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(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 2016**

FINANCIAL HIGHLIGHTS

1. Revenue amounted to RMB8,504 million
2. Gross profit amounted to RMB299 million
3. Loss attributable to owners of the parent amounted to RMB216 million
4. Basic loss per share was RMB0.05
5. Proposed special dividend of RMB0.05 per share

(I) AUDITED FINANCIAL STATEMENTS**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***For the year ended 31 December 2016*

		2016	2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	8,503,792	10,671,841
Cost of sales		(8,204,309)	(8,925,894)
Gross profit		299,483	1,745,947
Other income	4	63,241	125,150
Other gains and losses	5	204,967	267,495
Selling and distribution expenses		(344,473)	(409,408)
Administrative expenses		(450,128)	(408,347)
Other expenses		(12,256)	(19,862)
Change in fair value of obligation arising from a put option to a non-controlling shareholder	6	(1,519)	4,849
Change in fair value of derivative financial instrument	7	(1,689)	(2,061)
Gain recognised on expiry of the Put Option and Call Option	7	53,822	—
Gain on loss of control of a subsidiary	8	6,282	—
Finance income	9	7,974	9,778
Finance costs	10	(162,102)	(91,457)
Net exchange gains/(losses)		8,537	(22,273)
Share of losses of joint ventures		(1,541)	(609)
Share of losses of associates		(168)	(68,111)
(Loss)/profit before tax	11	(329,570)	1,131,091
Income tax credit/(expenses)	12	92,900	(288,050)
(Loss)/profit for the year		(236,670)	843,041
(Loss)/profit for the year attributable to:			
Owners of the parent	13	(215,504)	829,657
Non-controlling interests		(21,166)	13,384
		(236,670)	843,041
(Loss)/earnings per share attributable to ordinary owners of the parent			
— Basic for the year (<i>RMB</i>)	15	(0.05)	0.18

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	<i>Notes</i>	2016 RMB'000	2015 RMB'000
(Loss)/profit for the year		<u>(236,670)</u>	<u>843,041</u>
<i>Other comprehensive income that may be reclassified subsequently to profit or loss, net of tax:</i>			
Fair value gains on unlisted investment during the year		202,041	274,607
Reclassification adjustment relating to disposal upon maturity		<u>(202,041)</u>	<u>(274,607)</u>
Exchange differences arising on translation		6,808	(20,927)
Share of other comprehensive income of joint ventures, net of related income tax		1,865	—
Cumulative translation loss release to profit or loss upon loss of control over a subsidiary	8	<u>37,191</u>	<u>—</u>
Other comprehensive income/(expense) for the year, net of tax		<u>45,864</u>	<u>(20,927)</u>
Total comprehensive (expense)/income for the year		<u>(190,806)</u>	<u>822,114</u>
Total comprehensive (expense)/income for the year attributable to:			
Owners of the parent		(169,640)	808,730
Non-controlling interests		<u>(21,166)</u>	<u>13,384</u>
		<u>(190,806)</u>	<u>822,114</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		9,013,942	9,783,087
Mining and exploration rights		469,036	471,928
Prepaid lease payments		604,569	619,087
Investment properties		130,656	—
Intangible assets		28,148	32,464
Investments in joint ventures		278,443	212,449
Investments in associates		214,804	255,975
Available-for-sale investment		600	600
Deferred tax assets		847,845	677,575
Other long-term prepayment		3,000	12,000
		11,591,043	12,065,165
CURRENT ASSETS			
Inventories		1,279,001	1,406,243
Trade receivables	14	485,951	659,092
Bills receivable		109,509	124,820
Prepayments, deposits and other receivables		212,318	328,551
Tax recoverable		286,323	279,645
Pledged bank deposits		4,136	4,059
Time deposits with original maturity over three months		—	30,429
Cash and cash equivalents		5,698,412	5,313,907
		8,075,650	8,146,746
TOTAL ASSETS		19,666,693	20,211,911
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Issued capital	13	4,610,000	4,610,000
Reserves		8,476,141	8,876,281
Proposed dividends	15	230,500	368,800
		13,316,641	13,855,081
Non-controlling interests		997,219	1,026,493
TOTAL EQUITY		14,313,860	14,881,574

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*At 31 December 2016*

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

(II) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. CORPORATE INFORMATION

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

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

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

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

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

2. ADOPTION OF NEW ACCOUNTING POLICIES

2.1 Application of amendments to International Financial Reporting Standards (“IFRSs”)

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

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

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

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

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

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

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

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

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

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

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

IFRS 9 Financial Instrument

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

Key requirements of IFRS 9 are:

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

3. OPERATING SEGMENT INFORMATION

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

- (a) the urea segment is engaged in the manufacture and sale of urea;
- (b) the phosphorus and compound fertiliser segment is engaged in the manufacture and sale of MAP , DAP and compound fertiliser;
- (c) the methanol segment is engaged in the manufacture and sale of methanol; and
- (d) the "others" segment mainly comprises segments engaged in port operations and provision of transportation services ; trading of fertilisers and chemicals ; manufacture and sale of Bulk Blending (the "BB") fertiliser and woven plastic bags.

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

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

Operating segments

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

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

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

- 1 Inter-segment revenues are eliminated on consolidation.
- 2 Profit for each operating segment does not include the Group's financing (including finance costs and finance income), unallocated administrative expenses, exchange gains/(losses) on translation of foreign operations, bank charges, other income, changes on fair value of derivative financial instruments, other unallocated revenues, other expenses, share of results of associates and joint ventures, gain on disposal of subsidiary, gain on disposal of unlisted investments and income taxes.
- 3 Segment assets do not include deferred tax assets, available-for-sale financial assets, cash and bank balances managed on corporate level, assets of centralised cost centre and inter-segment balances.
- 4 Segment liabilities do not include interest payables, dividends payable, deferred tax liabilities, liabilities of centralised cost centre and inter-segment balances.

Geographic information

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

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

(b) Non-current assets

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

Information about major customer

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

4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

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

5. OTHER GAINS AND LOSSES

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

6. OBLIGATION ARISING FROM A PUT OPTION TO A NON-CONTROLLING SHAREHOLDER AND DERIVATIVE FINANCIAL INSTRUMENTS

On 28 May 2013, the Company entered into an agreement (the “Agreement”) with Benewood Holdings Corporation Limited (“Benewood”), a third party to incorporate CBC (Canada). The Company and Benewood agreed to invest CAD\$24,000,000 (equivalent to approximately RMB141,363,000) and CAD\$16,000,000 (equivalent to approximately RMB94,242,000) to hold 60% and 40% equity interest in CBC (Canada) respectively.

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

As at 1 April 2016, the Company lost control over CBC (Canada) and significant influence over WPC held by CBC (Canada), as detailed in note 8. Prior to 1 April 2016, the Company considered CBC (Canada) as a subsidiary since its incorporation given it has unilateral control through 60% voting rights in CBC (Canada).

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

The Put Option was forgone without further extension by mutual agreement between Benewood and the Company on 15 March 2016 pursuant to an arrangement detailed in note 8 (“the Arrangement”). Hence the carrying amounts of the liability as at 15 March 2016 was credit to the non-controlling interests and the entire balance of non-controlling interests related to CBC (Canada) was subsequently derecognised on 1 April 2016 to reflect the loss of control over CBC (Canada) (note 8). During the period ended from 1 January 2016 to 15 March 2016, change in fair value of the liability amounted to RMB1,519,000 was recognised in the profit or loss.

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

7. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

The fair values of trade receivables, bills receivable, financial assets included in deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, bills payable, financial liabilities included in other payables and accruals, and an amount due to the ultimate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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

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

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

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

The fair value measurements and valuation processes of the Group are the same as those followed in the year ended 31 December 2015. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

8. GAIN ON LOSS OF CONTROL OF A SUBSIDIARY

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

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

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

9. FINANCE INCOME

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

10. FINANCE COSTS

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

11. (LOSS)/PROFIT BEFORE TAX

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

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

12. INCOME TAX

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

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

(a) *Enterprise income tax (“EIT”)*

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

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

CNOOC (Hainan) E&P Gas Limited, a subsidiary of the Company, is taxed at 90% of its total taxable income in 2016, as CNOOC (Hainan) E&P Gas Limited is entitled to a tax incentive for its efficient use of resources in preferential.

(b) *Hong Kong profits tax*

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

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

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Earnings		
(Loss)/profit for the year attributable to owners of the parent	<u>(215,504)</u>	<u>829,657</u>
	Number of shares	
	2016	2015
	<i>'000</i>	<i>'000</i>
Shares		
Number of shares in issue during the year	<u>4,610,000</u>	<u>4,610,000</u>

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

14. TRADE RECEIVABLES

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

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

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

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

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

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

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

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

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group.

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

15. PROPOSED DIVIDENDS

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed dividends — RMB0.05 (2015: RMB0.08) per ordinary share	<u>230,500</u>	<u>368,800</u>

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

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

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

16. TRADE AND BILLS PAYABLES

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

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

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

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Sector Review

Fertiliser Industry

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

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

(I) Urea

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

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

(II) Phosphate fertilisers

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

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

Methanol

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

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

2. Business Review

Production Management

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

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

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

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

Sales Management

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

Urea

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

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

Phosphate Fertilisers and Compound Fertilisers

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

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

Methanol

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

Sales region	For the year ended 31 December			
	2016		2015	
	<i>Volume</i> <i>(tonnes)</i>	<i>Percentage</i> <i>(%)</i>	<i>Volume</i> <i>(tonnes)</i>	<i>Percentage</i> <i>(%)</i>
North-eastern China	67,646	4.5	26,071	1.7
Northern China	68,792	4.6	118,390	7.7
Eastern China	135,157	9.0	133,477	8.7
South-eastern China	128,746	8.5	139,518	9.1
Southern China	1,002,401	66.4	1,014,282	65.9
Hainan	106,768	7.0	106,897	6.9
International	0	0	0	0
Total	<u>1,509,510</u>	<u>100.0</u>	<u>1,538,635</u>	<u>100.0</u>

BB fertilisers

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

Sea-land logistics services

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

3. Financial Review

Revenue

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

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

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

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

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

Cost of sales

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

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

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

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

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

Gross profit

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

Other income

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

Other gains and losses

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

Selling and distribution expenses

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

Administrative expenses

The Group's administrative expenses for the reporting period amounted to RMB450.1 million, representing an increase of RMB41.8 million or 10.2% from RMB408.3 million in 2015. The increase was primarily attributable to: (1) an increase in administrative expenses

by RMB17.1 million incurred from CNOOC Huahe which commenced commercial operation on 1 July 2015; and (2) an increase in severance payment to staff of CNOOC Tianye by RMB28.3 million.

Other expenses

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

Finance income and finance costs

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

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

Net exchange gains/(losses)

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

Asset impairment losses

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

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

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

Income tax expenses

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

Net profit for the year

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

Dividends

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

Capital expenditure

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

Pledge of assets

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

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to safeguard its normal production and operations and maximise shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. The gearing ratio of the Group as at 31 December 2016 (calculated as interest bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 14.0%, representing an increase of 0.7% compared with 13.3% as at 31 December 2015, which was primarily attributable to the increase in the principal of financial leases by RMB133.4 million during the reporting period.

Cash and cash equivalents

As at the beginning of 2016, the Group's cash and cash equivalents were RMB5,313.9 million. In 2016, the net cash inflow from operating activities was RMB1,114.8 million, the net cash outflow from investing activities was RMB274.5 million, the net cash outflow from financing activities was RMB482.9 million, and the increase of cash and cash equivalent caused by the changes in exchange rates was RMB27.1 million. As at 31 December 2016, the Group's cash and cash equivalents were RMB5,698.4 million. The Group has sufficient working capital to meet the funds required for its day-to-day operation and future development.

Human resources and training

As at 31 December 2016, the Group had 6,027 employees. The aggregate of employees' wages and allowances for 2016 was approximately RMB570.3 million. The Group has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 3,145 training courses, and recorded a total of 185,322 enrolments and 524,894 training hours according to its annual training plan.

Market risks

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

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

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

Inflation and currency risk

According to the data of National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.0% during the reporting period, which did not have a significant effect on the Group's operating results for the year.

Liquidity risk

The Group monitors its risk exposure to a shortage of funds. The Group also considers the liquidity of both its financial investments and financial assets (for example, trade receivables and other financial assets) and projected cash flows from operating activities. The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of various funding options, including bank loans and bonds.

As at 31 December 2016, based on the carrying values shown on the financial statements, the Group had borrowings in the amount of RMB68.9 million and financial leases with a principal in the amount of RMB60.0 million that would reach maturity within one year. The Group has sufficient cash and is not exposed to liquidity risk.

Subsequent events and contingent liabilities

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

Litigation and arbitration

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

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

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

4. Sector Outlook

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

5. Our Key Tasks in 2017

1. To use our best endeavours in coordinating upstream supply of natural gas, to continue to strengthen and enhance HSE and refined production management, and to achieve safe and stable operations for each production unit;
2. To closely track the market conditions of domestic and international markets of chemical fertilisers and methanol, to enhance marketing and sales management and realize a balance between production and sales volume by adopting on favorable fertilizers export policies;
3. To low down purchasing costs of raw materials and tighten expenditure control;
4. To continue to pursue further improvements in the risk management and control system for sales so as to raise the standard of rationalisation in management;
5. To continue to proceed the pre-project studies on joint development of Xinhua coal mine with the professional local coal producers in Heilongjiang;
6. To continue the feasibility studies of producing high-end chemical products with natural gas in Hainan in tandem with the development of the offshore natural gas field in South of Hainan; and
7. To continue to look for organic growth and merger and acquisition opportunities in China and overseas that fit the Company's development strategy.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed, with the management, 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 2016 have been audited by Deloitte Touche Tohmatsu Certified Public Accountants 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 2016.

Compliance With Corporate Governance Code

During the reporting period, the Company had complied with all code provisions of Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

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 reporting period ended 31 December 2016, all members of the Board and all supervisors have complied with the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers, 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 3 May 2017 to 2 June 2017 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for attendance at the annual general meeting (the “**AGM**”), 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 2 May 2017.

Proposed Special Dividend and Closure of the Register of Members

The Board has recommended the payment of a special dividend of RMB0.05 (tax included) per share for the year ended 31 December 2016 to shareholders of the Company whose names appear on the register of members of the Company on the proposed record date, 14 June 2017. The proposed special dividend for 2016 will be subject to the approval of shareholders of the Company at the 2016 annual general meeting. For the holders of domestic shares, dividends will be paid in RMB. For the holders of H Shares, dividends will be paid in Hong Kong dollars. The special dividends are expected to be paid to the shareholders of the Company on or around 30 June 2017.

The register of members of the Company will be closed from 9 June 2017 to 14 June 2017 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the proposed special 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 2017.

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 H Shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, its nominees or agents, other organisations 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 in a timely fashion on such changes.

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

During 2016, 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

This results announcement is published on the HKExnews website (<http://www.hkexnews.hk>) and on the Company's website (<http://www.chinabluechem.com.cn/>). The 2016 Annual Report will be available on the HKExnews and the Company's websites in due course.

By Order of the Board
China BlueChemical Ltd.*
Chen Bi
Chairman

Hong Kong, the People's Republic of China, 28 March 2017

As at the date of this announcement, the executive Director is Mr. Xia Qinglong, the non-executive Directors are Mr. Chen Bi, Mr. Xie Weizhi and Mr. Guo Xinjun and the independent non-executive Directors are Ms. Lee Kit Ying, Mr. Lee Kwan Hung and Mr. Yu Changchun.

* For identification purpose only.