中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock code: 03983)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

1. Revenue amounted to RMB9,756.3 million
2. Gross profit amounted to RMB3,267.6 million
3. Net profit attributable to owners of the parent amounted to RMB1,985.8 million
4. Basic earnings per share was RMB0.43
5. Proposed final dividend for the year of RMB0.16 per share

(I) AUDITED FINANCIAL STATEMENTS

Consolidated income statement

Year ended 31 December 2011

	Notes	**2011** *RMB'000*	2010 *RMB'000*
Revenue	4	**9,756,314**	6,867,250
Cost of sales		**(6,488,688)**	(4,678,512)
Gross profit		**3,267,626**	2,188,738
Other income and gains	4	**127,861**	67,289
Selling and distribution costs		**(169,381)**	(147,795)
Administrative expenses		**(418,259)**	(382,619)
Other expenses		**(32,057)**	(34,803)
Finance income		**15,966**	11,324
Finance costs	5	**(18,005)**	(11,915)
Exchange gains/(losses), net		**2,327**	(4,179)
Share of profits/(losses) of associates		**62**	(374)
Profit before tax	6	**2,776,140**	1,685,666
Income tax expense	7	**(556,398)**	(316,012)
Profit for the year		**2,219,742**	1,369,654
Attributable to:			
Owners of the parent		**1,985,777**	1,175,285
Non-controlling interests		**233,965**	194,369
		2,219,742	1,369,654
Earnings per share attributable to ordinary equity holders of the parent			
— Basic for the year *(RMB)*	8	**0.43**	0.25
— Diluted for the year *(RMB)*	8	**0.43**	0.25

Consolidated statement of comprehensive income
Year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
Profit for the year	**2,219,742**	1,369,654
Other comprehensive income for the year, net of tax	**—**	—
Total comprehensive income for the year	**2,219,742**	1,369,654
Attributable to:		
Owners of the parent	**1,985,777**	1,175,285
Non-controlling interests	**233,965**	194,369
	2,219,742	1,369,654

Consolidated statement of financial position
As at 31 December 2011

	Note	31 December 2011 RMB'000	31 December 2010 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**9,347,634**	8,944,151
Investment properties		**—**	2,041
Mining rights		**482,868**	484,136
Prepaid land lease payments		**472,695**	475,902
Intangible assets		**129,685**	10,856
Investments in associates		**654,347**	654,693
Available-for-sale investments		**600**	600
Deferred tax assets		**110,198**	78,446
		11,198,027	10,650,825
Current assets			
Inventories		**1,473,422**	983,644
Trade receivables	9	**147,272**	105,705
Bills receivable		**81,196**	35,700
Prepayments, deposits and other receivables		**730,989**	296,649
Pledged bank deposits		**1,711**	8,556
Time deposits		**32,850**	58,500
Cash and cash equivalents		**2,803,266**	2,387,092
		5,270,706	3,875,846
Total assets		**16,468,733**	14,526,671

Consolidated statement of financial position *(continued)*
As at 31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000
Equity and liabilities			
Equity attributable to owners of the parent			
Issued capital		**4,610,000**	4,610,000
Reserves		**6,789,415**	5,541,238
Proposed dividends	10	**737,600**	414,900
		12,137,015	10,566,138
Non-controlling interests		**1,430,653**	1,355,866
Total equity		**13,567,668**	11,922,004
Non-current liabilities			
Benefit liability		**53,411**	57,607
Interest-bearing bank borrowings		**425,000**	335,700
Other long-term liabilities		**129,802**	113,200
Deferred tax liabilities		**71,796**	73,588
		680,009	580,095
Current liabilities			
Trade payables	11	**318,689**	222,684
Bills payable	11	**8,550**	—
Other payables and accruals		**1,765,424**	1,683,101
Income tax payable		**128,393**	118,787
		2,221,056	2,024,572
Total liabilities		**2,901,065**	2,604,667
Total equity and liabilities		**16,468,733**	14,526,671
Net current assets		**3,049,650**	1,851,274
Total assets less current liabilities		**14,247,677**	12,502,099
Net assets		**13,567,668**	11,922,004

(II) NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

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

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated units until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments*: *Presentation — Classification of Rights Issues*
IFRIC — 14 Amendments	Amendments to IFRIC — 14 *Prepayments of a Minimum Funding Requirement*
IFRIC — 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs (Issued in May 2010)	*Amendments to a number of IFRSs*

Other than as further explained below regarding the impact of IAS 24 (Revised), and IAS 1 included in Improvements to IFRSs 2010 (Include other standards as appropriate), the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 *(Revised) Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 41 to the consolidated financial statements.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the notes to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL STANDARDS

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

IFRS 1 Amendments	Amendments to IFRS 1: *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	*Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 (2011)	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statements*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IFRIC — Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2015

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

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

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

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation — Special Purpose Entities.* IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12.

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

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

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

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

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in SIC 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt IAS 12 Amendments from 1 January 2012.

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

IFRIC-Int 20 addresses the recognition of waste removal costs that are incurred in the surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the costs incurred are accounted for in accordance with IAS 2 *Inventories*. To extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognized as a stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 January 2013.

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has reportable operating segments as follows:

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

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

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

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

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

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

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

Business segments

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

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

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include unallocated administrative expenses (RMB96,339,000), finance income (RMB15,966,000), exchange gains on translation of foreign operations (RMB2,327,000), finance costs (RMB18,005,000), bank charges (RMB2,078,000), other income and gains (RMB28,412,000), other expenses (RMB29,979,000), and other unallocated revenues (RMB16,582,000).

3. Segment assets do not include deferred tax assets (RMB110,198,000), available-for-sale financial assets (RMB600,000), cash and bank (RMB1,688,306,000), assets of centralised cost centre (RMB850,473,000) and inter-segment balances (RMB63,990,000).

4. Segment liabilities do not include interest payables (RMB452,000), deferred tax liabilities (RMB71,796,000), liabilities of centralised cost centre (RMB897,000), and inter-segment balances (RMB1,478,042,000).

Business segments

	Urea *RMB'000*	Phosphorus fertiliser *RMB'000*	Methanol *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Year ended 31 December 2010						
Segment revenue:						
Sales to external customers	3,514,770	1,234,119	1,690,889	427,472	—	6,867,250
Inter-segment sales	24,793	1,121	25,871	132,741	[1](184,526)	—
Total	3,539,563	1,235,240	1,716,760	560,213	(184,526)	6,867,250
Segment results	1,039,396	149,348	512,359	27,334	[2](73,733)	1,654,704
Share of (losses)/profits of associates	(823)	—	—	449	—	(374)
Gain on disposal of unlisted investments	24,840	1,753	3,779	964	—	31,336
Segment profit before tax	1,063,413	151,101	516,138	28,747	(73,733)	1,685,666
As at 31 December 2010						
Operating assets	5,334,868	1,811,115	3,395,500	3,052,335	[3]932,853	14,526,671
Operating liabilities	209,676	581,792	568,749	1,483,486	[4](239,036)	2,604,667
Other segment information:						
Depreciation and amortisation	478,394	84,831	149,749	30,694	—	743,668
Investments in associates	653,230	—	—	1,463	—	654,693
Capital expenditure*	228,806	250,185	1,034,331	619,799	—	2,133,121

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

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include unallocated administrative expenses (RMB102,612,000), finance income (RMB11,324,000), exchange losses on translation of foreign operations (RMB4,179,000), finance costs (RMB11,915,000), bank charges (RMB988,000), other income and gains (RMB26,626,000), other expenses (RMB28,190,000), and other unallocated revenues (RMB36,201,000).

3. Segment assets do not include interest receivables (RMB580,000), deferred tax assets (RMB78,446,000), available-for-sale financial assets (RMB600,000), cash and bank (RMB50,503,000), assets of centralised cost centre (RMB852,408,000), inter-segment balances (RMB49,684,000).

4. Segment liabilities do not include interest payables (RMB635,000), long-term borrowings (RMB335,700,000), deferred tax liabilities (RMB73,588,000), liabilities of centralised cost centre (RMB897,000), and inter-segment balances (RMB649,856,000).

Geographic information

(a) *Revenue from external customers*

	2011	2010
	RMB'000	*RMB'000*
Sales to external customers:		
— PRC	**8,910,479**	5,724,542
— Others	**845,835**	1,142,708
	9,756,314	6,867,250

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations during the year were individually and collectively less than 10% of the Group's revenues (2010: Less than 10%).

(b) *Non-current assets*

In determining the Group's geographical information, non-current assets are attributed to the segments based on the location of assets. All of the non-current assets are located in PRC

4 REVENUE, OTHER INCOME AND GAINS

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

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

	2011	2010
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**9,395,412**	6,490,707
Rendering of services	**360,902**	376,543
	9,756,314	6,867,250
Other income and gains		
Gain on disposal of unlisted investments	**93,456**	31,336
Income from the sale of other materials	**8,563**	17,389
Income from the rendering of other services	**6,181**	4,937
VAT refund	**—**	501
Gain on disposal of items of property, plant and equipment	**186**	4,733
Gross rental income	**1,548**	886
Indemnities received	**912**	4,427
Government grant	**17,015**	3,080
	127,861	67,289

5 FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Total interest expense on bank loans	**26,789**	17,525
Less: Interest capitalised	**(8,784)**	(5,610)
Interest on bank loans	**18,005**	11,915

6 PROFIT BEFORE TAX

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

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories sold	**5,858,462**	4,295,986
Cost of services provided	**299,744**	293,721
Depreciation	**841,077**	724,339
Depreciation of investment properties	**—**	45
Amortisation of mining rights	**1,385**	1,426
Amortisation of prepaid land lease payments	**12,176**	11,692
Amortisation of intangible assets	**8,841**	6,166
Auditors' remuneration	**3,900**	3,570
Employee benefits expense (including directors' and supervisors' remuneration):		
Wages and salaries	**446,644**	426,549
Defined contribution pension scheme	**58,989**	52,015
Early retirement benefits and post-employment allowances	**(428)**	(306)
Medical benefit costs	**28,712**	19,124
Cash-settled share option expense	**1,003**	1,064
Housing fund	**27,069**	22,694
	561,989	521,140
Write-back of provision for bad and doubtful debts of trade receivables*	**—**	(5)
Write-back of provision for bad and doubtful debts of other receivables*	**(31)**	—
Provision for bad and doubtful debts of other receivables*	**—**	1,505
Loss on disposal of items of property, plant and equipment*	**3,461**	—
Write-down of inventories to net realisable value	**46,001**	—

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

7 INCOME TAX EXPENSE

Major components of income tax expense for the years ended 31 December 2011 and 2010 are as follows:

	2011	2010
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**589,942**	331,232
Deferred	**(33,544)**	(15,220)
Total tax charge for the year	**556,398**	316,012

(a) Corporate income tax ("CIT")

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

According to the document Finance Taxes [2008] No. 21 issued by the Ministry of Finance and the State Administration of Taxation on 20 February 2008, certain companies are entitled to transitional CIT rates of 20%, 22% and 24% for the years 2009, 2010 and 2011 respectively. A CIT rate of 25% will be applied from 2012 onwards. The Company, and its two subsidiaries, Hainan CNOOC Complex Fertiliser Co., Ltd. and Hainan CNOOC Plastic Company Limited ("CNOOC Plastic"), are entitled to a transitional CIT rate of 24% for the current year.

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

CNOOC Tianye Chemical Limited ("CNOOC Tianye"), a subsidiary of the Company, is entitled to a preferential tax rate of 15% for the three-year ending 31 December 2011 after being assessed as a high new technology entity.

Hubei Dayukou Chemical Co.,Ltd ("DYK Chemical"), a subsidiary of the Company, is entitled to a preferential CIT rate of 15% for the year 2011 after being assessed as a high and new technology enterprise.

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

CNOOC Kingboard Chemical Limited ("CNOOC Jiantao"), a subsidiary of the Company, is a foreign investment enterprise and is entitled to an exemption from CIT for its first two profitable years and a 50% reduction in the applicable CIT rate for the subsequent three years. The year of 2007 is the first tax profitable year. The year of 2011 is the last year for CNOOC Jiantao to be entitled to the 50% reduction of applicable CIT rate of 24%.

CNOOC (Hainan) E&P Gas Limited ("CNOOC E&P") is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. The year of 2008 is the first tax profitable year. The year of 2011 is the second year for CNOOC E&P to be entitled to the 50% reduction of the applicable CIT rate of 24%.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the years ended 31 December 2011 and 2010.

8 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE PARENT

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the parent	**1,985,777**	1,175,285

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

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

9 TRADE RECEIVABLES

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

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

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

	2011	2010
	RMB'000	*RMB'000*
Within six months	**141,316**	103,608
Over six months but within one year	**3,434**	—
Over one year but within two years	**2,498**	1,819
Over two year but within three years	**24**	278
	147,272	105,705

As at 31 December 2011, the amount due from CNOOC group companies included in the above trade receivable balances was RMB14,183,000 (2010: RMB2,838,000)

10 DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Proposed final dividend — RMB0.16 (2010: RMB0.09) per ordinary share	**737,600**	414,900

The proposed 2010 final dividend was approved at the annual general meeting on 3 June 2011. The proposed 2011 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2011 annual general meeting.

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

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%.

11 TRADE PAYABLES AND BILLS PAYABLE

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

	2011	2010
	RMB'000	*RMB'000*
Within six months	**313,276**	207,430
Over six months but within one year	**4,861**	1,235
Over one year but within two years	**3,577**	7,255
Over two years but within three years	**90**	1,511
Over three years	**5,435**	5,253
	327,239	222,684

As at 31 December 2011, the amounts due to CNOOC group companies included in the above trade payables and bills payable balances totalled RMB174,884,000 (2010: RMB145,408,000).

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

Production Management

During the Reporting Period, the Group ensured its major production plants in safe and stable operational condition through strengthening production and safety management. The Fudao Phase II Urea Plant and the Hainan Phase I Methanol Plant set historical production records. Production information of the various plants of the Group in 2011 are set out below:

	Year Ended 31 December			
	2011		2010	
	Production volume *(tonnes)*	**Utilisation rate *(%)***	Production volume *(tonnes)*	Utilisation rate *(%)*
Fertilisers				
Urea				
Fudao Phase I	**552,689**	**106.3**	570,135	109.6
Fudao Phase II	**904,914**	**113.1**	875,070	109.4
CNOOC Tianye	**450,094**	**86.6**	565,131	108.7
Group total	**1,907,697**	**103.7**	2,010,336	109.3
Phosphate Fertilisers				
DYK Chemical MAP	**39,950**	**26.6**	53,854	35.9
DYK Chemical DAP	**395,352**	**113.0**	401,353	114.7
Group total	**435,302**	**87.1**	455,207	91.0
Chemical Products				
Methanol				
Hainan Phase I	**652,226**	**108.7**	633,703	105.6
Hainan Phase II *(note 1)*	**776,325**	**97.0**	74,762	112.1
CNOOC Tianye	**141,790**	**70.9**	158,616	79.3
Group total	**1,570,341**	**98.1**	867,081	100.0
POM				
CNOOC Tianye POM *(note 2)*	**10,104**	**67.4**	—	—
Group total	**10,104**	**67.4**	—	—

Note:

1. The Hainan Phase II Methanol Plant went into commercial operation on 1 December 2010. Its production volume in 2010 was included from the date of commercial operation only.

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

Sales Management

Through reasonable deployment of resources and fine-tuning of customer management in 2011, the Company ensured the sales of fertilisers and methanol products. We have also dedicated a regional marketing and sales format for POM products after conducting a thorough pre-launch investigation and research, and attained our expected sales target through establishing a reasonable sales and logistics network for the successful launch of new products into the market.

Urea

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

	Year Ended 31 December			
	2011		2010	
Sales Regions	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**125,079**	**6.7**	130,039	6.6
Northern China	**479,470**	**25.7**	322,612	16.3
Eastern China	**148,938**	**8.0**	143,037	7.2
South-eastern China	**85,484**	**4.6**	73,814	3.7
Southern China	**601,627**	**32.2**	515,174	26.0
Hainan	**196,639**	**10.5**	157,773	8.0
International	**230,183**	**12.3**	641,595	32.2
Total	**1,867,420**	**100.0**	1,984,044	100.0

Phosphate fertilisers

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

	Year Ended 31 December			
	2011		2010	
Sales Regions	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**217,486**	**50.6**	270,149	56.3
Northern China	**98,234**	**22.8**	93,405	19.5
Eastern China	**56,013**	**13.0**	54,884	11.4
South-eastern China	**17,139**	**4.0**	586	0.1
Southern China	**19,439**	**4.5**	4,593	1.0
International	**21,722**	**5.1**	55,939	11.7
Total	**430,033**	**100.0**	479,556	100.0

Methanol

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

	Year Ended 31 December			
	2011		2010	
Sales Regions	**Volume *(tonnes)***	**Percentage *(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**43,306**	**2.9**	48,081	5.5
Northern China	**41,548**	**2.8**	77,338	8.9
Eastern China	**193,477**	**13.0**	92,983	10.7
South-eastern China	**193,387**	**13.0**	40,284	4.6
Southern China	**947,163**	**63.4**	540,257	62.3
Hainan	**74,055**	**4.9**	67,916	8.0
Total	**1,492,936**	**100.0**	866,859	100.0

POM

The CNOOC Tianye 60,000 tonnes/year POM Plant in Inner Mongolia went into commercial operation on 1 October 2011 and produced a total of 10,104 tonnes of POM with a sales volume of 6,491 tonnes.

BB fertilisers

In 2011, the Group produced a total of 52,531 tonnes of BB fertilisers with a sales volume of 50,963 tonnes.

Sea-land logistics services

In 2011, the volume of freight throughput of the Hainan Basuo achieved a historical record of 8.02 million tonnes.

2. Financial Review

Revenue

In 2011, the Group's revenue was RMB9,756.3 million, an increase of RMB2,889.0 million or 42.1%, from RMB6,867.3 million in 2010.

In 2011, the Group's revenue of urea was RMB4,047.1 million, an increase of RMB532.3 million or 15.1%, from RMB3,514.8 million in 2010. The increase was primarily attributable to: (1) the increase in selling prices of urea by RMB395.7 per tonne, contributing to an increase of RMB738.9 million in revenue; which was partly offset by (2) the decrease in sales volume of urea by 116,624 tonnes from 2010, contributing to a decrease of RMB206.6 million in revenue.

In 2011, the Group's revenue from phosphate fertilisers was RMB1,349.8 million, an increase of RMB115.7 million or 9.4%, from RMB1,234.1 million in 2010. The increase was primarily attributable to: (1) the increase in selling prices of phosphate fertilisers by RMB565.3 per tonne, contributing to an increase of RMB243.1 million in revenue; which was partly offset by (2) the decrease in sales volume of phosphate fertilisers by 49,523 tonnes over last year, contributing to a decrease of RMB127.4 million in revenue.

In 2011, the Group's revenue from the methanol segment was RMB3,345.9 million, a massive increase of RMB1,655.0 million or 97.9%, from RMB1,690.9 million in 2010. The increase was primarily attributable to: (1) the Hainan Phase II Methanol Plant went into commercial operation in December 2010, contributing to increases in sales volume of methanol by 626,077 tonnes and revenue of RMB1,403.1 million during the reporting period; and (2) the increases in selling prices of methanol by RMB290.6 per tonne, contributing to an increase of RMB251.9 million in revenue.

In 2011, the Group's revenue from other segments (primarily comprising manufacture and sales of BB fertilisers, POM and woven plastic bags, trading of fertilisers and chemicals, port operations and provision of transportation services) increased by RMB586.0 million, which was primarily attributable to: (1) an increase in revenue of RMB397.2 million from BB fertilisers and trading of fertilisers; (2) the increase in throughput and transportation volumes by Basuo Port over last year, contributing to an increase in revenue of RMB129.4 million; and (3) revenue of RMB59.4 million from new POM products.

Cost of sales

In 2011, the Group's cost of sales was RMB6,488.7 million, an increase of RMB1,810.2 million or 38.7%, from RMB4,678.5 million in 2010.

In 2011, the Group's cost of sales of urea was RMB2,468.3 million, an increase of RMB259.1 million or 11.7%, from RMB2,209.2 million in 2010. The increase was primarily attributable to: (1) the realignment of urea export tariff policy and increase in export prices of urea, contributing to an increase in Hainan urea export tariffs of RMB163.0 million; (2) the increase in natural gas prices and plant overhauls, contributing to an increase in costs of RMB222.1 million; which were partly offset by (3) the decrease in sales volume of urea by 116,624 tonnes over 2010, contributing to a decrease in cost of RMB126.0 million.

In 2011, the Group's cost of sales of phosphate fertilisers was RMB1,124.9 million, an increase of RMB126.7 million or 12.7%, from RMB998.2 million in 2010. The increase was primarily attributable to: (1) an increase in cost of sales by RMB229.8 million due to increases in raw material prices of liquid ammonia and sulphur; which was partly offset by (2) a decrease in sales volume of phosphate fertilisers by 49,523 tonnes over last year, contributing to a decrease in cost by RMB103.1 million.

In 2011, the Group's cost of sales of methanol was RMB1,951.7 million, an increase of RMB851.1 million or 77.3%, from RMB1,100.6 million in 2010. The increase was primarily attributable to: (1) the increase in the Group's sales volume of methanol, as the Hainan Phase II Methanol Plant went into commercial operation in December 2010, by 626,077 tonnes over 2010, contributing to a RMB818.5 million increase in cost; and (2) the increases in natural gas prices and plant overhauls, contributing to an increase in cost of RMB32.6 million.

In 2011, the Group's cost of sales from other segments increased by RMB573.3 million over 2010. The increase was primarily attributable to: (1) an increase in costs of BB fertilisers and trading of fertilisers of RMB366.2 million; (2) the increase in the throughput and transportation volumes of Basuo Port, contributing to an increase in cost of RMB110.2 million and (3) the increase in cost of new POM products by RMB96.9 million.

Gross profit

In 2011, the Group's gross profit was RMB3,267.6 million, an increase of RMB1,078.9 million or 49.3%, from RMB2,188.7 million in 2010. The increase was primarily attributable to: (1) the increase in selling prices and sound cost control by the Group, contributing to increases in gross profit of methanol, urea and other segment by RMB803.9 million, RMB273.2 million and RMB12.8 million respectively, of which the gross profit of Hainan Phase II Methanol Plant increased by RMB668.1 million; which was partly offset by (2) a decrease in sales volume of phosphate fertilisers, contributing to a decrease in gross profit of RMB11.0 million.

Other income and gains

In 2011, the Group's other income and gains were RMB127.9 million, an increase of RMB60.6 million or 90.0%, from RMB67.3 million in 2010. The increase was primarily attributable to: (1) an increase of RMB62.1 million in gains from entrusted funds; (2) a government award of RMB9.5 million received by DYK Chemical for its phosphoric ore selection technique; which were partly offset by (3) a decrease in income from sales of materials of RMB11.0 million.

Selling and distribution costs

In 2011, the Group's selling and distribution costs were RMB169.4 million, an increase of RMB21.6 million or 14.6%, from RMB147.8 million in 2010. The increase was primarily attributable to the increases in expenses in loading and unloading, transportation and warehousing of methanol and POM.

Administrative expenses

In 2011, the Group's administrative expenses were RMB418.3 million, an increase of RMB35.7 million or 9.3%, from RMB382.6 million in 2010. The increase was primarily attributable to: (1) the increases in wages, leasing expenses and taxation expenses of RMB22.3 million; and (2) increases of RMB13.4 million in expenses of technical research expenses and project preparation expenses.

Other expenses

In 2011, the Group's other expenses were RMB32.1 million, a decrease of RMB2.7 million or 7.8%, from RMB34.8 million in 2010. The decrease was primarily attributable to the absence in 2011 of last year's bad debts provisions of RMB1.5 million.

Finance income and finance costs

In 2011, the Group's finance income was RMB16.0 million, an increase of RMB4.7 million or 41.6%, from RMB11.3 million in 2010. The increase was primarily attributable to the increase in interest income.

During the reporting period, the Group's finance costs were RMB18.0 million, an increase of RMB6.1 million or 51.3%, from RMB11.9 million in 2010. The increase was primarily attributable to the increase in interest expenses of RMB5.0 million as the Tianye POM Plant in Inner Mongolia went into commercial operation in October 2011; and (2) the increase in interest expenses of the Hainan Phase II Methanol Plant.

Exchange gains/(losses), net

In 2011, the Group recorded net exchange gains of RMB2.3 million, an increase of RMB6.5 million or 154.8% from the exchange losses of RMB4.2 million in 2010. The increase in net exchange gains was primarily attributable to the conversion of the US dollar into Renminbi of urea exports payments.

Share of profit of an associate

Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal"), an associate of the Company who holds 49% equity interests, was unable to resume production since its suspension of work in March 2010. Pursuant to the requirements of IAS 28 and IAS36, where an indication of impairment exists, the asset's recoverable amount is estimated. Zhonglian Asset Appraisal Group Limited was appointed by the Company to conduct an appraisal of Yangpoquan Coal as at 31 December 2011 based on the discounted future cash flows method, which concluded that the estimated recoverable amount of Yangpoquan Coal as at 31 December 2011 was RMB1,383.2 million. Accordingly, the recoverable amount of the long-term equity investment, calculated by the management on a pro rata basis, was higher than its carrying value of RMB653.2 million.

Income tax expense

In 2011, the Group's income tax expense was RMB556.4 million, an increase of RMB240.4 million or 76.1%, from RMB316.0 million in 2010. The increase was primarily attributable to: (1) the substantial increase in profit before tax, contributing to an increase in enterprise income tax expense of RMB218.6 million; and (2) the increase in applicable tax rate, contributing to an increase of income tax expense of RMB21.8 million during the reporting period.

Net profit for the year

In 2011, the Group's net profit was RMB2,219.7 million, an increase of RMB850.0 million or 62.1%, from RMB1,369.7 million in 2010. The increase in net profit was primarily attributable to the increases in selling prices of urea, phosphate fertilisers and methanol, the additional profit from the Hainan Phase II Methanol Plant and the sound cost control of the Group.

Dividends

The board of directors of the Company (the "Board") recommended the payment of a final dividend of RMB0.16 per share for 2011, aggregating RMB737.6 million.

The proposed final dividend for 2011 will be subject to the approval of the shareholders of the Company at the 2011 annual general meeting.

Capital expenditure

In 2011, the Group's capital expenditure in respect of acquisition, property, plant and equipment and prepaid land lease payments amounted to RMB1,778.2 million. Capital expenditure primarily included: (1) RMB946.0 million for the DYK Chemical Plant Phase II Expansion Project; (2) RMB397.7 million for the Huahe 520,000 tonnes/year Urea Project; (3) RMB231.7 million for upgrades and equipment purchases for production plants; (4) RMB148.9 million for the Inner Mongolia POM Project; (5) RMB33.3 million for expansion and improvement construction of Basuo Port; and (6) RMB20.6 million for the phosphate and chemical projects in Jinlin, Guizhou.

Pledge of assets

In 2011, the Group did not pledge any assets.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to safeguard its normal production and operations in order to maximise shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. The gearing ratio of the Group as at 31 December 2011 (calculated as interest-bearing liabilities divided by total capitalisation plus interest-bearing liabilities) was 3.04%, an increase of 0.30% from 2.74% as at 31 December 2010, which was primarily attributable to the drawdown of loans of RMB325.0 million for the 60,000 tonnes/year POM Project and the production expansion and renovation project of DYK Chemical and the repayment of loans of RMB235.7 million for the Hainan Phase II Methanol Plant during the reporting period.

Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB2,387.1 million. The net cash inflow from operating activities was RMB2,830.5 million, net cash outflow from investing activities was RMB1,911.3 million, and net cash outflow from financing activities was RMB503.0 million for the reporting period. As at 31 December 2011, the Group's cash and cash equivalents were RMB2,803.3 million. The Group has sufficient working capital to meet the funds required for its day-to-day operation and future development.

Human resources and training

As at 31 December 2011, the Group had 5,851 employees. The aggregate of employees' wages and allowances for 2011 was approximately RMB446.6 million. The Group has an effective remuneration package policy and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 2,889 training courses, with a total of 58,721 enrolments and 416,184 training hours.

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. During the reporting period, the Renminbi to US dollar exchange rate ranged from 6.3009-6.6349. The appreciation of Renminbi against the US dollar may have produced a double effect. The Group's revenue from sales of products may have declined as a result of the depreciation of the US dollar against Renminbi, whereas import prices for equipment and raw materials may also have been reduced.

As at 31 December 2011, the Group had no other debts which are denominated in currencies other than RMB.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 5.4% during the reporting period, which did not have a significant effect on the Group's operating results for the year.

Liquidity risk

The Group monitors its risk to a shortage of funds. The Group also considers the liquidity of both its financial investments and financial assets (for example, trade receivables and other financial assets) and projected cash flows from operating activities. The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans and bonds. As at 31 December 2011, none of the Group's debts would mature in less than one year based on the carrying values of the borrowings in the financial statements.

Post balance sheet events and contingent liabilities

After the reporting period to the date of this announcement, the Group had no material post balance sheet events.

As at 31 December 2011, the Group had no material contingent liabilities.

Material litigation and arbitration

As at 31 December 2011, the Group had no material litigation and arbitration.

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

As at 31 December 2011, the Group had no major acquisition and disposition.

3. Sector Review and Outlook

Fertiliser Industry

To resolve the issue of provision of grain and key agricultural produces domestically has always been headlined by the PRC government as the paramount task of its sovereign governance. In 2011, the PRC government continued to strengthen its support to grain production with actual investments in agriculture, rural areas and farmers of more than RMB1 trillion for the first time. The policy support of and commitments to agriculture led to the domestic grain production of 571 million tonnes in 2011, a consecutive growth for the eighth year.

According to the statistics of the Food and Agriculture Organisation of the United Nations, the worldwide major foodstuff price index rose steadily and reached a new high in 2011. Strong international foodstuff prices fuelled the global passion of planting agricultural produces.

As a result of international and domestic development in agriculture and increased foodstuff production in 2011, global demands for fertilisers flourished with significant year-on-year increases in fertiliser prices.

In 2011, low-season export tariffs of domestic urea and phosphate fertilisers remained at 7% as their respective low-season export windows shortened by one and one and a half month than 2010, respectively. The benchmark prices of low-season export tariffs of urea and phosphate fertilisers were accordingly adjusted downward.

(1) Urea

During the reporting period, domestic coal prices hovered aloft which caused significant increases in production costs of small-to-medium domestic urea manufacturers using anthracite as major feedstock.

In 2011, domestic urea production was approximately 58.6 million tonnes (in kind), a minor increase of 1.6% over the 57.7 million tonnes (in kind) in 2010.

During January to April 2011, domestic urea market was stable with average price ranged from RMB2,000 to RMB2,100 per tonne. Given the strong domestic demand for urea, significant surges in international market prices of urea and beefing up of reserves for export by domestic manufacturers, domestic market prices of urea sustained its surge since May, reached and stood at its highest level of the year in August. Urea prices eased slightly from mid-October onwards until the end of December when, backed up by production costs and domestic low-season fertiliser reserve, domestic urea market prices rebounded to around RMB2,200 per tonne.

In 2011, domestic export volume of urea fell significantly from 2010 by approximately 49% to 3.56 million tonnes (in kind), primarily attributed to high domestic urea prices during low season and changes in urea export tariff policy.

(2) Phosphate fertilisers

In order to standardise the development of the phosphate fertiliser industry, the PRC government promulgated the policy of "the Entry Criteria for Ammonium Phosphate Industry", which raised the access thresholds for the ammonium phosphate industry to benefit the healthy development of the domestic phosphate fertiliser industry.

In 2011, domestic ammonium phosphate production exceeded 23 million tonnes (in kind), a year-on-year increase of approximately 15%, whereas domestic exports was basically level against last year, at approximately 4.88 million tonnes (in kind).

During the first three quarters of 2011, domestic prices of ammonium phosphate rose steadily which was primarily attributed to robust domestic demand and increases in raw material (sulphur, ammonia and phosphoric ore) prices for the production of ammonium phosphate. However, ammonium phosphate prices fell slightly from November 2011 onwards.

Looking forward to the year of 2012, domestic demands for urea and phosphate fertilisers will increase as the PRC government escalates its commitments to grain production progressively on the back of raising the minimum purchase prices of grain in order to underpin the continual increases in domestic grain production in 2012.

Chemical Industry

(1) Methanol Sector

In 2011, demand for methanol from domestic downstream methanol industries continued to increase amid steady economic growth in the PRC and as crude oil prices hovered high, the application of methanol as an alternative source of energy grew swiftly.

In 2011, domestic apparent consumption of methanol exceeded 25 million tonnes, an increase of approximately 25% over 2010. Domestic methanol production was approximately 19.8 million tonnes, an increase of approximately 27% over 2010, whereas domestic imports was approximately 5.7 million tonnes, a minor year-on-year increase of approximately 9.8%.

In order to standardise the orderly development of the coal chemical industry, the PRC government raised the entry level of new coal-based methanol projects to benefit the long-term healthy development of the methanol sector.

In 2011, costs of domestic coal-based methanol manufacturers increased as domestic coal prices remained high and electricity price went up. The utilisation rates of some of the natural gas-based domestic methanol manufacturers were restricted due to inadequate supply of natural gas for production.

Domestic methanol market prices fluctuated at a narrow range in 2011 due to speedy growths in domestic production capacity and demand of methanol in recent years. However, the mid-price of fluctuations range of methanol market prices rose to RMB2,800 per tonne owing to increases in production costs and robust demand.

(2) POM Sector

POM, which is an excellent engineering polymer with good physical and processing properties, is widely used in the automotive industry, electronics industry and the daily commodity processing industry.

In 2011, domestic production capacity of POM surged by 59% over 2010 to 430,000 tonnes with production reached 230,000 tonnes, a massive year-on-year increase of approximately 60%. Domestic imports and exports remained stable at approximately 210,000 tonnes and approximately 66,000 tonnes respectively. Annual apparent consumption was approximately 375,000 tonnes with actual demand of approximately 320,000 tonnes and inventory of POM products as at the end of 2011 of approximately 50,000 tonnes.

During the first three quarters of 2011, market prices of POM were stable as domestic demand grew steadily. At the fourth quarter, domestic demand for POM softened given the Euro and US debt crises and slowdown in domestic economic growth. Coupled with increases in supply, domestic market prices of POM fell significantly to below RMB10,000 per tonne at the end of the year, with inversion between the sales prices of middle-to-low end POM products and the costs.

Looking forward to the year of 2012, despite the uncertainty over recovery of the global economy, the PRC economy will still grow steadily. Domestic downstream demands for methanol will still increase steadily whereas ferocious price competition will prevail over middle-to-low end POM products due to serious imbalance of supply over demand.

Outlook

The Company will focus on fulfilling the following tasks in 2012:

1. Strive to achieve safe, stable and highly efficient operation of major production plants by perfecting the major overhauls of the Hainan Fudao Phases I and II Urea Plants and the Hainan Phase II Methanol Plant;

2. Further optimise the production technology and enhance the utilisation rate of the Mongolia POM Plant in order to upgrade the functions and quality of our products;

3. Strive to commence the trial production of the ammonium phosphate production expansion and renovation project of DYK Chemical in Hubei by April 2012 through satisfactory testing and fine-tuning of all equipments;

4. As the progress of the exploration and development work of the upstream ancillary coal resources of the Huahe coal-based urea project in Hegang significantly fell behind the downstream coal chemical project, the Company decided to slow down the construction of this project. And, due to the problems associated with the joint venture partner of the Yangpoquan coal mine, the Yangpoquan coal mine is unable to resume production since its stoppage in March 2010. The Company decided to suspend the construction of the Hualu coal-based urea project in Hequ, Shanxi in order to control the investment risk. Our main task for the year is to push forward the exploration and development work of the ancillary coal mine of the Huahe coal-based urea project in Hegang, Heilongjiang and to resolve the dispute with the joint venture partner of the Yangpoquan coal mine in Hualu, Shanxi as soon as possible;

5. Complete the preliminary work of the conversion of the Inner Mongolia base of Tianye from natural gas-based to coal-based;

6. Further extend our sales and trading network to smoothen the sales of our existing POM products and the phosphate fertiliser products to be produced;

7. Further improve HSE management, energy-saving and reduction of emissions; and

8. Continue to seek mergers and acquisition opportunities in China and overseas that match the development strategy of the Company.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed the accounting principles and standards adopted by the Group, and discussed the internal control and financial reporting matters. The annual results for the year ended 31 December 2011 have been audited by Ernst and Young in accordance with Auditing Standard 700 (Engagement for the auditing of financial statements) issued by Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the financial report for the year ended 31 December 2011.

Compliance with the Code on Corporate Governance Practices

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2011.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Board confirms that, having made specific enquiries with all directors and supervisors, during the year ended 31 December 2011, all members of the Board and all supervisors have complied with the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Closure of the Register of Members in Respect of the Annual General Meeting

The register of members of the Company will be closed from 7 May 2012 to 5 June 2012 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for attendance at the annual general meeting, all instruments of transfer, accompanied by the relevant H share certificates, must be lodged with the Hong Kong share registrar for H Shares, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 4 May 2012.

Closure of the Register of Members in Respect of the Final Dividend

The register of members of the Company will be closed from 11 June 2012 to 15 June 2012 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all instruments of transfer, accompanied by the relevant H share certificates, must be lodged with the Hong Kong share registrar for H Shares, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 8 June 2012.

Withholding of Enterprise Income Tax and Individual Income Tax in respect of Dividend Payment

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and its Implementation Regulations, which became effective on 1 January 2008, the Company shall have the obligation to withhold enterprise income tax at the rate of 10% when distributing dividends to non-resident enterprises whose names appeared on the register of members of H Shares. Any shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, its nominees or agents, other organisation and bodies, shall be deemed to be shares held by non-resident enterprise shareholders, and accordingly, dividends payable to them shall be subject to withholding of enterprise income tax. As the Company is a foreign investment enterprise, the Company is not required to withhold non-resident individual income tax for non-resident individual holders of H Shares.

The Company shall not be responsible for any claims arising from the untimely or inaccurate determination of the capacity of the shareholders of the Company or any disputes in respect of the withholding mechanism.

Should there be any changes to the withholding for payment requirements applicable prior to the payment of the dividends, the Company shall make an announcement timely on such changes.

Purchase, Sale and Redemption of the Company's Listed Securities

During 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Disclosure on the Website of the Stock Exchange

Paragraphs 45 to 45(A) of Appendix 16 of the Listing Rules provide that all data shall be published on the website of the Stock Exchange (http://www.hkex.com.hk) and on the website of the Company (http://www.chinabluechem.com.cn/) in due course.

By Order of the Board
China BlueChemical Ltd.*
Li Hui
Chairman

Hong Kong, the People's Republic of China, 29 March 2012

As at the date of this announcement, the executive directors of China BlueChemical Ltd. are Mr. YANG Yexin, Mr. FANG Yong and Mr. CHEN Kai; non-executive director is Mr. LI Hui; independent non-executive directors are Mr. TSUI Yiu Wa, Alec, Mr. ZHANG Xinzhi and Mr. GU Zongqin.

* *for identification only*