.90 tonnes of $NO_X$ and 189.65 tonnes of COD.

Percentage of carbon emission of the Company in 2018




### 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 2018, in order to make the $NO_X$ exhaust gas emission of auxiliary furnaces meet the new national standards for the emission of air pollutants from thermal power plants, the Company activated Fudao Phase I combustion turbine renovation project for urea plants, and accomplished DYK Chemical treatment project of exhaust fume emitted by coal furnace.

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. Listed among the second batch of enterprises admitted to carbon trading and discharge management scheme in Hubei, DYK Chemical fulfilled its first fulfillment of the contract in 2016, the Company successfully fulfilled the contract of 2017, and through transaction, its carbon quota of this year increased by 246 tons when compared to that of the previous year, which is conducive to the future production. In our CNOOC Fudao, dry ice is manufactured from $CO_2$ to reduce the emission of greenhouse gases, with production and sales volume reaching 5,378 tonnes in 2018. As prescribed under the Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Chemical Production Enterprises (Trial), our total carbon emission amounted to 6,334,000 tonnes (statistical figure not verified by any third party) in 2018, of which up to 3.03 million tonnes were emitted from CNOOC Fudao, accounting for the largest share of up to 47.86%, followed by CNOOC Huahe 28.88%, CNOOC Tianye 20.98%, and DYK Chemical 2.28%. Details are set out in the table below.

| | Carbon emission amount | |
|---|---|---|
| Company | 10,000 tonnes | Percentage |
| CNOOC Fufao | 303.14 | 47.86% |
| CNOOC Huahe | 182.90 | 28.88% |
| CNOOC Tianye | 132.94 | 20.98% |
| DYK Chemical | 14.42 | 2.28% |
| Total | 633.40 | 100.0% |

**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 2018, 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 to reduce wastewater discharge. CNOOC Fudao engaged Suez Xinchuangjian Environmental Management (Hainan) Co., Ltd., a professional environmental management company, and entered into a Sewage Treatment Service Agreement with it, enabling it to take full charge of the operation and maintenance of the sewage plant and complete the upgrading and renovation of the sewage system of Hainan production base. 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 2018, the Company discharged an aggregate of 189.65 tonnes of COD and 11.18 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 2018, the Company completed CNOOC Tianye coal mine closure project, was approved by the government for its CNOOC Huahe gasifier and furnace ashes utilization project, and in compliance with the regulations, used the ashes of gasifiers and furnaces to manage local geological environment disasters. In 2018, the Company disposed of 26,932.42 tonnes of solid waste by means of resource reuse and 1,700,000 tonnes of solid waste by piling and reclamation. Organisations qualified under the state's environmental protection requirements were engaged to handle 274.58 tonnes of hazardous waste in a professional manner and another 68,115.24 tonnes were converted into formal products for sales, indicating a safe treatment rate of 100%.

## Resource use

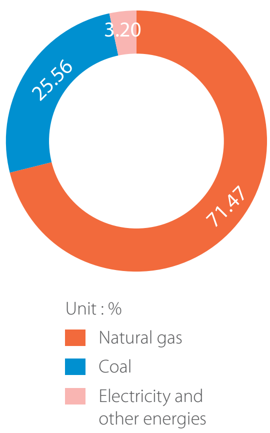
The Company is committed to conservation of energy and resource and development of circular economy. In strict compliance with the requirements under Energy Conservation Law of the PRC, various management systems have been formulated, such as Administrative Measures for Energy Conservation and Emission 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. In 2018, the steering team coordinated and supervised the Company's energy conservation, emission reduction and low carbon emission functions.

In 2018, the Company altogether consumed 63.47 million of woven bags, approximating 10,336 tonnes.

**Energy use**

The energy used by the Company mainly comprises natural gas, coal and electricity, among others. In 2018, the Company's comprehensive energy consumption amounted to 4,079,107.99 tonnes of standard coal, among which natural gas consumption amounted to 2,915,461.71 10,000Nm$^3$, accounting for 71.47% of our total energy consumption. Coal consumption aggregated 1,042,774.25 tonnes, representing 25.56% of total energy consumption. Electricity and other energies accounted for 3.20% of our total energy consumption.

Percentage of energy consumption of the Company



| Type of energy | Unit | Actual consumption | Standard coal equivalent (Tonne of standard coal) |
|---|---|---|---|
| Raw coal | Tonne | 899,297.32 | 603,518.43 |
| Cleaned coal | Tonne | 494,101.04 | 439,255.82 |
| Natural gas | 10,000Nm$^3$ | 373,954.53 | 2,915,461.71 |
| Diesel | Tonne | 1,470.77 | 2,143.06 |
| Gasoline | Tonne | 17.22 | 25.34 |
| Liquefied petroleum gas | Tonne | 246.14 | 423.88 |
| Electric power | kWh | 64,631.05 | 79,431.56 |
| Heat | million KJ | 1,139,242.95 | 38,848.18 |
| Total | Tonne of standard coal | | 4,079,107.99 |

**Energy conservation**

The Company vigorously promotes the use of advanced energy-saving technology, equipment and so on through technological upgrades. In 2018, the Company promoted and implemented 15 energy-saving technical renovation projects, and realized a technical energy saving of 111,900 tons of standard coal, accounting for 2.7% of the Company's annual total energy consumption. Among these projects, Hainan Phase II of CNOOC Fudao low pressure vented steam supply projects of Dongfang terminal, and also by using the natural gas displaced by the Dongfang terminal, recovered 118,800 tons of low pressure steam and saved 118,800 tons of water, while increased the annual product revenue by RMB8.77 million; and Fudao Phase I project of overall refinement and energy-saving renovation of circular water of plants, realized an energy saving of 6,380 tons of standard coals and 20 million kilowatts of electricity, while increased the annual benefit by RMB14 million. In 2018, in addition to stable production, CNOOC Huahe focused on energy-saving management as well as technology. With a series of optimization measures and technical innovation methods, its plants' annual energy consumption decreased by 10.35%, achieving a significant energy-saving effect, and its annual cost reduction and efficiency increase exceeded RMB60 million. DYK Chemical promoted strongly the innovation and upgrading of product structure, and continued to optimize the operation method of its production plants, lowered its overall energy consumption and assisted the Company in energy saving and low carbon operation.

Company main products comprehensive energy consumption

| Products | Unit product comprehensive energy consumption (tce/t) | Energy consumption quota (tce/t) |
|---|---|---|
| Urea | 0.1530 | 0.1800 |
| Methanol | 1.1352 | 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 2018, the Company consumed 35,766.90 thousand tonnes of freshwater and conserved 126.6 thousand tonnes of water. The Company successfully obtained and utilized the water source, and caused no significant impact on the environment or the external world.

| Type | Running water | Underground water | Surface water | Total |
|---|---|---|---|---|
| Freshwater consumption (thousand tonne) | 9,799.30 | 717.70 | 25,249.90 | 35,766.90 |

Company main products water consumption

| Products | Unit product water consumption (t/t) | Water intake quota (t/t) |
|---|---|---|
| Urea | 2.88 | 3.00 |
| Methanol | 4.45 | / |

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

Hzainan Phase II Synthetic Catalyst Replacement Site

DYK Chemical open pit

## Environment and natural resources

The Company consistently applies its philosophy of "green, clean, low-carbon and circular economy" and is engaged in clean production in order to realise sustainable development for both the Company and the environment. In 2018, after the Company awarded the Protect & Sustain certification by the International Fertiliser Industry Association (IFA) in 2016, it passed the interim review smoothly.

### 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 2018, CNOOC Fudao, CNOOC Kingboard, CNOOC Tianye and CNOOC Huahe already fulfilled their reporting duties under the pollutant discharge licenses of nitrogen fertilizer enterprises and methanol enterprises, and DYK Chemical has obtained its temporary pollution discharge license.

### Green mines

In adherence to our principle of the "green mines", 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.

## *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 2018, 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, decruitment, working hours, wage, insurance and benefits, leaves, remuneration, equal opportunities, diversity and fair treatment.

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.

Plant inspection

**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 2018, 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 2018, the Company developed and implemented a dual management and control mechanism of hierarchical control of security risk and screening and management of hidden hazards 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 values the development and training of employees. In 2018, it carried out an in-depth transformation and exploration on training management themed on Architectural Reconstruction, in which, by analyzing the situation of the three teams by levels and classifications and combining post capacity and qualification requirements, the Company first reorganized the architecture of its training programs and carried out management skill training according to the hierarchy of senior executives, direct cadres, reserve cadres and middle and senior managers of the subordinate units, achieving substantial and good effect; and then, by combining current mainstream training skills, basing on posts and providing guidance on solving practical problems, the Company made its training valuable and created benefit, and provided special and intensive training to the core backbones of the three selected teams of outstanding young cadres, high-potential professional technical talents and high-potential operational talents with a three-year cultivation pattern of project-oriented "six step" method; at last, by improving the construction of internal trainer system, enhancing the teaching skills and standards of internal trainers, speeding up the role exchange of managers between consultants and coaches, developing more targeted and effective programs and assisting the business department in solving problems in the work, the Company further promoted the sharing and effective inheritance of its enterprise culture and professional knowledge and skills.

The Company keeps strengthening on-the-job training by the joining skill competitions. In 2018, we held the 15th Occupational Skill Competition, and participated in the 10th National Occupational Skill Competition of Petroleum and Chemical Industry, entered into the final of mechanical fitter and chemical inspector competition and won multiple group and individual awards, and two of its employees were awarded the honorary title of "National Technical Expert in Petroleum and Chemical 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. In 2018, 370 new suppliers were added.

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.

The Company is committed to maintain market order, while complies with its policies and promises to suppliers, and advocates the establishment of a business environment with fair competition, equality and mutual benefits. Apart from putting its advantages in terms of procurement scale and professionalism into play, the Company has enhanced the risk control on the procurement process, vigorously prevented acts in violation of laws and regulations, such as black box operation and commercial bribery, as well as effectively fostered capital saving and cost control.

### 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, and label and advertisement review enhancement, etc.. In 2018, the quality check passing rate of the Company's urea and methanol was 100%, while the rates for goods graded as superior were 99.86% and 100%, respectively. No material litigation and claim were prompted by incidents relating the product and service quality.

### Anti-corruption

Prevention and control of corruption is a major component of the Company's risk management. In rigorous compliance with, among others, the Criminal Law, Anti-Money Laundry Law of the PRC and Rules on Integrity of Executives of State-Owned Enterprises, the Company issued the Disciplinary Action 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. A group of discipline inspectors is responsible for the oversight of the discipline of the Party members and leading cadres, and the supervisory department works with the discipline inspection group assigned, responsible for investigating and dealing with cases in violation of discipline and rules, and thus, 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 2018, the Company kept carrying out a series of public welfare activities. 120 employees of CNOCC Fudao actively participated in voluntary blood donation, which has been organized for 16 consecutive years. DYK Chemical conducted a fund-raising activity for the education of poor left-behind children of the Third Middle School of Huji, Zhongxiang City, Hubei Province. The volunteer team of CNOOC Tianye went to Suji Village, Huangheshao Town, Hohhot City, and sent living goods to 6 elderly families in the village. It also held a public welfare activity themed on "Green Journey of Environmental Protection" and, by collecting the garbage by Dahei River, publicized the concept of environmental protection with practical actions. CNOOC Huahe regarded industrial poverty alleviation as an important part of its targeted poverty alleviation, and has provided successive and multiple supports, such as education, culture, infrastructure and Fudao urea donation, to Qianfeng Village.

In 2018, 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 2018, striving incessantly for excellence in corporate governance with the goal of maintaining the 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-operating modern corporate governance structure comprising the general meeting, the board of directors (the "Board"), the supervisory committee of the Company (the "Supervisory Committee") and the 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, pursuant to the relevant requirements under laws and regulations (as amended from time to time), regulations and guidelines as promulgated by domestic and foreign regulatory authorities and the Listing Rules, the Company continued to pursue professional governance standards and continued to improve the corporate governance system of the Company. The information disclosure of the Company was compliant, timely and accurate. Through holding roadshows for the Company's results and participating in international investment forums, the Company maintained smooth and effective communication with the capital market and the media to preserve its positive image in the capital market. Directors and Supervisors have been timely and comprehensively provided with the production and operation information. The internal control system has been maintained and improved. Connected transactions and non-competition are in compliance with the requirements.**

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

## 1 General meeting

### Duties of the general meeting

The general meeting is the organ of authority of the Company and shall exercise the following duties and powers in accordance with the law:

- to decide on the 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 representatives and to determine the remunerations of Directors and Supervisors;
- to consider and approve the 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 interim proposals made by shareholders who, either individually or collectively, hold three percent or more of the voting shares of the Company;
- to consider and approve share incentive schemes;
- such matters as may be authorised or delegated by the general meeting to the Board;
- other matters which are required by laws, administrative regulations and the Articles to be resolved by the general meeting.

## 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:

**Convening extraordinary general meetings**

When shareholders who individually or collectively hold ten percent or more of the issued and outstanding voting shares 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 requestor 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 total voting shares in the Company shall be entitled to put forward and submit interim 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 matters in the proposals that fall within the scope of duties of the general meeting in the meeting agenda 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 the 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 or delivered to the Board in writing.

The said proposals and the written requests from the aforesaid requestor calling for the convening of an extraordinary general meeting may be delivered to the Board or the Company Secretary by hand, 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 may obtain such relevant information as 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 and one domestic shareholders' class meeting, at which 20 proposals were considered and passed, including, among others, the amendments to the Articles, the appointment of new session of Directors and Supervisors, the 2017 annual financial report, the report of the Board, the report of the Supervisory Committee, the profit distribution plan, the 2018 budget proposal, and the grant of the general mandate to the Board to repurchase H Shares. All Directors of the Company (namely Xia Qinglong, Wang Weimin, Meng Jun, Guo Xinjun, Lee Kit Ying, Lee Kwan Hung and Yu Changchun) attended the annual general meeting and shareholders' class meetings (attendance rate was all 100%).

The procedures of the Company for convening the general meetings and reviewing and approving proposals complied with the relevant provisions of laws, regulations and the Articles and thus effectively protected the rights and interests of all shareholders of the Company.

## 2 Board of Directors

The Board is the decision-making authority of the Company and report to the general meeting.

### Duties of the Board

While delegating certain powers and responsibilities to the management in relation to the routine business operation of the Company, the Board is responsible for formulating the business strategies and guidelines, business plans, investment plans, setting up management goals, reviewing the performance of the Company and assessing whether the management strategies are effective or not, formulating the profit distribution plans and loss recovery plans of the Company, appointing or dismissing the senior management of the Company and deciding on their remuneration, determining the structure of the Company's internal management and the basic management systems, and exercising various powers including:

- to convene the general meeting and report to the general meeting on its work and carry out the resolutions of the general meeting;
- to formulate the business plans, investment plans, annual budget and final account proposals, profit distribution loss recovery plans;
- to formulate plans regarding the increase or decrease in the registered capital of the Company and the issuance of bonds and other securities of the Company and the listing of the Company;
- to formulate plans regarding any merger, division of the Company or any change in the corporate form of the Company or the dissolution of the Company;
- to determine the internal management structure of the Company, the appoint and dismissal of the President of the Company and the appointment and dismissal of other senior management personnel pursuant to nomination by the President, and decide on their remuneration;
- to formulate amendments to the Articles and the basic management systems and procedures of the Company;
- to make proposals to the general meeting for appointing, renewing the appointment of, and dismissing the accounting firm that acts as the auditor of the Company; and
- such other duties and powers as are stipulated in the Articles or delegated by the general meeting.

### Directors

As at 31 December 2018, the Board consists of seven Directors, including two executive Directors, two 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 39 to 41 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 provides an efficient internal check-and-balance mechanism but also caters to the needs of the Company's operation and development. The composition of the Board is diversified in many respects, including but not limited to gender, age, culture and educational background, professional experience, skills and knowledge. The appointment of all Directors of the Board has taken into consideration such objective conditions as qualification and experience and the requirements of the diversity policy. The decision is ultimately determined based on the professional edges and possible contributions to the Board of the candidates. In terms of the factors mentioned above, especially gender, professional background and skills, the Board is characterised by significant diversity.

As at 31 December 2018, the members of the Board are as follows:

| Board member | Position | Date of appointment |
|---|---|---|
| Xia Qinglong | Chairman, Executive Director | 31 May 2018 |
| Wang Weimin | Executive Director, CEO, President | 31 May 2018 |
| Meng Jun | Non-executive Director | 31 May 2018 |
| Guo Xinjun | Non-executive Director | 31 May 2018 |
| Lee Kit Ying | Independent non-executive Director | 31 May 2018 |
| Lee Kwan Hung | Independent non-executive Director | 31 May 2018 |
| Yu Changchun | Independent non-executive Director | 31 May 2018 |

Directors appointed by the Company have entered into service contracts with the Company, and their terms of office are three years commencing on the date of their appointment at the 2017 annual general meeting held by the Company (i.e. 31 May 2018) or ending when Directors of the new session are elected at the 2020 annual general meeting held by the Company. However, if new Directors are not yet elected 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, continue to perform 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 of the Company may be reappointed if reelected upon the expiry of their terms of office.

The Board has three independent non-executive Directors, who represents over one-third of the total members of the Board. During the reporting period, all independent non-executive Directors 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 fully meets the requirements of Rule 3.10 (2) of the Listing Rules, i.e.,, having appropriate professional qualifications or appropriate accounting or relevant financial management expertise. The number of the independent non-executive Directors, their independence and qualifications are in 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 an important check-and-balance 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 four physical meetings. Details of attendance of Board members at the physical Board meetings for the year ended 31 December 2018 are as follows:

| Board member | Number of meetings attended / held | Attendance rate (%) |
|---|---|---|
| Xia Qinglong | 4/4 | 100 |
| Wang Weimin | 2/3 (Note 1) | 67 |
| Meng Jun | 3/4 | 75 |
| Guo Xinjun | 4/4 | 100 |
| Lee Kit Ying | 4/4 | 100 |
| Lee Kwan Hung | 4/4 | 100 |
| Yu Changchun | 4/4 | 100 |
| Chen Bi | 1/1 (Note 2) | 100 |

Note 1: Mr. Wang Weimin was appointed as executive Director of the Company on 31 May 2018. During the period from 31 May 2018 to 31 December 2018, three Board meetings were held.

Note 2: Mr. Chen Bi ceased to be the non-executive Director of the Company on 28 March 2018 due to work commitments. During the period from 1 January 2018 to 28 March 2018, one Board meeting was held.

The procedures for convening these Board meetings and considering and approving proposals were in compliance with the provisions of the relevant laws and regulations and the Articles. The Directors of the Company fulfilled their fiduciary duty in a practical manner and made decisions on important matters of 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 and the Directors having such interests must abstain from voting on such issues at such meetings 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. In particular, all the Directors (namely Xia Qinglong, Wang Weimin, Meng Jun, Guo Xinjun, Lee Kit Ying, Lee Kwan Hung and Yu Changchun) attended an internal on-site training organised by the Company on 31 May 2018 in relation to the changes to the Hong Kong Listing Rules, disclosure of inside information, and the responsibilities and obligations of directors. The Company also circulated by mail to all Directors on 15 November 2018, six sets of learning materials in written form concerning the issuers' report on the disclosure of environment, social and governance practices, and the Directors completed the training by reading through such materials. On 1 June 2018, independent non-executive Directors of the Group made a field visit to CNOOC Huahe, while other non-executive Directors also visited CNOOC Tianye and CNOOC Huahe from time to time. Non-executive Directors of the Company gained further understanding of the business and planning of major production bases by way of on-site visits and investigations.

## 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, made amendments to the procedural rules of the Audit Committee and the Nomination Committee, reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and its disclosures in the Corporate Governance Report, reviewed and inspected the training and continuous professional development of Directors and senior management, enhanced the risk management and internal controls 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.

### 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 completeness and preparation procedures of the consolidated 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 external auditors and any issues in connection with the appointment and dismissal of external auditors. The Audit Committee also examines the internal audit and supervisory work plan of the Company and submits relevant reports, opinions 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 2017 consolidated financial statements and the 2018 interim condensed consolidated financial statements, focusing on the compliance with accounting standards, the Listing Rules and other regulations, and provided recommendations and advice to the Board;
- Reviewed the 2019 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 the appointment of the external auditor, and approved the terms of engagement of the external auditor and the audit fees for 2018;
- 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 2018 and approved the internal audit plan of the Company for 2019 and reviewed the effectiveness of the risk management 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 | 3/4 | 75 |
| Guo Xinjun | 4/4 | 100 |

### 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, determine 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 of the Company.

**Remuneration policy**

- The remuneration package policy for the executive Director is designed to peg the executive Director's remuneration and 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 determined mainly based on 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 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 2018 are set out in Note 12 to the consolidated financial statements.

During the reporting period, the Remuneration Committee held two meetings, at which the remuneration policy and proposal for the Directors, Supervisors and senior management of the Company were studied, examined and formulated, the performance of executive Directors was evaluated, the remuneration for the new session of executive Directors, Supervisors and senior management of the Company was determined and recommendations on the remuneration for non-executive Directors were made 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) | 2/2 | 100 |
| Lee Kit Ying | 2/2 | 100 |
| Meng Jun | 1/2 | 50 |

## Nomination Committee

The Nomination Committee currently consists of three members, including Chairman and executive Director Mr. Xia Qinglong, and independent non-executive Directors Mr. Lee Kwan Hung and Mr. Yu Changchun. Among those, Mr. Xia Qinglong 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 the appointment, re-appointment and succession of Directors senior management of the Company and relevant personnel to be appointed pursuant to the requirements of the Listing Rules. Detailed standards of adoption include the suitability of candidates in terms of appropriate professional skills, knowledge and experience, personal integrity, honesty and skills. It also assesses and reviews the independence of each independent non-executive Director.

The Nomination Committee is also responsible for reviewing the diversity policy in relation to the composition of the Board. The factors to be considered by the Nomination Committee in evaluating and selecting candidates for Directors include but are not limited to integrity and honesty, qualifications such as profession, skills and experience, any potential contribution to Board diversity in terms of gender, age, culture and educational background, whether the required independence criteria is satisfied, willingness and capability to contribute sufficient time to perform his/her duties in the capacity of a Director and a member of committees under the Board, suitability to the actual situation of the Company and other factors applicable to the business and succession plans of the Company.

The nomination procedures for a director candidate are available on the website of the Company, and the specific procedures are: upon receiving any proposal for appointment of new Directors or any nomination from shareholders, the Nomination Committee will consider his/her personal information and evaluate if the candidate is eligible for directorship based on the above criteria. In the case of more than one candidate, order of priority shall be determined in accordance with the needs of the Company and the profile of the candidates. For the re-appointment of Directors at the general meeting, the Nomination Committee shall review the overall contributions and service provided to the Company by those Directors whose terms of office have expired, and their participation and performance in the Board, and review whether those Directors are still in compliance with the above criteria. The Nomination Committee makes suggestions to the Board on the appointment of suitable candidates for directorship, which shall ultimately be determined by the general meeting of the Company.

The Nomination Committee held three meetings during the reporting period, at which the candidates for new session of 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 2018 were reviewed. The Board has formulated and passed the above Director nomination policy.

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 (%) |
|---|---|---|
| Xia Qinglong (Chairman) (Note 1) | 2/2 | 100 |
| Lee Kwan Hung | 3/3 | 100 |
| Yu Changchun | 3/3 | 100 |
| Chen Bi (Note 2) | 1/1 | 100 |

Note1: Mr. Xia Qinglong was appointed as the Chairman of the Nomination Committee on 28 March 2018. During the period from 28 March 2018 to 31 December 2018, two Nomination Committee meetings were held.

Note 2: Mr. Chen Bi ceased to be the Chairman of the Nomination Committee on 28 March 2018 due to work commitments. During the period from 1 January 2018 to 28 March 2018, one Nomination Committee meeting was held.

### Investment Review Committee

The Investment Review Committee currently 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 among whom, Mr. Yu Changchun is the Chairman.

The Investment Review Committee is primarily responsible for reviewing investment projects that are 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 did not hold any meeting.

## 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, the president and other senior management personnel to rectify any improper behaviour that would be detrimental to the interests of the Company;
- To verify such financial information as financial reports, business reports and profit distribution proposals that are 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, and 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 legal actions against Directors, the president and other senior management personnel 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 (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 57 to 58 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 personnel, the chief executive officer/president of the Company organizes and carries out operational and managerial activities of the Company in accordance with the laws and regulations the Articles and the powers delegated to him/her 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 the implementation of the annual business plans and investment plans of the Company;
- To draw up plans for the establishment of the Company's internal management structure;
- To draw up the basic management system and formulate the basic rules and regulations of the Company;
- To propose the appointment or dismissal of the chief financial officer and the 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 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 which they are in charge of or responsible for, and form a management team which cooperate closely to ensure the day-to-day operation of the Company be carried out efficiently.

The management of the Company furnish 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 provide background and explanatory information relating to matters to be discussed by the Board so that each Director and Supervisor can fully understand the progress of material events and the latest business status of the Company. They provide such information and reports on the capital market as trends of stock price, analysis reports prepared by investment bank analysts and media news on a weekly basis so as to provide the Directors and Supervisors with an idea of developments in the capital market relating to the Company. They also circulate a daily report on stock price movements to keep the Directors and Supervisors informed of changes in the price of shares 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 and the Risk Management Committee These committees fully ensure that the production and operation, decision-making process and risk management of the Company be conducted in a scientific and prudent way .

The range of remuneration of members of the senior management for the financial year ended 31 December 2018 is set out in Note 13 to the consolidated 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. Upon specific inquiries with the Directors and Supervisors, all Directors and Supervisors confirmed that during the accounting period covered by this annual report, they had 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 served as the chairman of the Company and Mr. Xia Qinglong served as the chief executive officer/president of the Company from 1 January to 28 March 2018; Mr. Xia Qinglong served as the chairman of the Company and Mr. Wang Weimin served as the chief executive officer/president of the Company from 28 March to 31 December 2018. 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, Ms. Wu Xiaoxia and Ms. Ng Sau Mei were the Joint Company Secretaries. Acting also as the chief financial officer/vice president of the Company, Ms. Wu Xiaoxia is familiar with the day-to-day affairs of the Company. All Directors are entitled to obtain the advice and services of the Company Secretaries to ensure the Board procedures and all applicable laws, rules and regulations are complied.

Upon enquiry by the Board, 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 change the legal representative of the Company to the chairman and amend the respective responsibilities of the chairman accordingly. For details, please see the circular dated 16 April 2018 and the Articles dated 31 May 2018 issued by the Company.

## 10 Risk management and internal control

The Company maintains an 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 has formulated internal control and comprehensive risk management system as well as internal systems such as comprehensive risk management method. The Company formed a three-tier risk management structure consisting of the 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 them to the management of the Company. The Risk Management Committee reviews the monthly risk management report, discusses and determines measures to cope with such major risks, and requires the subsidiaries to implement them. During the reporting period, centering on the reform of its marketing and procurement systems and mechanisms, the Company devoted major efforts to build a governance structure consisting of three lines of defense, namely business, internal control and audit, which work in synergy on a check and balance basis. By establishing a risk-oriented internal control management system, the Company continuously monitored its major risks and improves the risk management and monthly reporting mechanism. The internal audit department of the Company plays an important role in supporting the Board, the management and the risk management and internal control system. During the year, the Board reviewed the risk management and internal control system of the Company, including finance, operation and compliance control. The Audit Committee of the Board held two reporting sessions and discussed the risk management and internal control system of the Company. The Company considers that its risk management and internal control system is adequate and operates effectively.

The Company improved its information disclosure management and spokesperson system in compliance with the requirements and procedures as set out in the Listing Rules, clarifying the department responsible for disclosures of inside information to ensure timely and compliant disclosures.

The management confirms, and the Board concurs, that for the year ended 31 December 2018, (1) the risk management and internal control system of the Company was adequate and operated effectively; (2)the Company had adopted necessary inspection and control mechanisms 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, BDO Limited and BDO China Shu Lun Pan Certified Public Accountants LLP were appointed as the overseas and domestic auditors of the Company respectively. In 2018, the audit fees amounted to RMB2.97 million, which has been approved by the Audit Committee. In addition, the Company paid a year-end final accounts advisory service fee of RMB100,000.

The responsibility statement of the Company's external auditor on the consolidated financial statements is set out on pages 59 to 61 of this annual report.

## 12 2018 Annual review on non-competition

On 7 September 2006, the Company and CNOOC entered into a non-compete 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 26 March 2019, the Company and CNOOC held the 2018 annual review meeting 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 of the Company have also reviewed whether CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings and are satisfied that CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings.

## 13 Directors' responsibilities for the consolidated financial statements

The Directors acknowledge that they have responsibilities in relation to the preparation of the Group's consolidated financial statements, and that they should assess the Company's financial position, results, cash flow and prospects for the reporting period in a lucid and comprehensive manner based on such consolidated 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 uncertain event or circumstances that 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 the Institute of Geology and Geophysics, Chinese Academy of Sciences in 2007, and then held the title of professor-grade senior engineer. From August 1986 to January 1994, he had worked as assistant engineer and project manager at the Computation Centre of Bohai Oil Corporation. From January 1994 to October 1995, he had served as project manager at Bohai Oil Research Institute. From October 1995 to April 2000, he had served as the officer of the Exploration Department, head of the Geophysics Department, deputy chief engineer and head of Geophysical Prospect Department at Bohai Oil Corporation. Thereafter, he was the chief engineer (geophysical prospect) at Bohai Oil Research Institute from April 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 May 2014; deputy director of CNOOC Bohai Petroleum Administrative bureau from April 2013 to October 2015; deputy general manager of CNOOC China Limited Tianjin Branch from August 2013 to October 2015; executive deputy general manager of CNOOC China Limited Tianjin Branch and executive deputy director of CNOOC Bohai Petroleum Administrative bureau from October 2015 to May 2016. He was appointed as the Chief Executive Officer and president of the Company in May 2016, and was appointed as the executive director of the Company in July 2016. Mr. Xia served as chairman of CBC (Canada) Holding Corp. (中海化學(加拿大)控股公司) and chairman of CNOOC Kingboard Chemical Limited in August 2016. He was appointed as director of Western Potash Corp. (西部鉀肥公司) (a company listed on the Main Board of Toronto Stock Exchange, Canada) in September 2016. He was appointed as the Chairman of the Company in March 2018.

②Mr. **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 of SACF from June 1998 to August 2005; leader of the on-site initiation team of the mineral-fertilizer 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) from October 2014 to June 2018; and a director of CNOOC Kingboard Chemical Limited in January 2015. He was appointed as the Chief Executive Officer of the Company from March 2018 and executive Director of the Company from May 2018.

## Non-executive Directors

③Mr. **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.

④Mr. **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 CNOOC. He was appointed as a non-executive Director of the company in May 2016.

## Independent non-executive Directors

⑤Ms. **Lee Kit Ying**, born in 1948, obtained a bachelor's degree from City of London Polytechnic, U.K. (now known as London Metropolitan University) in 1979 majoring in accountancy and a master's degree from City University of Hong Kong in 1998 majoring in Financial Engineering. Ms. Lee is a senior fellow of the Institute of Chartered Accountants in England and Wales. She previously held a number of senior positions in Hong Kong Futures Exchange, the 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 non-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).

⑥Mr. **Lee Kwan Hung**, born in 1965, received his Law (LL.B (Honours)) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr. Lee was a senior manager of the Listing Division of the 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 Futong Technology Development Holdings Limited and Asia Cassava Resources 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, 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 Service Group Holdings Limited and Ten Pao Group Holdings Limited, the shares of all of which are listed on the Hong Kong Stock Exchange.

⑦Mr. **Yu Changchun**, born in 1969, graduated with a bachelor's degree from Sichuan Normal College majoring


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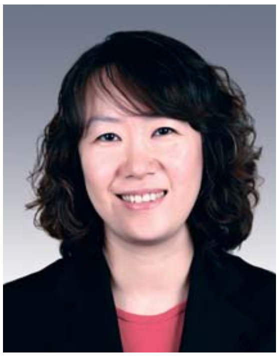
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in chemistry in 1990. He obtained a master's degree of physical chemistry from Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1993, and a doctor's degree of physical chemistry from the OSSO State Key Lab (OSSO國家重點實驗室) of Lanzhou 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 from March 2012 to December 2018. He is a teacher of College of New Energy and Materials in China University of Petroleum (Beijing) since January 2019. Mr. Yu Changchun's main research areas include conversion and utilisation of natural gas, catalytic conversion of light hydrocarbons, Fislcher-Tropsch synthesis, methanol and DME to chemicals, and substitute natural gas synthesis. He was appointed as an independent non-executive Director of the company in May 2016.

## Supervisors

⑧Mr. **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.

⑨Mr. **Li Xiaoyu**, born in 1958, graduated from Shandong University, Department of Chemistry with a bachelor's degree of science majoring in Organic Chemistry in 1981. He graduated from the Major of Polymers Materials of the Department of Polymers of Beijing Institute of Chemical Technology (now known as Beijing University of Chemical Technology, (BUCT)) with a master's degree of engineering in 1985. He graduated from the Major of Materials Science of the Department of Materials Science of BUCT with a 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.

⑩Ms. **Liu Lijie**, born in 1970, graduated from China Finance Institute (now known as School of Banking and Finance, University of International Business and Economics) in 1993 with a bachelor's degree majoring in International Finance, and was later awarded the title of senior accountant and she is a certified public accountant in China. Ms. Liu worked with the Finance Department of China National Chemical Construction Corporation ("CNCCC") from August 1993 to February 2003. She was 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


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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.

## Senior management

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 (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

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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.

⑭Mr. **Zhao Liang**, born in 1963, graduated from Nanjing Tech University in 1983 majoring in Chemical Automation with a bachelor's degree and was later awarded the title of senior engineer (professor grade). From August 1983 to December 1993, he was successively a technician in instrument workshop of Shanxi Chemical Fertilizer Plant and deputy head of the Measurement and Control Centre. From December 1993 to July 2001, he was successively a deputy head and a head of the Automatic Control Department of Hainan Fudao Chemical Industry Limited (formerly known as Hainan Fudao Chemical Industry Corporation*). From July 2001 to January 2002, he served as the Deputy General Manager of China BlueChemical Maintenance and Engineering Company*; from January 2002 to November 2004, he served as the Deputy General Manager of the Production Support Department of CNOOC Fudao Limited; from December 2004 to April 2010, he served as the Chief Technical Supervisor and the General Manager of the Technical Equipment Department of the Company; from April 2010 to January 2013, he served as the Chief Technical Supervisor and the Deputy General Manager of CNOOC Fudao Limited. From January 2013 to December2018, he was appointed as an assistant to President and the General Manager of the safety production department of the Company. He was appointed as Vice President and Chief Safety Officer of the company from December 2018.

Ms. **Ng Sau Mei**, born in 1977, graduated with a bachelor's degree from City University of Hong Kong in 2001 majoring in. She obtained a master's degree in Laws from the University of London in 2017. Ms. Ng 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 deputy director 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 consolidated financial statements for the year ended 31 December 2018.**

## 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 2018 and the financial position of the Company and the Group as at that date are set out on pages 62 to 69 of the consolidated 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 19 and Independent Auditors' Report on page 59 to 61, respectively. Particulars of the important events affecting the Company that have occurred since the end of the financial year of 2018 are set out in Note 49 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 19. 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 20 to 28; compliance with relevant laws and regulations which have significant impacts 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 20 to 28, and "major customers and suppliers" and "connected transactions" of this Report of Directors.

## Dividends and Relevant Policies

The Board recommended the payment of final dividends of RMB691.5 million for the year of 2018, in aggregate RMB 0.15 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.

The Company has adopted the dividend policy (the "Dividend Policy"), whereby the shareholders of the Company are entitled to the dividends declared by the Company. The payment and any amount of dividends shall be formulated at the discretion of the Board. Any dividend distribution is subject to the approval by the general meeting of the Company. Pursuant to the Company Law of the PRC and the Articles of Association of the Company, all shareholders of the Company shall be equally entitled to dividends and distribution. Dividends paid to holders of Domestic Shares, if any, shall be calculated and declared and payable in Renminbi. Cash dividends paid to holders of Overseas-unlisted Foreign Shares, if any, shall be calculated and declared in Renminbi and payable in foreign currency. Cash dividends paid to holders of Overseas-unlisted Foreign Shares and H Shares, if any, shall be calculated and declared in Renminbi and payable in Hong Kong Dollars.

Pursuant to the applicable requirements of the Company Law, the Company may only distribute dividends upon making allowance for the followings:

- cumulative losses in previous years, if any;
- appropriation to the statutory reserve fund (10% of the Company's profit after tax shall be approriated for statutory reserve fund every year until the cumulative amount of statutory reserve fund exceeds 50% of the registered capital of the Company);
- discretionary reserve fund could be appropriated upon approval by the general meeting of the Company and appropration to the statutory reserve fund.

In addition, the declaration of dividends shall be formulated at the discretion of the Board. Prior to the declaration or recommendation of dividends, the Board shall consider the following factors:

- general business conditions and strategies of the Company;
- cash flow of the Company;
- financial results of the Company;
- capital requirements of the Company;
- shareholders' interests of the Company;
- taxation;
- legal and statutory constriants; and
- any other factors deemed to be relevant by the Board of the Company.

The Board will review the Dividend Policy on a continuous basis, and reserves the sole and absolute rights to update, amend and/or revise the Dividend Policy at any time. The Dividend Policy shall not constitute the legal binding committment to disribute dividends of any specific amount by the Company, and/or any obligation of the Company to distribute dividends at any time or from time to time.

## Subsidiaries

Particulars of the major subsidiaries of the Company as at 31 December 2018 are set out in Note 46 to the consolidated financial statements.

## Summary of financial information

As set out on page 1 of this annual report, the summary of the published results and assets and liabilities of the Group for the last five financial years does not constitute an integral part of the audited consolidated 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 consolidated financial statements.

## Share capital

As at 31 December 2018 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 2018 are set out in Note 32 to the consolidated 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 2018.

## Equity-linked agreements

No equity-linked agreements were entered into by the Company during the year ended 31 December 2018.

## 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 2018.

## 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 2018, the reserves available for distribution of the Company was RMB7,693.8 million.

## Charitable donations

During the year, the Group made charitable donations of RMB0.99 million in total.

## Major customers and suppliers

During the reporting period, sales to the Group's top five customers accounted for 14% of the total sales of the year and sales to the largest customer included therein amounted to 4% of the total sales of the year. Purchases from the Group's top five suppliers accounted for 38% of the total purchases for the year and purchases from the largest supplier accounted for 28% 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 top five customers and top five suppliers.

## Directors and Supervisors

The Directors and Supervisors of the Company as at 31 December 2018 were:

| | |
|---|---|
| **Executive Director:** | |
| Xia Qinglong | Re-appointed on 31 May 2018 |
| Wang Weimin | Appointed on 31 May 2018 |
| **Non-executive Directors:** | |
| Meng Jun | Re-appointed on 31 May 2018 |
| Guo Xinjun | Re-appointed on 31 May 2018 |
| **Independent Non-executive Directors:** | |
| Lee Kit Ying | Re-appointed on 31 May 2018 |
| Lee Kwan Hung | Re-appointed on 31 May 2018 |
| Yu Changchun | Re-appointed on 31 May 2018 |
| **Supervisors:** | |
| Tang Quanrong | Re-appointed on 31 May 2018 |
| Li Xiaoyu | Re-appointed on 31 May 2018 |
| Liu Lijie | Elected at a meeting of the employee representatives held on 30 January 2018 |

Note 1: Mr. Chen Bi ceased to be a non-executive Director of the Company with effect on 28 March 2018 due to other work commitments.

Pursuant to the Articles, all Directors and Supervisors are appointed 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 from the Company.

## Biographies of Directors, Supervisors and senior management

Biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 39 to 43 of this annual report.

## Service contracts of Directors and Supervisors

At the AGM of the Company held on 31 May 2018, 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 31 May 2018 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 31 May 2018 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 held on 30 January 2018 by the Company at 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 Company's 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 12 to the consolidated 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, experiences, performances 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 2018 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 2018, to the best knowledge of the Directors and chief executives of the Company, none of the Directors, Supervisors, chief executive nor 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 into 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, except that the associate of Ms. Liu Lijie, a Supervisor of the Company, held 210,000 H shares of the Company.

## Interests of substantial shareholders

As at 31 December 2018, to the best knowledge of any of the Directors and chief executive of the Company, pursuant to the register 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 | 247,794,000(L) | H Shares | 13.99(L) | 5.38(L) |
| Hermes Investment Management Ltd | Investment manager | 230,920,000(L) | H Shares | 13.04(L) | 5.01(L) |
| Hermes Investment Funds PLC | Beneficial owner | 143,333,345(L) | H Shares | 8.09(L) | 3.11(L) |
| Edgbaston Investment Partners LLP | Investment manager | 140,524,000(L) | H Shares | 7.93(L) | 3.05(L) |
| Citigroup Inc. (Note 3) | Approved lending agent | 90,172,838(L)<br>306,000(S)<br>88,542,723(P) | H Shares | 5.09(L)<br>0.01(S)<br>4.99(P) | 1.96(L)<br>0.01(S)<br>1.92(P) |

Notes: The letter (L) denotes long position, (S) denotes a short position; (P) donates a lending pool.

(1) 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) Commonwealth Bank of Australia indirectly holds these shares through Colonial Holding Company Limited, Commonwealth Insurance Holding Limited, Colonial First State Group Ltd, First State Investments Managers (Asia) Limited and First State Investments (Hong Kong) Ltd.

(3) Citigroup Inc., as the approved lending agent, indirectly holds these shares through its controlled corporations, namely Citicorp LLC, Citibank, N.A., Citigroup Global Markets Holdings Inc., Citigroup Financial Products Inc., Citigroup Global Markets Holdings Bahamas Limited and Citigroup Global Markets Limited.

Save as disclosed above, to the best knowledge of any of the Directors and chief executive of the Company, as at 31 December 2018, no person (other than Directors, Supervisors 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 2018 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. CNOOC Limited and its subsidiaries principally engage in exploration, development, production and sales of offshore oil and natural gas. 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 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 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 3 November 2017, 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 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 commenced on 1 January 2018 and expire on 31 December 2020, 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 to the Group 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

   a. 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

   b. shall not be higher than the property rent for the same types or levels of properties in the same area or the adjacent areas.

(2) property management fees

a. shall not be higher than the standard property management fees approved by the state pricing regulatory authorities (if any);

b. 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

c. shall not be higher than the property management fees for the same types or levels of properties in the same area or 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

a. 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

b. shall not be lower than the property rent for the same types or levels of properties in the same area or the adjacent areas.

(2) property management fees

a. shall not be lower than the standard property management fees approved by the state pricing regulatory authorities (if any);

b. 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

c. shall not be lower than the property management fees for the same types or levels of properties in the same area or 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 order to effectively implement the Properties Leasing Agreement, when determining the pricing standard, to the extent practicable, the relevant department of the Group will obtain property rent and management fees payable by other third party lessees of other properties owned by CNOOC Group and other owners (if any) in the same building, and property rent and management fees for the same or similar types of properties in the same area or adjacent areas to make sure the price and terms offered by CNOOC Group are in compliance with the above-mentioned principles as set out in the Properties Leasing Agreement.

In the year of 2018, the annual expenses paid by the Group for the properties leasing and management services from CNOOC Group were RMB26,861,000.

**2 Natural Gas Sale and Purchase Agreements**

(1) During the year, the Group continued to purchase natural gas pursuant to the four 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 under the Natural Gas Sale and Purchase Framework Agreement dated 1 September 2006 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.

(iv) Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement among the Company, CNOOC Fudao and CNOOC China Limited dated 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.

On 18 May 2015, the Company, CNOOC Fudao and CNOOC China Limited entered into the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Agreement under the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement dated 28 October 2014 pursuant to which CNOOC China Limited has agreed to supply to the Company with natural gas as feedstock required mainly for Fudao Phase I Urea Plant. The price was determined with reference to the exploration, development and production cost of the gasfield plus reasonable profit in principle. The parties will negotiate for the adjustment of the benchmark price in August each ear 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. The natural gas delivery period under this agreement commenced on 8 April 2016 and will expire at the end of operation period of the gasfield, which is expected to be on or before 31 July 2024.

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).

(2) In order to secure stable and reliable supply of natural gas for the Hainan Plants, the Company, CNOOC Fudao and CNOOC China Limited finalized and signed the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement on 3 November 2017, Which was approved by the shareholders at the extraordinary general meeting held on 28 December 2017, pursuant to which CNOOC China Limited has agreed to supply to the Group with natural gas as feedstock required mainly for the Hainan Plants. The natural gas delivery period under this framework agreement is twenty years commencing on 15 November 2018.

The transactions under the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to independent third parties by CNOOC China Limited, and will be priced in accordance with a benchmark price which is determined with reference to the exploration, development and production cost of the gasfield plus reasonable profit in principle as CNOOC China Limited is the sole supplier of natural gas in the region. The price of natural gas will be adjusted based on the benchmark price on a quarterly basis, with the price of international crude oil (Dated Brent) and the selling price of the Company's urea or methanol each contributing an agreed percentage in the adjustment of the natural gas price.

In 2018, the aggregate costs of the Group on purchases of natural gas from CNOOC China Limited amounted to RMB2,333,978,000.

**3 Comprehensive Services and Product Sales Agreement**

On 3 November 2017, 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 28 December 2017, 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, transportation services, material supplies for utility system, etc., dependent upon service locations and the types of facilities established;

(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, logistics management services, etc., dependent upon service locations and the facilities established; 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 commenced on 1 January 2018 and will expire on 31 December 2020, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

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

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

   Before entering into specific service or supply provision agreements with CNOOC Group, the designated department of the Group will evaluate and assess the scope of the relevant services or supplies requested and prepare a fee proposal based on detailed cost calculation referencing to cost of materials, products and labors, technical difficulties and expertise involved, as well as fee quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available), which will be submitted to the management for approval, so as to ensure that the fees for the services or supplies that the Group will be charging CNOOC Group are competitive and comparable to those being offered to independent third party customers of the Group.

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

   The Procurement Management Committee is responsible for carrying out tendering process to assess the quality and price of services and supplies, qualification of suppliers, and terms offered by no less than three suppliers to make sure the conditions offered by CNOOC Group in the separate agreements under the Comprehensive Services and Product Sales Agreement are no less favorable to the Group than those offered by independent third parties to the Group.

   If the above-mentioned tendering process is not available due to the exclusivity of certain services or supplies in certain places, requirements of government authorities or other reasons, the Procurement Management Committee will negotiate with suppliers of services or supplies to make sure the principles set out in the Comprehensive Services and Product Sales Agreement are fulfilled.

3. As for sale of products by the Group to CNOOC Group:

   The Company has set up the Sales and Pricing Committee, which comprises senior management and executives from the Marketing Center, the Financial Management Department, the Audit Department and the Supervisory Department of the Company, to determine the price of products for sale. The Marketing Center of the Company will gather market information, such as the recent market trend and the prices charged by competitors of the Group in the market, and propose the selling price for the products to be sold taking into consideration the selling price proposed by the local marketing team and market information gathered. The proposed selling price will then be reported to the Sales and Pricing Committee which will review the rationales and basis for determining the proposed price before approving the price. The specific product sales agreements will then be entered into at the approved price.

4. As for sale of products by CNOOC Group to the Group:

   The Procurement Management Committee is responsible for carrying out tendering process to assess the quality and price of products and terms offered by no less than three suppliers to make sure the conditions offered by CNOOC Group in the separate agreements under the Comprehensive Services and Product Sales Agreement are no less favorable to the Group than those offered by independent third parties to the Group.

   If the above-mentioned tendering process is not available due to the exclusivity of certain products in certain places, requirements of government authorities or other reasons, the Procurement Management Committee will negotiate with suppliers of such products to make sure the principles set out in the Comprehensive Services and Product Sales Agreement are fulfilled.

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 2018 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB181,897,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB564,898,000.

**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 3 November 2017, 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) transfer and settlement services, including transfer and settlement for transactions between the Company and its subsidiaries and for transactions between the Group and CNOOC Group; and

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

The term of the Financial Services Agreement commenced on 1 January 2018 and expire on 31 December 2020 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 Group: 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 with appropriate discount to the comparable loan interest rate provided by major financing banks of the Company;

(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 with appropriate adding to the comparable deposit interest rate provided by major deposit banks of the Company;

(3) bank notes discounting acceptance and services: the interest rates are determined in accordance with the standard rates promulgated by the PBOC from time to time and with appropriate discount to the comparable loan interest rate provided by major financing banks of the Company;

(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 by the Group; 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 with appropriate discount to the comparable entrustment loan service fees provided by major financing banks of the Company;

(5) transfer and settlement services in RMB: no service fee will be charged (relevant services in other currencies shall adopt principle 6 as set out below); and

(6) other financial services: service fees shall be determined with reference to the relevant standard charging rate promulgated by the PBOC or other competent regulatory authorities, and with appropriate discount to the comparable service fees provided by major financing banks of the Company.

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, and CNOOC Finance shall not be entitled to have any such offset right in this circumstance. In 2018, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB399,941,000.

**5 Finance Lease Agreement**

On 3 November 2017, the Company entered into a finance lease agreements (the "Finance Lease Agreement") with CNOOC Leasing, which was approved by the Shareholders at the extraordinary general meeting held on 28 December 2017, 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 commenced on 1 January 2018 and expire on 31 December 2020, 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 independent third parties by CNOOC Leasing, and the principal amount, the lease interest rate and commission fees shall be determined in accordance with the following principles:

(a) principal amount: for scenario 1 above, the principal amount shall be determined with reference to the net book value of such production facility/equipment or the appraised value of such production facility/equipment to be prepared by an independent valuer, and shall not be less favorable than that provided by an independent third party financial institution to the Group; for scenario 2, the principal amount shall be determined based on the purchase price of such production facility/equipment, and shall not be less favorable than that provided by an independent third party financial institution to the Group; and

(b) lease interest and commission fees: the consolidated rate of lease interest plus commission fees during the lease period shall not be higher than the available loan interest rate quoted from the PRC commercial banks for the corresponding period.

The Capital Management Department of the Company are responsible for gathering quotes from independent finance lease companies or major and independent PRC commercial banks and assessing the qualifications and terms offered to make sure the terms offered in the specific finance lease agreement by CNOOC Leasing are no less favorable to the Group than those offered by independent third parties. The results will be submitted to senior management of the Company for final approval.

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 2018, the annual costs, being the maximum principal amount outstanding plus lease interest and commission fees accrued, paid by the Group for the finance lease services provided by CNOOC Leasing under the Finance Lease Agreemnt amounted to RMB1,396,118,000.

**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 3 November 2017, pursuant to which the Company agreed to sell products produced by the Group, including but not limited to methanol; and to provide related services such as transportation services to Hong Kong Kingboard and its associates, including but not limited to short-distance transportation, train loading, ship loading, sea transportation, railway transportation, purchase/arrangement of cargo transportation insurance.

The term of Kingboard Product Sales and Services Agreement commenced on 1 January 2018 and expire on 31 December 2020 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 independent third parties by the Group 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; or

(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 order to ensure that the price of the Kingboard Product Sales and Services Agreement is determined on a fair and reasonable basis and in accordance with the pricing principle, the Company has adopted the following procedures when determining the price of the services provided and the price of the products sold:

1. As for provision of services by the Group to Hong Kong Kingboard and its associates

   Before entering into specific service provision agreements with Hong Kong Kingboard and its associates, the designated department of the Group will evaluate and assess the scope of the relevant services requested and prepare a fee proposal based on detailed cost calculation referencing to cost of materials, products and labors, technical difficulties and expertise involved, as well as fee quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available), which will be submitted to the management for approval, so as to ensure that the fees for the services that the Group will be charging Hong Kong Kingboard and its associates are competitive and comparable to those being offered to independent third party customers of the Group.

2. As for sale of products by the Group to Hong Kong Kingboard and its associates

   The Company has set up the Sales and Pricing Committee, which comprises senior management and executives from the Marketing Center, the Financial Management Department, the Audit Department and the Supervisory Department of the Company, to determine the price of products for sale. The Marketing Center of the Company will gather market information, such as the recent market trend and the prices charged by competitors of the Group in the market, and propose the selling price for the products to be sold taking into consideration the selling price proposed by the local marketing team and market information gathered. The proposed selling price will then be reported to the Sales and Pricing Committee which will review the rationales and basis for determining the proposed price before approving the price. The specific products sales agreements will then be entered into at the approved price.

   In 2018, the aggregate revenue of the Group from Hong Kong Kingboard and its associates for sales of products and provision of related services amounted to RMB418,658,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2018 are set out below:

| | Annual cap amount for 2018 (RMB'000) | Actual transaction amounts for 2018 (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 | 27,969 | 26,861 |
| (2) Purchases of natural gas by the Group from CNOOC China Limited under the Natural Gas Sale and Purchase Agreements | 2,922,470 | 2,333,978 |
| (3) Comprehensive Services and Product Sales Agreement | | |
| (a) Provision of services, supplies and sales of products by CNOOC Group to the Group | 304,247 | 181,897 |
| (b) Provision of services, supplies and sales of products by the Group to CNOOC Group | 1,426,892 | 564,898 |
| (4) Financial Services Agreement | | |
| (a) Deposits placed in CNOOC Finance by the Group (Note 1) | 400,000 | 399,941 |
| (5) Provision of finance lease services by CNOOC to the Group under the Finance Lease Agreement | 1,473,000 | 1,396,118 |
| | | |
| 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 | 451,796 | 418,658 |

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 above 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 above 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 above 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 42 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 2018 and up to the date of this annual report, the Company has maintained a sufficient public float of no less 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.

## Compliance with laws and regulations

For the year ended 31 December 2018, 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 20 to 28.

## Audit Committee

The 2018 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 2018 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 maintain high standards of corporate governance to enhance transparency and safeguard shareholders' interests as a whole. During the reporting period, the Company complied with all the code provisions in the Corporate Governance Code.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, as the ethical codes in respect of the securities transactions of the Directors and Supervisors. After being made specific enquiries, all Directors and Supervisors confirmed that they had strictly complied with the required standards as set out in the Model Code during the accounting period covered in this annual report.

## Auditors

On 31 May 2018, BDO Limited and BDO China Shu Lun Pan CPAs were appointed as the overseas and domestic auditors of the Company respectively on the annual general meeting of the Company.

The consolidated financial statements of the year have been audited by BDO Limited whose term of office will expire at the forthcoming AGM, at which a resolution will be proposed by the Company for the reappointment of BDO Limited and BDO China Shu Lun Pan CPAs as the overseas and the domestic auditors of the Company respectively.

For and on behalf of the Board
Chairman
Xia Qionglong

Shenzhen the PRC, 26 March 2019

# Report of the Supervisory Committee

**In 2018, 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 the 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 2018, 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 2018 was held in Guangzhou, Guangdong Province on 27 March 2018, at which the 2017 Report of the Supervisory Committee of the Company was considered and passed, the resolutions on the non-employee representative Supervisor candidates of the new session of the Supervisory Committee to be appointed and their remunerations were considered and passed, the 2017 financial report of the Company was reviewed, and the key tasks of the Supervisory Committee for 2018 were discussed.

(2) The Second Meeting of the Supervisory Committee in 2018 was held in Beijing on 31 May 2018, at which the Chairman of the Supervisory Committee of the Company was elected.

(3) The Third Meeting of the Supervisory Committee in 2018 was held in Shenzhen, Guangdong Province on 27 August 2018, at which the 2018 interim financial report of the Company was reviewed.

## 2 Principal inspection and supervision work carried out by the Supervisory Committee in 2018

(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 and one Domestic Shareholders' class meeting. Mr. Li Xiaoyu, an independent Supervisor of the Company, acted as scrutineer for the voting at the annual general meeting and Shareholders' class meetings, respectively.

(3) Members of the Supervisory Committee attended four 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 2018, members of the Supervisory Committee visited the production bases of the Company in Hubei, Hainan and Inner Mongolia to carry out on-site inspection on the production and operations of production facilities 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 development of macro-economy was on the track of stable recovery, and the de-capacity policy of chemical fertilizers has achieved initial success. Under such backdrop, the Company firmly upheld its management on production, enhanced its awareness on operation, grasped market opportunities, strictly controlled its costs and expenses and strengthened its internal control and risk management. Information disclosure was timely, accurate and complete. The procedures for decision-making at the general meetings and Board meetings of the Company were legitimate 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 acting compromising the Company's interests and 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 examination of the connected transactions with connected persons entered into by the Company and its subsidiaries from time to time during the reporting period, and is of the view that relevant provisions of the Listing Rules have been complied with, and that the prices of the connected transactions were reasonable, open and fair without any prejudice to the interests of the shareholders and the Company.

(4) Implementation of resolutions of the general meetings

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

In 2019, 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 of the 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

Shenzhen, the PRC, 26 March 2019

BDO

Tel: +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

# Independent Auditor's Report

**To the Shareholders of China Bluechemical Ltd.**
(incorporated in the People's Republic of China with limited liability)

## Opinion

We have audited the consolidated financial statements of China BlueChemical Ltd. (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 62 to 151, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2018, 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 |
|---|---|
| **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.<br><br>Details of the key estimation uncertainties and the deferred tax assets are disclosed in Notes 5b and 25, respectively, to the consolidated financial statements. | Our procedures in relation to the recognition of deferred tax assets included:<br><br>• assessing and challenging the reasonableness of management's estimates and assumptions of future profitability; and<br><br>• comparing management's estimates and assumptions used in assessing the future taxable profits for the relevant subsidiaries with those used in the approved budgets. |

# Independent Auditor's Report - Continued

## Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

## Directors' Responsibilities for the Consolidated Financial Statements

The directors 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

## 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. This report is made 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.

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.

# Independent Auditor's Report - Continued

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

- 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 the Audit Committee 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 the Audit Committee 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 the directors, 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.

**BDO Limited**
Certified Public Accountants

**Amy Yau Shuk Yuen**
Practising Certificate no. P06095

Hong Kong, 27 March 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive income

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Revenue | 7 | 11,259,591 | 9,799,678 |
| Cost of sales | | (8,501,281) | (8,114,588) |
| **Gross profit** | | 2,758,310 | 1,685,090 |
| Other income | 7 | 131,386 | 55,888 |
| Other gains and losses, net | 8 | 303,266 | 237,892 |
| Selling and distribution costs | | (418,466) | (385,743) |
| Administrative expenses | | (455,598) | (452,993) |
| Other expenses | | (161,582) | (13,462) |
| Finance income | 9 | 11,187 | 10,680 |
| Finance costs | 10 | (104,635) | (121,419) |
| Gain on loss of control over subsidiaries | | - | 307 |
| Gain on disposal of a subsidiary | 39 | 62,879 | - |
| Impairment losses | 17,20 | (879) | (442,640) |
| Exchange gains/(losses), net | | 13,296 | (48,233) |
| Share of losses of joint ventures | 22 | (193) | (36,833) |
| Share of profits of associates | 23 | 1,210 | 1,535 |
| Profit before income tax | 11 | 2,140,181 | 490,069 |
| Income tax expenses | 14 | (611,891) | (382,557) |
| **Profit for the year** | | 1,528,290 | 107,512 |
| **Other comprehensive income for the year, net of tax** | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Fair value gains on unlisted investments | | - | 236,888 |
| Reclassification adjustment relating to disposal of unlisted investments upon maturity | | - | (236,888) |
| Exchange differences on translation of foreign operations | | 946 | 293 |
| Share of other comprehensive income of joint ventures | 22 | (2,002) | - |
| Share of other comprehensive income of associates | 23 | 78 | - |
| | | (978) | 293 |
| **Total comprehensive income for the year** | | 1,527,312 | 107,805 |

# Consolidated Statement of Profit or Loss and Other Comprehensive income - Continued

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Owners of the Company | | **1,378,890** | 50,232 |
| Non-controlling interests | | **149,400** | 57,280 |
| | | **1,528,290** | 107,512 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **1,377,912** | 50,525 |
| Non-controlling interests | | **149,400** | 57,280 |
| | | **1,527,312** | 107,805 |
| Earnings per share attributable to owners of the Company | | | |
| - Basic for the year (RMB per share) | 16 | **0.30** | 0.01 |

# Consolidated Statement of Financial Position

At 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 17 | **7,100,978** | 7,661,025 |
| Mining rights | 18 | **135,593** | 137,743 |
| Prepaid lease payments | 19 | **573,582** | 589,032 |
| Investment properties | 20 | **110,053** | 122,273 |
| Intangible assets | 21 | **33,282** | 30,331 |
| Investment in joint ventures | 22 | **227,281** | 229,476 |
| Investment in associates | 23 | **219,758** | 218,470 |
| Available-for-sale investment | 24 | **-** | 600 |
| Financial asset at fair value through other comprehensive income | 24 | **600** | - |
| Deferred tax assets | 25 | **806,692** | 840,105 |
| Other long-term prepayment | | **-** | 6,900 |
| | | **9,207,819** | 9,835,955 |
| **CURRENT ASSETS** | | | |
| Inventories | 26 | **1,286,322** | 1,210,432 |
| Trade receivables | 27 | **41,357** | 267,428 |
| Bills receivable | 28 | **113,949** | 31,138 |
| Contract assets | 29 | **16,116** | - |
| Prepayments, deposits and other receivables | 30 | **323,819** | 321,710 |
| VAT recoverable | | **248,982** | 286,001 |
| Pledged bank deposits | 31 | **50,003** | 6,942 |
| Time deposits with original maturity over three months | 31 | **5,260,802** | 287,505 |
| Cash and cash equivalents | 31 | **3,400,039** | 6,590,294 |
| | | **10,741,389** | 9,001,450 |
| Assets classified as held for sale | 39 | **-** | 411,587 |
| | | **10,741,389** | 9,413,037 |
| **TOTAL ASSETS** | | **19,949,208** | 19,248,992 |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | 32 | **4,610,000** | 4,610,000 |
| Reserves | | **8,909,182** | 8,222,770 |
| Proposed dividends | 15 | **691,500** | 322,700 |
| Equity attributable to owners of the Company | | **14,210,682** | 13,155,470 |
| Non-controlling interests | | **916,956** | 1,092,459 |
| **TOTAL EQUITY** | | **15,127,638** | 14,247,929 |

# Consolidated Statement of Financial Position - Continued

At 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Benefits liability | 33 | **52,037** | 65,852 |
| Interest-bearing bank borrowings | 34 | **685,000** | 785,000 |
| Deferred tax liabilities | 25 | **43,147** | 47,079 |
| Deferred revenue | 35 | **169,327** | 175,210 |
| Obligations under finance leases | 38 | **-** | 1,336,118 |
| Other long-term liabilities | | **139,896** | 114,057 |
| | | **1,089,407** | 2,523,316 |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 34 | **100,000** | 25,000 |
| Trade payables | 36 | **708,390** | 876,622 |
| Contract liabilities | 29 | **557,099** | - |
| Bills payable | 36 | **-** | 12,900 |
| Other payables and accruals | 37 | **843,668** | 1,369,394 |
| Obligations under finance leases | 38 | **1,336,131** | 60,000 |
| Income tax payable | | **186,875** | 132,609 |
| | | **3,732,163** | 2,476,525 |
| Liabilities associated with assets classified as held for sale | 39 | **-** | 1,222 |
| | | **3,732,163** | 2,477,747 |
| **TOTAL LIABILITIES** | | **4,821,570** | 5,001,063 |
| **TOTAL EQUITY AND LIABILITIES** | | **19,949,208** | 19,248,992 |
| **NET CURRENT ASSETS** | | **7,009,226** | 6,935,290 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **16,217,045** | 16,771,245 |
| **NET ASSETS** | | **15,127,638** | 14,247,929 |

**Xia Qing Long**
*Director*

**Lee Kit Ying**
*Director*

# Consolidated Statement of Changes in Equity

At 31 December 2018

| | Attributable to owners of the Company | | | |
|---|---|---|---|---|
| | Share capital RMB'000 | Capital reserve RMB'000 (Notes i and iv) | Statutory surplus reserve RMB'000 (Notes ii and iv) | Special reserve RMB'000 (Notes iii and iv) |
| **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 | - | 18,465 | - | - |
| Loss of control over subsidiaries | - | - | - | - |
| Transfer from retained profits | - | - | 61,041 | - |
| Appropriation and utilisation of safety fund, net | - | - | - | (7,196) |
| 2017 proposed dividends (note 15) | - | - | - | - |
| Dividend paid to non-controlling shareholders | - | - | - | - |
| 2016 final dividends declared | - | - | - | - |
| **Balance at 31 December 2017** | 4,610,000 | 1,025,702 | 1,071,998 | 48,212 |
| **Balance at 1 January 2018** | **4,610,000** | **1,025,702** | **1,071,998** | **48,212** |
| Profit for the year | - | - | - | - |
| Other comprehensive income for the year | - | - | - | - |
| **Total comprehensive income for the year** | - | - | - | - |
| Disposal of a subsidiary (note 39) | - | - | - | - |
| Appropriation and utilisation of safety fund, net | - | - | - | **14,090** |
| 2018 proposed dividends (note 15) | - | - | - | - |
| 2017 final dividends declared | - | - | - | - |
| Transfer from retained earnings | - | - | **113,959** | - |
| Dividends paid and payable to non-controlling interests | - | - | - | - |
| **Balance at 31 December 2018** | **4,610,000** | **1,025,702** | **1,185,957** | **62,302** |

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 Group's PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund at financial year end, 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's subsidiaries and approval by the boards of directors of the subsidiaries.

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 (Note iv) | Proposed dividends RMB'000 | Translation reserve RMB'000 (Note iv) | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|
| 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 |
| **6,074,941** | **322,700** | **1,917** | **13,155,470** | **1,092,459** | **14,247,929** |
| **1,378,890** | **-** | **-** | **1,378,890** | **149,400** | **1,528,290** |
| **-** | **-** | **(978)** | **(978)** | **-** | **(978)** |
| **1,378,890** | **-** | **(978)** | **1,377,912** | **149,400** | **1,527,312** |
| **-** | **-** | **-** | **-** | **(200,886)** | **(200,886)** |
| **(14,090)** | **-** | **-** | **-** | **-** | **-** |
| **(691,500)** | **691,500** | **-** | **-** | **-** | **-** |
| **-** | **(322,700)** | **-** | **(322,700)** | **-** | **(322,700)** |
| **(113,959)** | **-** | **-** | **-** | **-** | **-** |
| **-** | **-** | **-** | **-** | **(124,017)** | **(124,017)** |
| **6,634,282** | **691,500** | **939** | **14,210,682** | **916,956** | **15,127,638** |

iv. These reserve accounts comprise the consolidated reserves of approximately RMB8,909,182,000 (2017: RMB8,222,770,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | 2,140,181 | 490,069 |
| Adjustment for: | | | |
| Other gains or losses, net | 8 | (303,266) | (237,892) |
| Finance income | 9 | (11,187) | (10,680) |
| Finance costs | 10 | 104,635 | 121,419 |
| Share of losses of joint ventures | 22 | 193 | 36,833 |
| Share of profits of associates | 23 | (1,210) | (1,535) |
| Impairment of non-current assets | 17,20 | 879 | 442,640 |
| Depreciation and amortisation | | 743,670 | 983,555 |
| Release of government grants | 35 | (6,962) | (6,452) |
| (Reversal of write-down)/write-down of inventories | | (37,025) | 37,038 |
| Gain on loss of control of subsidiaries | | - | (307) |
| Gain on disposal of a subsidiary | 39 | (62,879) | - |
| | | 2,567,029 | 1,854,688 |
| (Increase)/decrease in inventories | | (38,865) | 28,795 |
| Net decrease in trade receivables, bills receivable, contract assets, prepayments, deposits and other receivables | | 124,987 | 239,112 |
| Net decrease in trade payables, bills payable, contract liabilities, other payables and accrual, and other long-term liabilities | | (106,820) | (125,651) |
| Decrease in benefits liability | | (13,815) | (1,729) |
| Cash generated from operations | | 2,532,516 | 1,995,215 |
| Income tax paid | | (528,139) | (296,349) |
| **Net cash flows from operating activities** | | 2,004,377 | 1,698,866 |

# Consolidated Statement of Cash Flows - Continued

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **11,187** | 10,680 |
| Purchases of property, plant and equipment | | **(163,110)** | (217,708) |
| Proceeds from disposal of property, plant and equipment | | **18,638** | 14,072 |
| Proceeds from disposal of a subsidiary, net of cash disposed | 39 | **259,089** | - |
| Purchases of intangible assets | | **(13,512)** | (8,297) |
| Disposal of investment in an joint venture | | **-** | 13,194 |
| Purchase of unlisted investments | | **(15,590,898)** | (14,175,000) |
| Disposal of unlisted investments | | **15,911,447** | 14,405,816 |
| Government grants received | | **1,079** | 19,900 |
| Placement of time deposits with original maturity over three months | | **(5,260,802)** | (771,841) |
| Withdrawal of time deposits with original maturity over three months | | **287,505** | 462,222 |
| Net cash outflow on loss of control of subsidiaries | | **-** | (2,690) |
| **Net cash flow used in investing activities** | | **(4,539,377)** | (249,652) |
| **FINANCING ACTIVITIES** | | | |
| Bank borrowings raised | | **696,500** | 1,610,000 |
| Repayment of bank borrowings | | **(721,500)** | (1,678,900) |
| Repayment of obligations under finance leases | | **(59,987)** | (60,000) |
| Increase in pledged bank deposits | | **(43,061)** | - |
| Interest paid related to obligations under finance leases | | **(39,630)** | (44,579) |
| Interest paid | | **(48,539)** | (66,119) |
| Dividends paid | | **(322,700)** | (230,500) |
| Dividends paid to non-controlling shareholders | | **(129,395)** | (3,473) |
| Transaction charge paid for financial lease | | **(22,991)** | (20,218) |
| **Net cash flows used in financing activities** | | **(691,303)** | (493,789) |
| **Net increase in bank balances and cash** | | **(3,226,303)** | 955,425 |
| Cash and cash equivalents at 1 January | | **6,604,933** | 5,698,412 |
| Effect of foreign exchange rate changes | | **21,409** | (48,904) |
| **Cash and cash equivalents at 31 December** | 31 | **3,400,039** | 6,604,933 |
| **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 | | **3,400,039** | 6,590,294 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 1. General information

China BlueChemical Ltd. (the "**Company**") was established in 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 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**"), compound fertilisers and polyformaldehyde ("**POM**").

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 Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

## 2. Adoption of International Financial Reporting Standards ("IFRSs")

### (a) Adoption of new or revised IFRSs – effective 1 January 2018

| | |
|---|---|
| Annual Improvements to IFRSs 2014-2016 Cycle | Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards |
| Annual Improvements to IFRSs 2014-2016 Cycle | Amendments to IAS 28, Investments in Associates and Joint Ventures |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| Amendments to IFRS 15 | Revenue from Contracts with Customers (Clarifications to IFRS 15) |
| Amendments to IAS 40 | Transfers of Investment Property |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |

Annual Improvements to IFRSs 2014-2016 Cycle - Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these consolidated financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to IFRSs 2014-2016 Cycle - Amendments to IAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these consolidated financial statements as the Group is not a venture capital organisation.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these consolidated financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

A. IFRS 9 - Financial Instruments

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss ("**FVTPL**"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI** criterion"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

A. IFRS 9 - Financial Instruments - Continued

(i) Classification and measurement of financial instruments - Continued

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

| | |
|---|---|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Amortised cost | Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss. |
| FVOCI (debt instruments) | Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss. |
| FVOCI (equity instruments) | Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. |

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The majority of the Group's financial assets include:

- Unlised equity investment previously classified as available-for-sale investment was reclassified to financial asset at FVOCI. This unlisted equity investment has no quoted price in an active market. The Group intends to hold these unlisted equity investment for long term strategic purposes. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. The fair value of the unlisted equity investment is determined based on transaction price and factors or events that have occurred after acquisition date. Since there is no significant change in the performance and operation of the investees, the directors of the Company consider that the fair value of the unlisted equity investment is approximate to its carrying amount;

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

A. IFRS 9 - Financial Instruments - Continued

(i) Classification and measurement of financial instruments - Continued

- 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 specific dates that are solely payments of principal and interest on the principal outstanding. Accordingly, bills receivable will be subsequently measured at FVOCI 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 consider the impact on the amounts recognised in other comprehensive income is immaterial as the fair value of bills receivable is close to their carrying amounts given all bills receivable will mature within one year;
- The Group's wealth management products in licensed bank carried at fair value are held within the business model whose objective is not solely receiving payments of principal and interest on the principal outstanding. Accordingly, the Group has classified these instruments at FVTPL; and
- All other financial assets and financial liabilities continue to be measured on the same basis as are measured under IAS 39.

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

| Financial assets | Original classification under IAS 39 | New classification under IFRS 9 | Carrying amount as at 1 January 2018 under IAS 39<br>RMB'000 | Carrying amount as at 1 January 2018 under IFRS 9<br>RMB'000 |
|---|---|---|---|---|
| Unlisted equity investment | Available-for –sale investment | FVOCI | 600 | 600 |
| Trade receivables | Loans and receivables (note 2(a)A(ii)(I)) | Amortised cost | 267,428 | 267,428 |
| Bills receivable | Loans and receivables | FVOCI | 31,138 | 31,138 |
| Deposits and other receivables | Loans and receivables (note 2(a)A(ii)(II)) | Amortised cost | 128,447 | 128,447 |
| Pledged bank deposits | Loans and receivables | Amortised cost | 6,942 | 6,942 |
| Time deposits | Loans and receivables | Amortised cost | 287,505 | 287,505 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 6,590,294 | 6,590,294 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

A. IFRS 9 - Financial Instruments - Continued

(i) Classification and measurement of financial instruments - Continued

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| | IAS 39 carrying amount 31 December 2017 | Reclassification | **IFRS 9 carrying amount 1 January 2018** |
|---|---|---|---|
| | RMB'000 | RMB'000 | **RMB'000** |
| **Financial assets at FVOCI** | | | |
| Unlisted equity investment | - | 600 | **600** |
| Bills receivable | - | 31,138 | **31,138** |
| **Available-for-sale investments - amortised cost** | | | |
| Unlisted equity investment | 600 | (600) | - |
| **Amortised cost** | | | |
| Trade receivables* | 267,428 | - | **267,428** |
| Bills receivable | 31,138 | (31,138) | - |
| Deposits and other receivables | 128,447 | - | **128,447** |
| Pledged bank deposits | 6,942 | - | **6,942** |
| Time deposits | 287,505 | - | **287,505** |
| Cash and cash equivalents | 6,590,294 | - | **6,590,294** |

* Trade receivables of RMB8,528,000 were reclassified to contract assets at 1 January 2018 as a result of the initial application of IFRS 15 (see below note 2(a)B).

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". IFRS 9 requires the Group to recognised ECLs for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than IAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current year.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

A. IFRS 9 - Financial Instruments - Continued

(ii) Impairment of financial assets - Continued

***Measurement of ECLs***

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's debt investment at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

***Presentation of ECLs***

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

A. IFRS 9 - Financial Instruments - Continued

(ii) Impairment of financial assets - Continued

***Impact of the ECLs model***

(I) Impairment of trade receivables and contract assets

As mentioned above, the Group applies the simplified approach prescribed by IFRS 9 to measure ECLs which permits the use of the lifetime ECLs for all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets have substantially the same risk as the trade receivables. The ECLs rate for trade receivables and contract assets that are catergorised as not past due is assessed to be 0.1%, while the ECLs rate for past due within one year is assessed to be 0.5%. The ECLs rate is reviewed, and adjusted if appropriate, at the end of each reporting period. The ECLs rate remained the same during the year as the business and customer base of the Group remained stable and there were no significant fluctuations on the historical credit loss incurred. In addition, there is no significant change on the economic indicators based on the assessment of the forward-looking information. Based on evaluation on ECLs rate and the carrying amount of trade receivables and contract assets, the directors of the Company are of the opinion that the ECLs in respect of trading receivables and contract assets are considered as immaterial.

(II) Impairment of deposits and other receivables

All the Group's deposits and other receivables are considered to have low credit risk and there has been no significant increase in credit risk since initial recognition, therefore, the loss allowance was limited to 12 months ECLs. The identified impairment loss was immaterial.

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

B. IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**")

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers.

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 each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The Group has changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of IFRS 15:

- Contract assets in relation to the Group's rights to consideration from customers for the provision of transportation services but not billed at the end of the reporting period were previously included in trade receivables; and
- Contract liabilities in relation to the Group's obligation to transfer goods or services to customers for which the Group has received consideration (or an amount of consideration is due) from the customer were previously presented as advances from customers included in other payable and accruals.

In summary, the following adjustments were made to the amounts recognised in the opening consolidated statement of financial position on 1 January 2018:

| | IAS 18 carrying amount 31 December 2017 RMB'000 | Reclassification RMB'000 | **IFRS 15 carrying amount 1 January 2018 RMB'000** |
|---|---|---|---|
| **Current assets** | | | |
| Trade receivables | 267,428 | (8,528) | **258,900** |
| Contract assets | - | 8,528 | **8,528** |
| **Current liabilities** | | | |
| Contract liabilities | - | 585,038 | **585,038** |
| Other payables and accruals | 585,038 | (585,038) | **-** |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

B. IFRS 15 - Continued

The amount by each consolidated financial statements line items affected in the current year by the initial application of IFRS 15 as compared to IAS 18 and IAS 11 that were previously in effect before the application of IFRS 15 is as follows:

| | Amount Without the Adoption of IFRS 15 RMB'000 | Effect of initial application of IFRS 15 RMB'000 | Amount as reported RMB'000 |
|---|---|---|---|
| **Current assets** | | | |
| Trade receivables | 57,473 | (16,116) | 41,357 |
| Contract assets | - | 16,116 | 16,116 |
| **Current liabilities** | | | |
| Contract liabilities | - | 557,099 | 557,099 |
| Other payables and accruals | 1,400,767 | (557,099) | 843.668 |

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

| Note | Product/ service | Nature of the goods or services, satisfaction of performance obligations and payment terms | Nature of change in accounting policy and impact on 1 January 2018 |
|---|---|---|---|
| (i) | Sale of urea, methanol, phosphorus fertilisers which include MAP and DAP fertilisers and compound fertilisers | Customers obtain control of the goods when the goods are delivered to and have been accepted. Revenue is thus recognised at a point in time upon when the customers accepted the products. Sale of goods 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. | IFRS 15 did not result in significant impact on the Group's accounting policies. Upon the adoption of IFRS 15, the Group has to make reclassification from other payables and accruals to contract liabilities since under IFRS 15, if the entity has received consideration from the customers, the entity has an obligation to transfer goods or services to the customers, an entity should recognise a contract liability. |
| (ii) | Provision of port operation and transportation services | For provision of port operation, which including port loading and unloading services, and transportation services, the revenue is recognised over time based on the services provided as the customers simultaneously receives and consumes the benefits of the Group's performance. The Group considers the port operation and transportation services as a single performance obligation. | HKFRS 15 did not result in significant impact on the Group's accounting policies. Upon the adoption of HKFRS 15, the Group has to made reclassification from trade receivables to contract assets since under HKFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise a contract asset. |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (a) Adoption of new or revised IFRSs – effective 1 January 2018 - Continued

Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these consolidated financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this, its first, year.

Amendments to IAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these consolidated financial statements.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these consolidated financial statements as the Group has not paid or received advance consideration in a foreign currency.

### (b) New or revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective

| | |
|---|---|
| IFRS 16 | Leases[1] |
| IFRIC 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IFRS 3, Business Combinations[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IFRS 11, Joint Arrangements[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IAS 12, Income Taxes[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IAS 23, Borrowing Costs[1] |
| IFRS 17 | Insurance Contracts[3] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to IAS 1 and IAS 8 | Definition of Material[2] |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to IFRS 3 | Definition of a Business[5] |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (b) New or revised IFRSs that have been issued but are not yet effective - Continued

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred or removed. Early application of the amendments of the amendments continue to be permitted.
[5] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

IFRS 16 – Leases

IFRS 16, which upon the effective date will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has noncancellable operating lease commitments of RMB7,367,000 as disclosed in Note 40. 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

**(b) New or revised IFRSs that have been issued but are not yet effective - Continued**

IFRIC 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of IAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that IFRS 9 is applied to these LTI before the impairment losses guidance within IAS 28.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

IFRS 17 – Insurance Contracts

IFRS 17 will replace IFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the consolidated financial statements of the issuers of those contracts.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 2. Adoption of IFRSs - Continued

### (b) New or revised IFRSs that have been issued but are not yet effective - Continued

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Amendments to IAS 1 and HKAS 8 - Definition of Material

The amendments clarify the definition of material to make it easier for entities to make materiality judgements. The definition of material, an important accounting concept in IFRS Standards, helps entities decide whether information should be included in their consolidated financial statements.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and consolidated financial statements.

## 3. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance (the "**CO**"). 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.

### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

### (c) Functional and presentation currency

The consolidated financial statements are presented in RMB, which is the same as the funcational currency of the Group and all amounts are rounded to the nearest thousand ("**RMB'000**") except otherwise indicated.

## 4. Significant accounting policies

### (a) 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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies

### (a) Basis of consolidation - Continued

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

### (b) 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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (b) Investments in associates and joint ventures - Continued

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.

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. In the Company's statement of financial position, investments in associates and joint ventures are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

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, 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. 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.

### (c) Property, plant and equipment

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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (c) Property, plant and equipment – Continued

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

| | |
|---|---|
| Land and buildings | 1.80% to 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.

### (d) Investment property

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.

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.

### (e) 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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (f) Leasing

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.

*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.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease of property, plant and equipment.

### (g) 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 the end of each reporting period.

*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.

### (h)A Financial Instruments (accounting policies applied from 1 January 2018)

#### (i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (h)A Financial Instruments (accounting policies applied from 1 January 2018) - Continued

#### (i) Financial assets – Continued

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

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (h)A Financial Instruments (accounting policies applied from 1 January 2018) - Continued

#### (ii) Impairment loss on financial assets

The Group recognises loss allowances for ECLs on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

#### (iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (h)A Financial Instruments (accounting policies applied from 1 January 2018) - Continued

#### (iii) Financial liabilities – Continued

Financial liabilities at fair value through profit or loss - Continued

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

#### (iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

#### (v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (h)B Financial Instruments (accounting policies applied until 31 December 2017)

#### (i) 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 43. 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.

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Derecognition of financial assets

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

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

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (h)B Financial Instruments (accounting policies applied until 31 December 2017)

#### (i) Financial assets - Continued

Derecognition of financial assets - Continued

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

#### (ii) 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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (h)B Financial Instruments (accounting policies applied until 31 December 2017) - Continued

#### (ii) Financial liabilities and equity instrument - Continued

Recognition and measurement - Continued

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 consolidated 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.

### (i) 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.

### (j) Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (j) Revenue recognition (accounting policies applied from 1 January 2018) - Continued

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception./ Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(i) Sales of urea, methanol, phosphorus fertilisers which include MAP and DAP fertilisers and compounded fertiliser

Customers obtain control of the goods when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the goods. There is generally only one performance obligation. Contracts generally have no rights of return and no variable consideration. Invoices are usually payable within 30 days. In the comparative period, revenue from sales of goods was recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

(ii) Provision of port operation and transportation services

Revenue from provison of port operation, which including port loading and unloading services and transporation services, is recognised over time based on the services provided as the customers simultaneously receives and consumes the benefits of the Group's performance. The Group considers the port operation and transportation services as a single performance obligation.

(iii) Other income

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

**Revenue recognition (accounting policies applied until 31 December 2017)**

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:

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (j) Revenue recognition (accounting policies applied from 1 January 2018) - Continued

(a) from the sale of goods, when the significant risks and rewards of ownership have provided that the Group maintains neither managerial involvement to the degree nor effective control over the goods sold, the amount of revenue can be measured economic benefits associated with the transaction will flow to the Group, and 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 estimated future cash receipts over the expected life of the financial instrument 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

**Contract assets and liabilities (accounting policies applied from 1 January 2018)**

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

### (k) Income taxes

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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (k) Income taxes - Continued

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

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

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

### (l) Foreign currency

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.

### (m) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

### (n) 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**") and Hainan Basuo Port Limited ("**Hainan Basuo Port** "),both are non-wholly owned subsidiaries of the Company, 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 "**Benefits liability**"), as detailed in Note 33. The cost of providing the Benefits 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.

### (o) Impairment of assets (other than financial assets)

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 2018

## 4. Significant accounting policies – Continued

### (p) Capitalisation of 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.

### (q) Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (r) 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.

### (s) 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.

### (t) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 4. Significant accounting policies – Continued

**(t) Related parties - Continued**

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

## 5. Critical accounting judgments 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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 5. Critical accounting judgments and key sources of estimation uncertainty – Continued

### (a) Impairment on non-financial assets (other than goodwill) - Continued

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.

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.

### (d) Impairment loss on trade receivables, contract assets, deposits and other receivables

As disclosed in Notes 27 and 30, the measurement of impairment losses under both IFRS 9 an IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment if a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

### (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 2018 is disclosed in Note 17.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 5. Critical accounting judgments and key sources of estimation uncertainty – Continued

### (f) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and / or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs;
Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures certain financial instruments (Note 43) at fair value. For more detailed information in relation to the fair value measurement of the financial instruments, please refer to the applicable notes.

## 6. 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 phosphorus fertilisers which include MAP and 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 ("**BB**") fertiliser, POM and woven plastic bags.

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 4. 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, 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 2018

## 6. Operating segment information – continued

**Operating segments**

| | Urea | Methanol | Phosphorus and compound fertiliser | Others | Elimination | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2018** | | | | | | |
| Segment revenue: | | | | | | |
| Sales to external customers | 4,160,697 | 3,717,105 | 2,260,933 | 1,120,856 | - | 11,259,591 |
| Inter-segment sales | - | - | - | 164,491 | (164,491) | - |
| Total | 4,160,697 | 3,717,105 | 2,260,933 | 1,285,347 | (164,491) | 11,259,591 |
| Segment profit before income tax | 708,055 | 1,196,833 | 61,897 | 48,847 | - | 2,015,632 |
| Interest and unallocated income | | | | | | 314,453 |
| Corporate and other unallocated expenses | | | | | | (267,096) |
| Exchange gains, net | | | | | | 13,296 |
| Share of losses of joint ventures | | | | | | (193) |
| Share of profits of associates | | | | | | 1,210 |
| Gain on disposal of a subsidiary | | | | | | 62,879 |
| Profit before income tax | | | | | | 2,140,181 |
| **As at 31 December 2018** | | | | | | |
| Total segment assets | 10,425,961 | 4,721,513 | 2,134,655 | 1,974,370 | (671,676) | 18,584,823 |
| Unallocated | | | | | | 1,364,385 |
| Total assets | | | | | | 19,949,208 |
| Total segment liabilities | 2,457,124 | 594,339 | 970,002 | 1,376,598 | (671,676) | 4,726,387 |
| Unallocated | | | | | | 95,183 |
| Total liabilities | | | | | | 4,821,570 |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | 319,511 | 207,053 | 154,333 | 62,773 | - | 743,670 |
| Investment in associates | - | - | - | 219,758 | - | 219,758 |
| Investment in joint ventures | - | - | - | 227,281 | - | 227,281 |
| Impairment of property, plant and equipment | - | - | 779 | 100 | - | 879 |
| Capital expenditure* | 70,674 | 44,431 | 28,957 | 38,735 | - | 182,797 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 6. Operating segment information – continued

**Operating segments – continued**

| | Urea RMB'000 | Methanol RMB'000 | Phosphorus and compound fertiliser 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 | 3,458,594 | 2,069,489 | 945,761 | - | 9,799,678 |
| Inter-segment sales | 958 | - | - | 171,300 | (172,258) | - |
| Total | 3,326,792 | 3,458,594 | 2,069,489 | 1,117,061 | (172,258) | 9,799,678 |
| Segment (loss)/profit before income tax | (412,829) | 931,734 | (191,442) | 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 profits of associates | | | | | | 1,535 |
| Gains on loss of control of subsidiaries | | | | | | 307 |
| Profit before income tax | | | | | | 490,069 |
| **As at 31 December 2017** | | | | | | |
| Total segment assets | 7,887,600 | 2,067,471 | 2,496,027 | 2,242,478 | (33,553) | 14,660,023 |
| Unallocated | | | | | | 4,588,969 |
| Total assets | | | | | | 19,248,992 |
| Total segment liabilities | 2,520,129 | 515,023 | 1,274,113 | 629,248 | (33,553) | 4,904,960 |
| Unallocated | | | | | | 96,103 |
| Total liabilities | | | | | | 5,001,063 |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | 446,482 | 218,523 | 242,522 | 76,028 | - | 983,555 |
| Investments in associates | - | - | - | 218,470 | - | 218,470 |
| Investments in joint venture | - | - | - | 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 | 3,458 | 39,061 | 10,856 | - | 129,617 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 6. 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, financial asset at FVOCI (2017: available-for-sale investment), 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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Sales to external customers: | | |
| - PRC | 10,293,409 | 8,689,131 |
| - Others | 966,182 | 1,110,547 |
| | 11,259,591 | 9,799,678 |

(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 2018 and 2017.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 7. Revenue and other income

Revenue, which is also the Group's turnover, represents the invoiced values of good 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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods, recognised at a point in time* | 10,901,787 | 9,423,013 |
| Rendering of services, recognised overtime* | 357,804 | 376,665 |
| | 11,259,591 | 9,799,678 |
| **Other income** | | |
| Income from sale of other materials, recognised at a point in time* | 52,473 | 39,365 |
| Income from rendering of other services, recognised overtime* | 25,766 | 3,042 |
| Gross rental income | 22,156 | 5,004 |
| Government grants | 24,876 | 8,260 |
| Indemnities received | 6,115 | 217 |
| | 131,386 | 55,888 |

* Revenue from contracts with customer within the scope of IFRSIS.

## 8. Other gains and losses, net

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Gain on maturity of unlisted investments | 320,549 | 236,888 |
| Impairment loss on trade and other receivables | (17,032) | (391) |
| (Loss)/gain on disposal of property, plant and equipment | (251) | 1,335 |
| Gain on disposal of a joint venture | - | 60 |
| | 303,266 | 237,892 |

## 9. Finance income

Finance income represents interest income on bank and financial institution deposits during the year.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 10. Finance costs

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Interest on bank and financial institution borrowings | **48,445** | 66,085 |
| Financial charges payable under other long-term liabilities and obligations under finance leases | **56,190** | 55,334 |
| | **104,635** | 121,419 |

## 11. Profit before income tax

Profit before income tax is arrived at after charging:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cost of inventories sold | **8,208,539** | 7,754,459 |
| (Reversal of write-down)/ write-down of inventories | **(37,025)** | 37,038 |
| Cost of services provided | **329,767** | 323,091 |
| Costs of sales recognised as expenses | **8,501,281** | 8,114,588 |
| Depreciation and amortisation: | | |
| Depreciation of property, plant and equipment | **709,564** | 953,619 |
| Amortisation of mining rights | **2,150** | 2,173 |
| Amortisation of prepaid lease payments | **15,365** | 15,537 |
| Amortisation of investment properties | **6,030** | 6,112 |
| Amortisation of intangible assets included in administrative expense | **10,561** | 6,114 |
| | **743,670** | 983,555 |
| Auditors' remuneration | **3,552** | 4,300 |
| Employee benefit expense (including directors' and supervisors' remunerations explained in Note 12) | | |
| Wages and salaries | **774,518** | 671,850 |
| Defined contribution pension scheme | **99,922** | 93,349 |
| Early retirement benefits and post-employment allowances | **1,109** | 15,170 |
| Medical benefit costs | **51,495** | 38,999 |
| Housing fund | **55,899** | 53,815 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 12. Key management personnel remuneration

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

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Fees | **-** | - |
| Other emoluments | | |
| Salaries and other allowances | **1,610** | 1,210 |
| Discretionary bonuses | **2,402** | 855 |
| Pension scheme contributions | **27** | 16 |
| | **4,039** | 2,081 |

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2018 was 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 (Note 1) | **-** | **-** | **-** | **-** |
| Meng Jun | **-** | **-** | **-** | **-** |
| | **-** | **-** | **-** | **-** |

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

| | Salaries and other allowances RMB'000 | Discretionary bonuses RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| ***Executive directors*** | | | | |
| Xia Qinglong | **431** | **975** | **11** | **1,417** |
| Wang Weimin (Note 2) | **318** | **902** | **10** | **1,230** |
| | **749** | **1,877** | **21** | **2,647** |

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

| | Salaries and other allowances RMB'000 | Discretionary bonuses RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| ***Independent non-executive directors*** | | | | |
| Lee Kit Ying | **252** | **-** | **-** | **252** |
| Lee Kwan Hung | **252** | **-** | **-** | **252** |
| Yu Changchun | **126** | **-** | **-** | **126** |
| | **630** | **-** | **-** | **630** |

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

Notes:

1 Chen Bi resigned as Non-Executive director on 28 March 2018.

2 Wang Welmin was appointed as Executive director on 31 May 2018.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 12. Key management personnel remuneration - Continued

The remuneration of each of the supervisors of the Group for the year ended 31 December 2018 was set out as below:

| | Salaries and other allowances RMB'000 | Discretionary bonuses RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| ***Supervisors*** | | | | |
| Liu Lijie | **168** | **525** | **6** | **699** |
| Li Xiaoyu | **63** | **-** | **-** | **63** |
| Tang Quanrong | **-** | **-** | **-** | **-** |
| | **231** | **525** | **6** | **762** |

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

| | | | | |
|---|---|---|---|---|
| **Total** | **1,610** | **2,402** | **27** | **4,039** |

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2017 was set our 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.

Notes:

1 Xie Weizhi was resigned as Non-Executive director on 24 October 2017.

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

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 12. Key management personnel remuneration - Continued

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2017 is set out as below:

| | Salaries and other allowances | Discretionary bonuses | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Executive directors*** | | | | |
| Xia Qinglong (Chief Executive) | 427 | 533 | 11 | 971 |

The executive director's remuneration 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.

| | | | | |
|---|---|---|---|---|
| ***Supervisors*** | | | | |
| Liu Jianyao (Note 1) | - | - | - | - |
| Liu Lijie | 123 | 322 | 5 | 450 |
| Li Xiaoyu | 60 | - | - | 60 |
| Tang Quanrong (Note 2) | - | - | - | - |
| | 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 Liu Jianyao resigned as Supervisor on 24 October 2017.

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

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 13. Five highest paid employees

The five highest employees of the Group during the year are analysed as follows:

| | 2018 | 2017 |
|---|---|---|
| Directors and supervisors | 2 | 1 |
| Non-director and non-supervisor employees | 3 | 4 |
| | 5 | 5 |

Details of the remunerations of non-director and non-supervisor highest paid employees during the year are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Salaries and other allowances | 1,712 | 1,220 |
| Discretionary bonuses | 3,840 | 1,783 |
| Pension scheme contributions | 52 | 36 |
| | 5,604 | 3,039 |

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

| | 2018 | 2017 |
|---|---|---|
| HK$nil to HK$1,000,000 | 3 | 4 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 14. Income tax expenses

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Current tax | | |
| PRC Enterprise Income Tax | 567,410 | 380,672 |
| Deferred tax (Note 25) | 29,481 | 3,812 |
| | 596,891 | 384,484 |
| Under/(over)-provision in prior year | 15,000 | (1,927) |
| | 611,891 | 382,557 |

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which the subsidiaries of the Group are domiciled and operate.

**(a) Enterprise income tax ("EIT")**

Under the Enterprises 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%.

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Profit before income tax | 2,140,181 | 490,069 |
| Tax at the statutory tax rate of 25% | 535,045 | 122,517 |
| Income tax on concessionary rate | (584) | (106) |
| Under/(over)-provision in respect of prior years | 15,000 | (1,927) |
| Tax effect of share of (profits)/losses of joint ventures and associates | (254) | 8,824 |
| Tax effect of tax losses not recognised | 21,867 | 28,757 |
| Reversal of tax losses previously recognised | - | 106,544 |
| Tax effect of deductible temporary differences not recognised | 37,531 | 113,381 |
| Expenses not deductible for tax | 3,286 | 4,567 |
| Income tax | 611,891 | 382,557 |
| The Group's effective income tax rate | 29% | 78% |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 15. Proposed dividends

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Proposed dividends – RMB0.15 (2017: RMB0.07) per ordinary share | **691,500** | 322,700 |

The proposed final and special dividend for the year ended 31 December 2017 was approved at the annual general meeting on 31 May 2018. Proposed final dividend for the year ended 31 December 2018 is subject to the approval of the Company's shareholders at the forthcoming 2018 annual general meeting.

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

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

## 16. Earnings per share attributable to owners of the Company

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profits for the year attributable to owners of the Company | **1,378,890** | 50,232 |

| | Number of shares | |
|---|---|---|
| | 2018<br>'000 | 2017<br>'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 the year.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 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 progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| As at 1 January 2018 | | | | | | | |
| 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 |
| Cost as at 1 January 2018, net of accumulated depreciation | 2,768,226 | 4,449,242 | 48,380 | 90,209 | 247,452 | 57,516 | 7,661,025 |
| Additions | 265 | 37,760 | 3,819 | 7,720 | 542 | 119,179 | 169,285 |
| Disposals | (6,028) | (6,468) | (866) | (878) | (115) | (4,534) | (18,889) |
| Transfer | 7,566 | 8,950 | 1,714 | 9,108 | 291 | (27,629) | - |
| Impairment | (209) | (418) | - | (118) | (34) | (100) | (879) |
| Depreciation for the year | (197,730) | (470,084) | (8,165) | (26,060) | (7,525) | - | (709,564) |
| Cost as at 31 December 2018, net of accumulated depreciation and impairment | 2,572,090 | 4,018,982 | 44,882 | 79,981 | 240,611 | 144,432 | 7,100,978 |
| As at 31 December 2018 | | | | | | | |
| Cost | 5,898,341 | 13,684,077 | 170,244 | 1,092,971 | 568,856 | 209,372 | 21,623,861 |
| Accumulated depreciation and impairment | (3,326,251) | (9,665,095) | (125,362) | (1,012,990) | (328,245) | (64,940) | (14,522,883) |
| Net carrying amount | 2,572,090 | 4,018,982 | 44,882 | 79,981 | 240,611 | 144,432 | 7,100,978 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 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 progress 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 | 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 sales | - | (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 |

The Group has no capitalised borrowing costs on qualifying assets during the year (2017: Nil).

As at 31 December 2018, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB998,077,250 (2017: RMB1,062,694,000). 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.

As at 31 December 2018, the carrying amount of equipment, which are held under finance lease arrangements, is approximately RMB1,156,239,000 (2017: RMB1,274,024,000). The details of the arrangement and the obligation under finance lease are disclosed in Note 38.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 18. Mining rights

| | 2018<br>RMB'000 |
|---|---|
| Cost as at 1 January 2018, net of accumulated amortisation | 137,743 |
| Amortisation for the year | (2,150) |
| Cost as at 31 December 2018, net of accumulated amortisation | 135,593 |
| As at 31 December 2018: | |
| Cost | 158,665 |
| Accumulated amotisation | (23,072) |
| Net carrying amount | 135,593 |

| | 2017<br>RMB'000 |
|---|---|
| Cost as at 1 January 2017, net of accumulated amortisation | 469,036 |
| Amortisation for the year | (2,173) |
| Transfer to assets classified as held for sale (Note 39) | (329,120) |
| Cost as at 31 December 2017, net of accumulated amortisation | 137,743 |
| As at 31 December 2017: | |
| Cost | 158,665 |
| Accumulated amotisation | (20,922) |
| Net carrying amount | 137,743 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 19. Prepaid lease payments

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Carrying amount as at 1 January | **604,236** | 619,773 |
| Amortisation for the year | **(15,365)** | (15,537) |
| Disposals | **(85)** | - |
| Carrying amount as at 31 December | **588,786** | 604,236 |
| Current portion included in prepayments, deposits and other receivables | **(15,204)** | (15,204) |
| Non-current portion | **573,582** | 589,032 |

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 (2017: RMB26,339,000), presented under "Other long term liabilities" and "Other payables and accruals", are no longer payable.

## 20. Investment properties

| | Total<br>RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2017 and 31 December 2017 | 130,681 |
| Disposal | (6,190) |
| At 31 December 2018 | **124,491** |
| **Depreciation and impairment** | |
| At 1 January 2017 | (25) |
| Depreciation for the year | (6,112) |
| Impairment | (2,271) |
| At 31 December 2017 | (8,408) |
| Depreciation for the year | (6,030) |
| At 31 December 2018 | **(14,438)** |
| **Carrying values** | |
| At 31 December 2018 | **110,053** |
| At 31 December 2017 | 122,273 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 21. Intangible assets

| | Computer software RMB'000 | Patents and licences RMB'000 | Total RMB'000 |
|---|---|---|---|
| Cost as at 1 January 2018, net of accumulated amortisation | **10,183** | **20,148** | **30,331** |
| Additions | **2,620** | **10,892** | **13,512** |
| Amortisation for the year | **(4,433)** | **(6,128)** | **(10,561)** |
| Cost as at 31 December 2018, net of accumulated amortisation | **8,370** | **24,912** | **33,282** |
| As at 31 December 2018 | | | |
| Cost | **63,795** | **163,582** | **227,377** |
| Accumulated amortisation | **(55,425)** | **(138,670)** | **(194,095)** |
| Net carrying amount | **8,370** | **24,912** | **33,282** |
| 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 |

## 22. Investment in joint ventures

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Cost of investment in joint ventures | **265,299** | 265,299 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **(38,018)** | (35,823) |
| | **227,281** | 229,476 |

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

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 22. Investment in joint ventures - Continued

Particulars of the joint ventures of the Group at the end of the reporting period 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<br>12 April 2007 | RMB481,398 | Direct<br>Indirect | **41.26**<br>- | Phosphorus mining and processing manufacture and sales of phosphorus ore and chemical products |
| CBC (Canada) Holding Corp (“**CBC (Canada)**”) (中海化學(加拿大)控股公司) (Note i) | Canada<br>28 May 2013 | CAD24,000 | Direct<br>Indirect | **60.00**<br>- | Investment holding |
| Hainan Basuo Port Labour Service Limited (“**Basuo Labour Service**”) (海南八所港勞動服務有限公司) | PRC<br>24 April 2005 | RMB5,000 | Direct<br>Indirect | -<br>**36.56** | Provision of overseas shipping services |

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

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| The Group's share of loss and other comprehensive income | **(2,195)** | (36,833) |
| Aggregate carrying amount of the Group's investment in the joint ventures | **227,281** | 229,476 |

Note i: 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.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 23. Investment in associates

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cost of investment in associates | **670,031** | 670,031 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **(450,273)** | (451,561) |
| | **219,758** | 218,470 |

The above associates is accounted for using equity method in these consolidated statements.

The Group's other receivables with its associates are disclosed in Note 30.

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 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|---|
| Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("**Yangpoquan Coal**") (Note) (山西華鹿陽坡泉煤礦有限公司) | PRC 31 August 2001 | RMB52,000 | Direct<br>Indirect | **49.00**<br>**-** | 49.00<br>- | Mining and sale of coal |
| China Basuo Overseas Shipping Agency Co., Ltd. (中國八所外輪代理有限公司) | PRC 24 May 2000 | RMB1,800 | Direct<br>Indirect | **-**<br>**36.56** | -<br>36.56 | Provision of overseas shipping services |
| Inner Mongolia Hong Feng Packaging Co., Ltd (內蒙古鴻豐包裝有限責任公司) | PRC 9 December 1999 | RMB3,297 | Direct<br>Indirect | **-**<br>**45.21** | -<br>45.21 | 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<br>Indirect | **30.00**<br>**-** | 30.00<br>- | Merchandising |

Note: The mining rights and mining assets, including inventory, fixed assets, mining rights, use rights of highway Xunda line and land use rights of Yangpoquan Coal have been published on auction on 25 July 2018 and 26 July 2018 through the network platform of Alibaba Judicial Auction (the "**Auction**"). The Auction has been closed with an auction result of RMB4,002,481,294. However, the Company was informed that Intermediate People's Court of Xinzhou City, Shanxi Province ("**Xinzhou Court**") had not received the payment from the successful bidder within the stipulated time. The directors of the Company are in view of that the purchase and sale transaction entered into through the Auction has not been completed.

After recognition of impairment against the carrying amount of investment in Yangpoquan Coal in 2014, the directors of the Company are of the view that no further impairment indication presents and no further impairment is recognised for the current period.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 23. Investment in associates - Continued

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| The Group's share of profit and other comprehensive income | 1,288 | 1,535 |
| Aggregate carrying amount of the Group's investment in the associates | 219,758 | 218,470 |

## 24. Other financial assets

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Non-current** | | |
| Available-for-sale investment | - | 600 |
| Financial asset at FVOCI | 600 | - |
| | 600 | 600 |
| **Current** | | |
| Financial assets at FVTPL | - | - |

Financial asset at FVOCI represent unlisted equity investment. The fair value of unlisted equity investment is determined based on transaction price and factors or events that have occurred after the acquisition date. Since there is no significant change in market condition or the performance and operation of the investee, the Directors considered the fair value of the unlisted equity investment is approximately its carrying amount.

Financial assets at FVTPL represent unlisted wealth investment in licensed bank. As at 31 December 2018, all the unlisted wealth investments in licensed bank were disposed during the year with gain on maturity of unlisted investments of RMB320,549,000 (Note 8) (2017: RMB236,888,000).

## 25. Deferred tax assets/liabilities

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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Deferred tax assets | 806,692 | 840,105 |
| Deferred tax liabilities | (43,147) | (47,079) |
| | 763,545 | 793,026 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 25. Deferred tax assets/liabilities - Continued

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

| | Accelerated tax depreciation | Impairment losses | Wages and salaries | Fair value adjustment on acquisition of subsidiaries | Unused tax losses | Others | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 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 and 1 January 2018** | **23,496** | **530,323** | **16,021** | **(47,079)** | **255,878** | **14,387** | **793,026** |
| (Charge)/credit to profit or loss | **(1,920)** | **(33,434)** | **-** | **3,932** | **8,434** | **(6,493)** | **(29,481)** |
| **As at 31 December 2018** | **21,576** | **496,889** | **16,021** | **(43,147)** | **264,312** | **7,894** | **763,545** |

As at 31 December 2018, the Group has unused tax losses of RMB1,857,744,000 (2017: of RMB1,799,495,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1,057,248,000 (2017: RMB1,023,513,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB800,496,000 (2017: RMB775,982,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB800,496,000 (2017: RMB775,982,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB591,454,000 (2017: RMB579,915,000) 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.

## 26. Inventories

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Raw materials and spare parts | **354,869** | 463,557 |
| Work in progress | **335,980** | 316,459 |
| Finished goods | **600,334** | 472,302 |
| | **1,291,183** | 1,252,318 |
| Write-down | **(4,861)** | (41,886) |
| Net realisable value | **1,286,322** | 1,210,432 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 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.

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Trade receivables | 42,119 | 267,789 |
| Less: impairment loss | (762) | (361) |
| | 41,357 | 267,428 |

An aging analysis of trade receivables as at the end of the reporting year, based on the invoice date and net of impairment of trade receivables of the Group, is as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within six months | 41,329 | 266,313 |
| Over six months but within one year | 28 | 713 |
| Over two years | - | 402 |
| | 41,357 | 267,428 |

The ECLs allowance is assessed collectively for receivables that were neither past due nor impaired and individually for impaired trade receivables with an aggregate carrying amount of RMB762,000 (2017: RMB361,000).

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | 41,170 | 266,715 |
| Less than one month past due | - | 600 |
| One to three months past due | 187 | 113 |
| | 41,357 | 267,428 |

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.

The Group recognised impairment loss based on the accounting policy stated in Note 4(h)A(ii) and 4(h)B(i) for the years ended 31 December 2018 and 2017 respectively. Further details on the group's credit policy and credit risk arising from trade receivables are set out in Note 45(iii).

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 27. Trade receivables - Continued

As at 31 December 2018, the amount due from CNOOC, 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 was RMB21,950,000 (2017: RMB236,604,000). 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 2018 and 2017 are all mature within six months.

At 31 December 2018, the Group has transferred bills receivables having maturity less than six months from the reporting dates to its suppliers to settle its payables through endorsing the bills to its suppliers amounted to RMB278,726,000 (2017: RMB266,366,000). The Group has derecognised these bills receivables and the payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 31 December 2018, 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 RMB278,726,000 (2017: RMB266,366,000).

The fair value of bills receivable are close to their carrying amounts given all bills receivable will mature within one year

## 29. Contract assets and contract liabilities

### (a) Contract assets

Amounts represent the Group's rights to consideration from customers for the provision of port operation and transportation services but not billed at the end of the reporting period under such contracts. Any amounts previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and is invoiced to the customers.

| | 31 December 2018<br>RMB'000 | 1 January 2018<br>RMB'000 | 31 December 2017<br>RMB'000 |
|---|---|---|---|
| Contract assets arising from: | | | |
| Provision of port operation and transportation services | 16,116 | 8,528 | - |

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

| | RMB'000 |
|---|---|
| Within one year | 16,116 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 29. Contract assets and contract liabilities - Continued

### (b) Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to customers for which the Group has received consideration (or an amount of consideration is due) from the customer.

| | 31 December 2018 RMB'000 | 1 January 2018 RMB'000 | 31 December 2017 RMB'000 |
|---|---|---|---|
| Contract liabilities arising from: | | | |
| Sale of goods | 557,099 | 585,038 | - |

All the contract liabilities as at 1 January 2018 were recognised as revenue during the year ended 31 December 2018. The Group expects that the contract liabilities as at 31 December 2018 will be recognised as revenue within a year or less.

As at 31 December 2018, the amount due to Other related parties included in the above contract liabilities amounted to RMB21,690,000 (2017: RMBNil).

Note: The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of IFRS 15, amounts previously included as "trade receivables" (Note 27) and "advances from customers" (Note 37) have been reclassified to "Contract assets" and "Contract liabilities" (Note 29) respectively.

## 30. Prepayments, deposits and other receivables

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Prepayments | 175,671 | 175,514 |
| Prepaid lease payments | 15,204 | 15,204 |
| Deposits and other receivables | 157,199 | 138,616 |
| Less: impairment loss | (24,255) | (7,624) |
| | 323,819 | 321,710 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 30. Prepayments, deposits and other receivables - Continued

Movement in the loss allowance in respect of other receivables during the year is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Balance at 1 January | 7,624 | 7,624 |
| Impairment losses recognised during the year | 16,631 | - |
| Balance at 31 December | 24,255 | 7,624 |

The impairment loss recognised relates to the estimated credit losses on certain other receivables, there was neither significant increase in credit risk since initial recognition nor credit impairment that has occurred during the year. The loss allowance for these receivables was limited to 12 months ECLs.

Apart from the loss allowance 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 Other related parties included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Ultimate holding company | 1,563 | 20 |
| CNOOC group companies | 36,226 | 42,167 |
| Associates | 8,143 | 11,960 |
| Other related parties | 274 | - |
| | 46,206 | 54,147 |

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Cash and bank and financial institution balances | 8,710,844 | 6,899,380 |
| Less: Pledged bank deposits | (50,003) | (6,942) |
| Time deposits with original maturity over three months | (5,260,802) | (287,505) |
| Cash and cash equivalents in the consolidated statement of cash flows | 3,400,039 | 6,604,933 |
| 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 | 3,400,039 | 6,590,294 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 31. 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 2018 and 2017, except for (i) RMB369,427,000 (2017: RMB938,981,000) which was translated from US$53,800,000 (2017: US$143,702,000); (ii) RMB12,116,000 (2017: RMB1,092,000) which was translated from HK$10,616,000 (2017: HK$1,306,000); and (iii) RMB24,000 (2017: RMB24,000) which was translated from EUR3,000 (2017: EUR3,000).

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 2018, included in the Group's cash and cash equivalents were RMB399,402,000 (2017: RMB395,220,000) deposited in CNOOC Finance Corporation Limited ("**CNOOC Finance**"), a licensed financial institution, which is a subsidiary of the ultimate holding company.

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

## 32. Issued capital

| | Number of shares '000 | Nominal value RMB'000 |
|---|---|---|
| **Registered capital** | 4,610,000 | 4,610,000 |
| Issued and fully paid: | | |
| Domestic Shares of RMB1 each, currently not listed: | | |
| - State-owned shares | 2,739,000 | 2,739,000 |
| - Other legal person shares | 75,000 | 75,000 |
| Unlisted Foreign Shares of RMB1 each | 25,000 | 25,000 |
| H shares of RMB1 each | 1,771,000 | 1,771,000 |
| As at 31 December 2018 and 31 December 2017 | **4,610,000** | **4,610,000** |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 33. Benefits liability

CNOOC Tianye provides post-employment allowances covering substantially all of its employees and early retirement benefits to qualifying retirees. Hainan Basuo Port provides early retirement benefits to qualifying retirees.

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Post-employment allowances | 10,975 | 12,962 |
| Early retirement benefits | 41,062 | 52,890 |
| Total benefits liability | 52,037 | 65,852 |

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

| | Post-employment allowances<br>RMB'000 | Early retirement benefits<br>RMB'000 |
|---|---|---|
| As at 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 and 1 January 2018 | 12,962 | 52,890 |
| Net interest cost | - | 1,109 |
| Benefits paid | (1,987) | (12,937) |
| As at 31 December 2018 | 10,975 | 41,062 |

Note i: 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 2018 are shown below:

| | Post-employment Allowances<br>2018 | Early Retirement Benefits<br>2018 |
|---|---|---|
| Discount rate | | |
| - CNOOC Tianye | 4% | 4% |
| - Hainan Basuo Port | 0% | 0% |
| Annual growth rate of employee benefits | | |
| - CNOOC Tianye | 0% | 7% |
| - Hainan Basuo Port | 0% | 0% |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 33. Benefit liability – Continued

The directors of the Group have reviewed the actuarial valuation as at 31 December 2018 which was performed by an independent actuary service provider, using the valuation method detailed under Note 4(n), and considered that the Group's current provision for the net benefit expenses was adequate as at 31 December 2018. The directors of the Group do not expect significant changes in principal assumptions.

## 34. Interest-bearing bank borrowings

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Unsecured bank loans repayable: | | |
| Within one year | 100,000 | 25,000 |
| More than one year, but not more than two years | 55,000 | - |
| More than two years, but not more than five years | 630,000 | 735,000 |
| More than five years | - | 50,000 |
| | 785,000 | 810,000 |
| Analysed for reporting purposes as: | | |
| Current | 100,000 | 25,000 |
| Non-current | 685,000 | 785,000 |

The unsecured bank loans have effective interest rates of 4.28%-4.41%, payable within 2019 and 2023.The amounts due are based on the scheduled repayment dates set out in the loan agreements.

## 35. Deferred revenue

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Balance at beginning of the year | 175,210 | 158,865 |
| Additions | 1,079 | 22,797 |
| Credited to the consolidated statement of profit or loss during the year | (6,962) | (6,452) |
| Balance at end of the year | 169,327 | 175,210 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 36. Trade and bills payables

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within six months | **588,115** | 837,939 |
| Over six months but within one year | **19,944** | 12,942 |
| Over one year but within two years | **74,737** | 22,485 |
| Over two years but within three years | **3,149** | 3,613 |
| Over three years | **22,445** | 12,543 |
| | **708,390** | 889,522 |

As at 31 December 2018, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances amounted to RMB302,599,000 (2017: RMB283,433,000).

## 37. Other payables and accruals

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Advances from customers | **-** | 585,038 |
| Accruals | **12,653** | 21,426 |
| Accrued payroll | **181,835** | 172,822 |
| Other payables | **364,602** | 244,265 |
| Long-term liabilities due within one year in relation to CNOOC Hualu land use right | **1,798** | 1,798 |
| Interest payable | **1,054** | 1,148 |
| Dividends payable | **13,445** | 18,823 |
| Payable to government | **21,848** | 21,848 |
| Other tax payables | **43,178** | 53,344 |
| Port construction fee payable | **164,655** | 164,656 |
| Payables in relation to the construction and purchase of property, plant and equipment | **38,600** | 84,226 |
| | **843,668** | 1,369,394 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 37. Other payables and accruals - Continued

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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Due to the ultimate holding company | 532 | 532 |
| Due to CNOOC group companies | 37,359 | 94,683 |
| Due to Other related parties | 8,227 | 3,284 |
| | 46,118 | 98,499 |

## 38. 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 round 2.66% per annum varying based on the benchmark interest rate of the People's Bank of China. The Group has option to purchase the equipment for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB'000 | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB'000 |
| Amounts payable under finance leases: | | | | |
| Due for settlement within 12 months | 1,347,312 | 96,507 | 1,336,131 | 60,000 |
| Due for settlement beyond 12 months | - | 1,347,312 | - | 1,336,118 |
| Less: future finance charges | (11,181) | (47,701) | - | - |
| Present value of lease obligations | 1,336,131 | 1,396,118 | 1,336,131 | 1,396,118 |
| Analysed for reporting purposes as: | | | | |
| Current | | | 1,336,131 | 60,000 |
| Non-current | | | - | 1,336,118 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 39. Disposal of a subsidiary

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.

The major classes of assets and liabilities of Yichang Mining as at 31 December 2017 were presented separately as assets and liabilities classified as held for sale in the consolidated statement of financial position.

The net assets of the subsidiary on the date of disposal were as follow:

| | 2018<br>RMB'000 |
|---|---|
| Property, plant and equipment | 67,577 |
| Mining and exploration rights | 329,120 |
| Cash and cash equivalents | 12,876 |
| Prepayments, deposits and other receivables | 633 |
| Other payables and accruals | (229) |
| Income tax payable | (5) |
| | 409,972 |
| Non-controlling interests | (200,886) |
| Gain on disposal of a subsidiary | 62,879 |
| Total consideration | 271,965 |
| Satisfied by: | |
| Cash | 271,965 |

**Cash inflow arising from disposed of a subsidiary**

| | 2018<br>RMB'000 |
|---|---|
| Cash consideration received | 271,965 |
| Cash and cash equivalents disposal of | (12,876) |
| | 259,089 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 40. 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 2018 and 2017, 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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within one year | 1,539 | 1,528 |
| In the second to fifth year, inclusive | 5,455 | 5,668 |
| After five years | 1,952 | 3,491 |
| | 8,946 | 10,687 |

### (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 eleven years (2017: one month to eighteen years), and those for vehicles are for terms ranging between one month to one year.

At 31 December 2018 and 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within one year | 1,844 | 3,004 |
| In the second to fifth year, inclusive | 2,690 | 1,233 |
| After five years | 2,833 | 1,959 |
| | 7,367 | 6,196 |

## 41. Commitment and contingent liabilities

### Capital commitments

In addition to the operating lease commitments detailed in Note 40 above, the Group had the following capital commitments at the end of the reporting year:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Contracted, but not provided for acquisition of plant and machinery | 51,094 | 78,527 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 42. Related party transactions

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

**(1) Recurring**

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| (A) Included in revenue and other income | | |
| (a) CNOOC group companies | | |
| Sale of goods | **441,897** | 265,647 |
| Provision of packaging and assembling services | **101,431** | 94,061 |
| Provision of utilities | **-** | 7,238 |
| Provision of transportation services | **186** | 161 |
| Provision of logistics services | **21,171** | 24 |
| Provision of lease of property and land | **31,269** | - |
| (b) Other related parties | | |
| Sale of goods | **405,081** | 371,283 |
| Provision of transportation services | **14,059** | 15,222 |
| (B) Included in cost of sales and other expenses | | |
| (a) CNOOC group companies | | |
| Purchase of raw materials | **2,427,098** | 2,667,182 |
| Transportation services | **-** | 3,790 |
| Labour services | **47,943** | 33,417 |
| Construction and installation services | **21,734** | 28,075 |
| Lease of offices | **26,861** | 27,565 |
| Logistics services | **192** | 5,600 |
| Network services | **18,487** | 5,546 |
| (b) Other related parties | | |
| Purchase of raw materials | **18,622** | 7,507 |
| (c) The ultimate holding company | | |
| Logistics services | **10,004** | 4,087 |
| (C) Included in loans and finance income/costs | | |
| (a) CNOOC Finance | | |
| Finance income from CNOOC Finance | **3,974** | 3,938 |
| Fees and charges paid to CNOOC Finance | **1,346** | 1,548 |
| Interests paid to CNOOC Finance | **-** | 5,424 |
| Loans received from CNOOC Finance | **-** | 195,000 |
| (D) Included in finance leaseback | | |
| (a) CNOOC Leasing | | |
| Finance lease charges | **16,350** | 20,218 |
| Interest on finance leaseback | **39,630** | 44,532 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 42. 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, 30, 31, 35, 37 and 38. 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 | |
|---|---|---|---|---|
| | **31/12/2018** | 31/12/2017 | **31/12/2018** | 31/12/2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| The ultimate holding company | **1,563** | 20 | **532** | 532 |
| CNOOC group companies | | | | |
| (excluding CNOOC Finance) | **56,629** | 277,339 | **1,676,089** | 1,774,187 |
| Associates | **8,492** | 11,960 | **8,227** | - |
| CNOOC Finance | **-** | - | **-** | 47 |
| Other related parties | **1,472** | 1,432 | **21,690** | 3,284 |

In addition, as at 31 December 2018, the deposits placed by the Group with CNOOC Finance were amounted to RMB399,402,000 (2017: RMB395,220,000), as detailed in Note 31.

### (3) Compensation of key management personnel of the Group

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **8,671** | 7,590 |
| Post-employment benefits | **75** | 83 |
| Total compensation paid to key management personnel | **8,746** | 7,673 |

Further details of directors' and supervisors' emoluments are set out in Note 12.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 42. Related party transactions - Continued

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. Certain specific and major raw materials provided by SOE suppliers are from Western Natural Gas (the "**WNG**") and WNG mainly supplied natural gas to CNOOC Tianye. As of 31 December 2018, the Group made a total procurement of RMB566,758,000 from WNG (2017: RMB545,325,000). 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 2018, the sales amount reached RMB240,893,000 (2017: RMB318,794,000). Except for the above two SOEs, sales to and procurements from other SOEs are considered as specific but not significant transactions.

In addition, the Group has certain of its cash, pledged bank deposits and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2018, as summarised below:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cash and cash equivalents | 3,352,450 | 6,550,913 |
| Pledged bank deposits | 50,003 | 6,942 |
| Time deposits | 5,260,802 | 287,505 |
| | 8,663,255 | 6,845,360 |
| Interest-bearing bank borrowings | 785,000 | 810,000 |

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

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 43. Financial instruments

The following table shows the carrying amount and fair value of financial assets and liabilities:

| | 2018 | | 2017 |
|---|---|---|---|
| | Carrying amounts | Fair value | Carrying amounts |
| | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets at FVOCI** | | | |
| - Unlisted equity investment | - | 600 | - |
| - Bills receivable | - | 113,949 | - |
| **Available-for-sale investment at amortised cost** | | | |
| - Unlisted equity investment | - | - | 600 |
| **Financial assets at amortised cost** | | | |
| - Trade receivables | 41,357 | - | 267,428 |
| - Bill receivable | - | - | 31,138 |
| - Deposits and other receivables | 116,061 | - | 128,447 |
| - Pledged bank deposits | 50,003 | - | 6,942 |
| - Time deposits | 5,260,802 | - | 287,505 |
| - Cash and cash equivalents | 3,400,039 | - | 6,604,933 |

| | 2018 | 2017 |
|---|---|---|
| | Carrying value | Carrying value |
| | RMB'000 | RMB'000 |
| **Finance liabilities measured at amortised cost** | | |
| - Trade and bills payables | 708,390 | 889,522 |
| - Other payables and accruals | 604,205 | 534,966 |
| - Obligations under finance leases | 1,336,131 | 1,396,118 |
| - Interest-bearing bank borrowings | 785,000 | 810,000 |
| - Other long-term liabilities | 27,439 | 27,454 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 44. Fair value and fair value hierarchy

The following table presents the fair value of the Group's financial instruments that are measured at fair value at the end of the reporting period:

| | 2018 | 2017 |
|---|---|---|
| | Level 3 | Level 3 |
| | RMB'000 | RMB'000 |
| **Financial assets at FVOCI** | | |
| - Unlisted equity investment | 600 | - |
| - Bills receivable | 113,949 | - |

There was no financial instruments measured at fair value for the year ended 31 December 2017. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs;
Level 3: Unobservable inputs (i.e. not derived from market data).

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, deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, bills payable, and other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

Financial asset at FVOCI represents unlisted equity investment. The fair value of unlisted equity investment is determined based on transaction price and factors or events that have occurred after the acquisition date. Since there is no significant change in market condition or the performance and operation of the investee, the directors of the Company consider the fair value of the unlisted equity investment is approximate to its carrying amount.

The carrying amounts of the non-current portion of interest-bearing bank borrowings and obligations under finance leases 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 2018

## 45. Financial risk management objective 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 4.

### (i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings and obligations under finance leases with floating interest rates.

As at 31 December 2018, the Group's interest-bearing bank borrowings and obligations under finance leases bear variable interest rates amounted to RMB2,121,131,000 (2017: RMB2,206,118,000).

The interest rates and the terms of repayment of the Group's interest-bearing bank borrowings and obligations under finance leases are disclosed in Notes 34 and 38 respectively.

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 2018 would be decreased/increased by approximately RMB7,954,000 (2017: decreased/increased by RMB8,273,000).

### (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 | |
|---|---|---|---|---|
| | **31/12/2018** | 31/12/2017 | **31/12/2018** | 31/12/2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| USD | **-** | 195,687 | **369,427** | 847,620 |
| HKD | **-** | - | **12,116** | 1,092 |
| EUR | **-** | - | **24** | 24 |

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 10% (2017: 11%) 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 HKD, USD, 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 2018

## 45. Financial risk management objective 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% (2017: 5%) are the sensitivity rates used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonable possible change in foreign exchange rates. A negative number below indicates an increase in loss (or decrease in profit) and decrease in equity where the RMB strengthen against USD, HKD and EUR. For a 5% (2017: 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 | |
|---|---|---|---|---|---|---|
| | **31/12/2018 RMB'000** | 31/12/2017 RMB'000 | **31/12/2018 RMB'000** | 31/12/2017 RMB'000 | **31/12/2018 RMB'000** | 31/12/2017 RMB'000 |
| Sensitivity rate | **5%** | 5% | **5%** | 5% | **5%** | 5% |
| Profit or loss | **(18,471)** | (24,447) | **(606)** | (41) | **(1)** | (1) |
| Equity | **(18,471)** | (24,447) | **(606)** | (41) | **(1)** | (1) |

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

**(iii) Credit risk**

The carrying amounts of the Group's cash and cash equivalents, trade receivables, other receivables and other current assets except for prepayments and VAT recoverable, 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.

The ECLs rate for trade receivables and contract assets that are catergorised as not past due is assessed to be 0.1%, while the ECLs rate for past due within one year is assessed to be 0.5%. The ECLs rate is reviewed, and adjusted if appropriate, at the end of each reporting period. The ECLs rate remained the same during the year as the business and customer base of the Group remained stable and there were no significant fluctuations on the historical credit loss incurred. In addition, there is no significant change on the economic indicators based on the assessment of the forward-looking information. Based on evaluation on ECLs rate and the carrying amount of trade receivables and contract assets, the directors of the Company are of the opinion that the ECLs in respect of trading receivables and contract assets are considered as immaterial.

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 2018, 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 (2017: RMB196,144,000), which was included in the related party transactions as disclosed in Note 42. 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 2018

## 45. Financial risk management objective 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 2018, the balance of the Group's interest-bearing bank borrowings is RMB785,000,000.

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

| | **2018** | | | | | |
|---|---|---|---|---|---|---|
| | **Carrying amount RMB'000** | **Total contractual undiscounted cash flow RMB'000** | **Within 1 year or on demand RMB'000** | **More than 1 year but less than 2 years RMB'000** | **More than 2 years but less than 5 years RMB'000** | **More than 5 years RMB'000** |
| Interest-bearing bank borrowings | **785,000** | **891,446** | **34,619** | **89,416** | **767,411** | **-** |
| Trade payables | **708,390** | **708,390** | **708,390** | **-** | **-** | **-** |
| Other payables and accruals | **604,205** | **604,205** | **604,205** | **-** | **-** | **-** |
| Obligations under finance leases | **1,336,131** | **1,347,312** | **1,347,312** | **-** | **-** | **-** |
| Other long-term liabilities | **139,896** | **76,460** | **-** | **1,797** | **5,393** | **69,270** |
| | **3,573,622** | **3,627,813** | **2,694,526** | **91,213** | **772,804** | **69,270** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Interest-bearing bank borrowings | 810,000 | 949,076 | 57,630 | 34,619 | 806,460 | 50,367 |
| Trade payables | 876,622 | 876,622 | 876,622 | - | - | - |
| Bills payable | 12,900 | 12,900 | 12,900 | - | - | - |
| Other payables and accruals | 534,966 | 534,966 | 534,966 | - | - | - |
| Obligations under finance leases | 1,396,118 | 1,443,819 | 96,507 | 1,347,312 | - | - |
| Other long-term liabilities | 114,057 | 76,614 | - | 1,797 | 5,393 | 69,424 |
| | 3,744,663 | 3,893,997 | 1,578,625 | 1,383,728 | 811,853 | 119,791 |

In addition to the amounts shown in the above table as at 31 December 2018, 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 RMB278,726,000 (2017: RMB266,366,000) in aggregate.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 45. Financial risk management objective and policies - Continued

### (v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2018 and 2017.

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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Interest-bearing debts (Note) | 2,121,131 | 2,206,118 |
| Net assets | 15,127,638 | 14,247,929 |
| Net assets plus interest-bearing debts | 17,248,769 | 16,454,047 |
| Gearing ratio | 12.30% | 13.41% |

Note: Interest-bearing debts comprises interest-bearing bank borrowings and obligations under finance leases as detailed in Notes 34 and 38 respectively.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 46. 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 |
|---|---|---|---|---|---|
| CNOOC Fudao Limited<br>(海洋石油富島有限公司) | PRC<br>31 December 2001 | RMB477,400 | Direct<br>Indirect | 100.00<br>- | Manufacture and sale of fertilisers |
| Hainan CNOOC Plastic Co., Ltd.<br>(海南中海石油塑編有限公司) | PRC<br>28 April 2002 | RMB12,716 | Direct<br>Indirect | 100.00<br>- | Manufacture and sale of woven plastic bags |
| Hainan CNOOC Transportation Co., Ltd.<br>(海南中海石油運輸服務有限公司) | PRC<br>22 October 2001 | RMB6,250 | Direct<br>Indirect | -<br>73.11 | Provision of transportation services |
| Hainan Basuo Port<br>(海南八所港務有限責任公司) | PRC<br>25 April 2005 | RMB514,034 | Direct<br>Indirect | 73.11<br>- | Port operation |
| CNOOC Tianye<br>(中海石油天野化工有限責任公司) | PRC<br>18 December 2000 | RMB2,272,856 | Direct<br>Indirect | 92.27<br>- | Manufacture and sale of fertilisers, and methanol |
| CNOOC Kingboard Chemical Limited<br>(中海石油建滔化工有限公司) | PRC<br>31 October 2003 | RMB500,000 | Direct<br>Indirect | 60.00<br>- | Manufacture and sale of methanol |
| CNOOC Fudao(Shanghai) Chemical Limited.<br>(海油富島(上海)化學有限公司) | PRC<br>7 January 2002 | RMB27,000 | Direct<br>Indirect | -<br>100.00 | Trading of fertilisers |
| China Basuo Ocean Shipping Tally Co., Ltd.<br>(八所中理外輪理貨有限公司) | PRC<br>9 May 2008 | RMB300 | Direct<br>Indirect | -<br>61.41 | Provision of overseas shipping services |
| CNOOC Hualu<br>(中海油华鹿山西煤炭化工有限公司) | PRC<br>29 November 2005 | RMB61,224 | Direct<br>Indirect | 51.00<br>- | Preparatory work for a methanol and dimethyl ether project |
| Hubei Dayukou<br>(湖北大峪口化工有限責任公司) | PRC<br>12 August 2005 | RMB1,103,127 | Direct<br>Indirect | 79.98<br>- | Phosphate mining and processing, manufacture and sales of MAP and DAP fertilisers |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 46. 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 |
|---|---|---|---|---|---|
| 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<br>Indirect | -<br>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<br>Indirect | 100.00<br>- | 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<br>Indirect | 100.00<br>- | Trading of fertilisers |

### (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 interest and voting rights held by non-controlling interests | | Profit/(loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 31/12/2018 | 31/12/2017 | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB'000 | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB'000 |
| CNOOC Kingboard Chemical Limited | Hainan | 40.00% | 40.00% | 160,082 | 107,968 | 482,293 | 433,776 |
| Hainan Basuo Port | Hainan | 26.89% | 26.89% | (15,225) | 6,992 | 180,667 | 209,337 |
| CNOOC Tianye | Inner Mongolia | 7.73% | 7.73% | (350) | (19,597) | 40,957 | 41,306 |
| Hubei Dayukou | Hubei | 20.02% | 20.02% | 1,559 | (39,464) | 217,363 | 215,804 |
| Yichang Mining | Hubei | - | 49.00% | - | (361) | - | 200,976 |

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 2018

## 46. 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 | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current assets | 1,128,082 | 900,439 |
| Non-current assets | 268,690 | 349,453 |
| Current liabilities | (178,464) | (153,063) |
| Non-current liabilities | (10,075) | (12,389) |
| Net assets | 1,208,233 | 1,084,440 |
| Non-controlling interests | 483,293 | 433,776 |
| Revenue | 1,421,978 | 1,268,224 |
| Expenses | (1,021,774) | (998,304) |
| Profit and total comprehensive income | 400,204 | 269,920 |
| Profit and total comprehensive income attributable to: | | |
| Owner of the Company | 240,122 | 161,952 |
| Non-controlling interests | 160,082 | 107,968 |
| Profit and total comprehensive income | 400,204 | 269,920 |
| Dividends paid to non-controlling interests | 110,565 | 3,465 |
| Net cash inflow from operating activities | 373,972 | 361,435 |
| Net cash outflow from investing activities | (24,409) | (81,844) |
| Net cash outflow from financing activities | (276,411) | (8,662) |
| Net cash inflow | 73,152 | 270,929 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 46. 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 | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current assets | **138,098** | 224,212 |
| Non-current assets | **1,022,149** | 969,331 |
| Current liabilities | **(382,926)** | (307,873) |
| Non-current liabilities | **(105,447)** | (107,176) |
| Net assets | **671,874** | 778,494 |
| Non-controlling interests | **180,667** | 209,337 |
| Revenue | **286,003** | 320,615 |
| Expenses | **(342,623)** | (294,604) |
| (Loss)/profit and total comprehensive income | **(56,620)** | 26,011 |
| (Loss)/profit and total comprehensive income attributable to: | | |
| Owners of the Company | **(41,395)** | 19,019 |
| Non-controlling interests | **(15,225)** | 6,992 |
| (Loss)/profit and total comprehensive income | **(56,620)** | 26,011 |
| Dividends paid to non-controlling interests | **13,445** | 18,823 |
| Net cash (outflow)/inflow from operating activities | **(2,567)** | 68,517 |
| Net cash outflow from investing activities | **(17,823)** | (45,793) |
| Net cash outflow from financing activities | **(18,823)** | - |
| Net cash (outflow)/inflow | **(39,213)** | 22,724 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 46. Particulars of principal subsidiaries of the company - continued

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

| CNOOC Tianye | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current assets | 288,410 | 261,064 |
| Non-current assets | 1,180,256 | 1,261,753 |
| Current liabilities | (838,073) | (931,335) |
| Non-current liabilities | (100,753) | (57,118) |
| Net assets | 529,840 | 534,364 |
| Non-controlling interests | 40,957 | 41,306 |
| Revenue | 1,660,706 | 994,039 |
| Expenses | (1,665,230) | (1,247,548) |
| Loss and total comprehensive loss | (4,524) | (253,509) |
| Loss and total comprehensive loss attributable to: | | |
| Owners of the Company | (4,174) | (233,912) |
| Non-controlling interests | (350) | (19,597) |
| Loss and total comprehensive loss | (4,524) | (253,509) |
| Dividends paid to non-controlling interests | - | - |
| Net cash inflow/(outflow) from operating activities | 69,671 | (128,514) |
| Net cash (outflow)/inflow from investing activities | (4,918) | 4,718 |
| Net cash (outflow)/inflow from financing activities | (65,946) | 122,225 |
| Net cash outflow | (1,193) | (1,571) |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 46. Particulars of principal subsidiaries of the company - continued

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

| Hubei Dayukou | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current assets | **780,992** | 544,275 |
| Non-current assets | **1,633,835** | 1,960,776 |
| Current liabilities | **(1,290,726)** | (943,528) |
| Non-current liabilities | **(38,375)** | (483,583) |
| Net assets | **1,085,726** | 1,077,940 |
| Non-controlling interests | **217,363** | 215,804 |
| Revenue | **2,254,703** | 2,074,341 |
| Expenses | **(2,246,917)** | (2,286,343) |
| Profit/(loss) and total comprehensive income | **7,786** | (212,002) |
| Profit and total comprehensive income attributable to: | | |
| Owners of the Company | **6,227** | (172,538) |
| Non-controlling interests | **1,559** | (39,464) |
| Profit/(loss) and total comprehensive income | **7,786** | (212,002) |
| Dividends paid to non-controlling interests | **-** | - |
| Net cash (outflow)/inflow from operating activities | **(74,417)** | 228,586 |
| Net cash outflow from investing activities | **(36,421)** | (9,123) |
| Net cash inflow/(outflow) from financing activities | **103,272** | (238,645) |
| Effect of foreign exchange rate changes | **1,722** | (5,335) |
| Net cash outflow | **(5,844)** | (24,517) |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 47. Statement of financial position and reserves of the company

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **ASSETS** | | |
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | **1,036,618** | 1,144,754 |
| Investment properties | **9,167** | 10,034 |
| Prepaid lease payments | **49,247** | 50,924 |
| Intangible assets | **539** | 2,774 |
| Investment in subsidiaries | **5,367,751** | 5,367,751 |
| Investment in joint ventures | **228,779** | 228,779 |
| Investment in an associate | **196,859** | 196,859 |
| Deferred tax assets | **186,637** | 188,697 |
| Other long-term prepayment | **-** | 6,900 |
| | **7,075,597** | 7,197,472 |
| **CURRENT ASSETS** | | |
| Inventories | **217,241** | 177,661 |
| Trade receivables | **160,073** | 64,796 |
| Prepayments, deposits and other receivables | **217,203** | 182,172 |
| Loans receivable | **1,546,921** | 1,084,213 |
| Cash and cash equivalents | **1,635,340** | 2,988,548 |
| Time deposits with original maturity over three months | **2,068,632** | 130,684 |
| Investments in subsidiary classified as held for sale | **-** | 213,180 |
| | **5,845,410** | 4,841,254 |
| **TOTAL ASSETS** | **12,921,007** | 12,038,726 |
| **EQUITY AND LIABILITIES** | | |
| **CAPITAL AND RESERVES** | | |
| Issued capital | **4,610,000** | 4,610,000 |
| Reserves | **7,002,289** | 6,546,737 |
| Proposed dividends | **691,500** | 322,700 |
| **TOTAL EQUITY** | **12,303,789** | 11,479,437 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 47. Statement of financial position and reserves of the company - Continued

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| Deferred revenue | 2,768 | 2,768 |
| Other long-term liabilities | 13,481 | 13,812 |
| | 16,249 | 16,580 |
| **CURRENT LIABILITIES** | | |
| Trade payables | 248,133 | 236,878 |
| Contract liabilities | 16,290 | - |
| Other payables and accruals | 239,821 | 229,300 |
| Income tax payable | 96,725 | 76,531 |
| | 600,969 | 542,709 |
| **TOTAL LIABILITIES** | 617,218 | 559,289 |
| **TOTAL EQUITY AND LIABILITIES** | 12,921,007 | 12,038,726 |

Movement in the Company's reserves

The Company's movement in reserves and proposed dividends for the years ended 31 December 2018 and 2017 are as follows:

| | Note | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Special reserve RMB'000 | Retained profits RMB'000 | Proposed dividends RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|
| As at 1 January 2018 | | 1,366,392* | 1,069,259* | 163* | 4,110,923* | 322,700 | 6,869,437 |
| Total comprehensive income for the year | | - | - | - | 1,147,052 | - | 1,147,052 |
| Appropriation and utilisation of safety fund, net | | - | - | 7,323 | (7,323) | - | - |
| Transfer from retained profits | | - | 113,959 | - | (113,959) | - | - |
| 2018 proposed final dividends | 15 | - | - | - | (691,500) | 691,500 | - |
| 2017 final dividends declared | | - | - | - | - | (322,700) | (322,700) |
| As at 31 December 2018 | | 1,366,392* | 1,183,218* | 7,486* | 4,445,193* | 691,500 | 7,693,789 |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 47. Statement of financial position and reserves of the company - Continued

| | Note | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Special reserve RMB'000 | Retained profits RMB'000 | Proposed dividends RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|
| As at 1 January 2017 | | 1,366,392* | 1,008,218* | - | 3,862,858* | 230,500 | 6,467,968 |
| Total comprehensive income for the year | | - | - | - | 631,969 | - | 631,969 |
| Appropriation and utilisation of safety fund, net | | - | - | 163 | (163) | - | - |
| Transfer from retained profits | | - | 61,041 | - | (61,041) | - | - |
| 2017 proposed final dividends | 15 | - | - | - | (322,700) | 322,700 | - |
| 2016 final 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 |

* These reserve accounts comprise the Company's reserves of RMB7,002,289,000 (2017: RMB6,546,737,000) in the Company's statement of financial position.

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 48. 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 | Obligations under finance leases | Interest payable | Dividends payable |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2017 | 878,900 | 1,456,166 | 1,182 | 102 |
| Financial cash flows | (68,900) | (124,797) | (66,119) | (233,973) |
| Finance costs (Note 10) | - | 55,334 | 66,085 | - |
| VAT payable | - | 9,415 | - | - |
| Dividends declared to non-controlling interests | - | - | - | 22,296 |
| 2016 Final dividends declared | - | - | - | 230,500 |
| Loss of control over subsidiaries | - | - | - | (102) |
| At 31 December 2017 | 810,000 | 1,396,118 | 1,148 | 18,823 |
| At 1 January 2018 | **810,000** | **1,396,118** | **1,148** | **18,823** |
| **Changes from cash flows:** | | | | |
| Dividend paid | - | - | - | **(452,095)** |
| Bank borrowings raised | **696,500** | - | - | - |
| Repayment of bank borrowings | **(721,500)** | - | - | - |
| Capital element of obligation under finance leases | - | **(59,987)** | - | - |
| Interest paid | - | **(39,630)** | **(48,539)** | - |
| Transaction charge paid | - | **(22,991)** | - | - |
| **Other changes:** | | | | |
| Dividend declared to non-controlling interests | - | - | - | **124,017** |
| 2017 final dividends declared | - | - | - | **322,700** |
| Finance costs (Note 10) | - | **56,190** | **48,445** | - |
| VAT payable | - | **6,431** | - | - |
| At 31 December 2018 | **785,000** | **1,336,131** | **1,054** | **13,445** |

# Notes to the Consolidated Financial Statements - continued

For the year ended 31 December 2018

## 49. Events after the reporting year

There is no material event after the reporting year.

## 50. Approval of consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

# Glossary

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

# Company Information

| | |
|---|---|
| **Registered Office** | No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC |
| **Address of headquarter** | Kaikang CNOOC Mansion, No.15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC |
| **Principal place of business in the PRC** | No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC |
| **Representative Office in Hong Kong** | 65/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong |
| **Joint Company Secretary** | Wu Xiaoxia<br>Ng Sau Mei |
| **Authorized representatives** | Xia Qinglong<br>Wu Xiaoxia |
| **Alternate to authorized representatives** | Zhou Yuying |
| **Principal banker** | Bank of China, Hainan Branch |
| **Auditor** | BDO Limited<br>25th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong |
| **Hong Kong law legal adviser** | Freshfields Bruckhaus Deringer<br>55th Floor, One Island East, Taikoo Place, Quarry Bay, Hong Kong |
| **The PRC law legal adviser** | Jun He Law Offices<br>China Resources Building, 20th Floor, 8 Jianguomenbei Avenue |
| **H Share registrar and transfer office** | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716 17th Floor, Hopewell Centre<br>183 Queen's Road East, Wanchai, Hong Kong |
| **Investor Relations/Public Relations** | |
| **Hong Kong** | Tel: (852) 22132533<br>Fax: (852) 25259322 |
| **Beijing** | Tel: (86) 010 84521782<br>Fax: (86) 010 84527254 |
| **Webiste** | www.chinabluechem.com.cn |
| **Stock Code** | Hong Kong Stock Exchange: 3983 |

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