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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 2017**

FINANCIAL HIGHLIGHTS

1. Revenue amounted to RMB9,800 million
2. Gross profit amounted to RMB1,685 million
3. Profit attributable to owners of the Company amounted to RMB50 million
4. Basic earnings per share was RMB0.01
5. Proposed final dividends of RMB0.005 per share for the year and special dividends of RMB0.065 per share

(I) AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	4	9,799,678	8,503,792
Cost of sales		<u>(8,114,588)</u>	<u>(8,204,309)</u>
Gross profit		1,685,090	299,483
Other income	4	55,888	63,241
Other gains and losses, net	5	237,892	204,967
Selling and distribution expenses		(385,743)	(344,473)
Administrative expenses		(452,993)	(450,128)
Other expenses		(13,462)	(12,256)
Change in fair value of obligation arising from a put option to a non-controlling shareholder		—	(1,519)
Change in fair value of derivative financial instruments		—	(1,689)
Gain recognised on expiry of the put option and call option		—	53,822
Gains on loss of control of subsidiaries	6(i)	307	6,282
Finance income	8	10,680	7,974
Finance costs	9	(121,419)	(162,102)
Net exchange (losses)/gains		(48,233)	8,537
Share of losses of joint ventures	13	(36,833)	(1,541)
Share of gains/(losses) of associates		1,535	(168)
Impairment losses	7	<u>(442,640)</u>	<u>—</u>
Profit/(loss) before tax	10	490,069	(329,570)
Income tax (expenses)/benefits	11	<u>(382,557)</u>	<u>92,900</u>
Profit/(loss) for the year		<u>107,512</u>	<u>(236,670)</u>
Profit/(loss) for the year attributable to:			
Owners of the Company	12	50,232	(215,504)
Non-controlling interests		<u>57,280</u>	<u>(21,166)</u>
		<u>107,512</u>	<u>(236,670)</u>
Earnings/(loss) per share attributable to ordinary owners of the Company			
— Basic for the year (RMB)	12	<u>0.01</u>	<u>(0.05)</u>

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

For the year ended 31 December 2017

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		7,661,025	9,013,942
Mining and exploration rights		137,743	469,036
Prepaid lease payments		589,032	604,569
Investment properties		122,273	130,656
Intangible assets		30,331	28,148
Investments in joint ventures	13	229,476	278,443
Investments in associates		218,470	214,804
Available-for-sale investment		600	600
Deferred tax assets		840,105	847,845
Other long-term prepayment		6,900	3,000
		<u>9,835,955</u>	<u>11,591,043</u>
CURRENT ASSETS			
Inventories		1,210,432	1,279,001
Trade receivables	14	267,428	485,951
Bills receivable		31,138	109,509
Prepayments, deposits and other receivables		321,710	212,318
Tax recoverable		286,001	286,323
Pledged bank deposits		6,942	4,136
Time deposits with original maturity over three months		287,505	—
Cash and cash equivalents		6,590,294	5,698,412
		<u>9,001,450</u>	<u>8,075,650</u>
Assets classified as held for sale		411,587	—
		<u>9,413,037</u>	<u>8,075,650</u>
TOTAL ASSETS		<u>19,248,992</u>	<u>19,666,693</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Issued capital	12	4,610,000	4,610,000
Reserves		8,222,770	8,476,141
Proposed dividends	15	322,700	230,500
		<u>13,155,470</u>	<u>13,316,641</u>
Non-controlling interests		1,092,459	997,219
TOTAL EQUITY		<u>14,247,929</u>	<u>14,313,860</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2017

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

(II) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. CORPORATE INFORMATION

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

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

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

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

2.1 Application of amendments to IFRSs

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

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

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

Amendments to IAS 7 Disclosure Initiative

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

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

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

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

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

2.2 New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instrument ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ²
IFRS 17	Insurance Contracts ⁴
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC 23	Uncertainty over Income Tax Treatments ²
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
Amendments to IFRS 9	Prepayment Features with Negative Compensation ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle ¹
Amendments to IAS 40	Transfers of Investment Property ¹
Amendments to IFRSs	As part of the Annual Improvements to IFRS Standards 2015–2017 Cycle ²

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

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

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

⁴ Effective for annual periods beginning on or after 1 January 2021

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

IFRS 9 Financial Instrument

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

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

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

Classification and measurement:

- Bills receivable are held within a business model whose objective is achieved by both collecting cash flows and endorsing the bills receivable to suppliers or discounting to banks, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly bills receivable will be subsequently measured at FVTOCI upon the application of IFRS 9, with the fair value gains or losses accumulated in reserve subsequently reclassified to profit or loss upon derecognition. However, the directors of the Company do not anticipate this will have a material impact on the amounts recognised in other comprehensive income as the fair value of bills receivable is close to their carrying amounts given all bills receivable will mature within one year.
- Equity security classified as available-for-sale investment carried at cost less impairment qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure the security at fair value at the end of subsequent reporting periods with fair value gains or losses recognised as other comprehensive income and accumulated in the investments revaluation reserve, which will not be subsequently reclassified to profit or loss.
- The Group's wealth management in licensed bank carried at fair value are held within a business model whose objective is not solely receiving payments of principal and interest on the principal outstanding or selling the financial instruments in open market. Accordingly, the Group will measure these instruments at fair value with subsequent fair value gains or losses to be recognised in profit or loss.
- All other financial assets and financial liabilities will continue to be measured on the same basis as are currently measured under IAS 39.

Impairment

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB6,196,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

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

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.

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

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

Operating segments

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

	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 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	<u>2,502,753</u>	<u>1,969,490</u>	<u>2,483,093</u>	<u>1,708,454</u>	<u>(159,998)</u>	<u>8,503,792</u>
Segment (loss)/profit before tax	<u>(454,922)</u>	<u>(132,596)</u>	<u>111,039</u>	<u>95,800</u>	<u>—</u>	<u>(380,679)</u>
Interest and unallocated income						248,546
Corporate and other unallocated expenses						(261,161)
Exchange gains, net						8,537
Share of losses of joint ventures						(1,541)
Share of losses of associates						(168)
Change in fair value of obligation arising from a put option to a non-controlling shareholder						(1,519)
Change in fair value of derivative financial instruments						(1,689)
Gain recognised on expiry of the Put Option and Call Option						53,822
Gain recognised on loss of control of a subsidiary						<u>6,282</u>
Loss before tax						<u>(329,570)</u>
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						<u>4,076,801</u>
Total assets						<u>19,666,693</u>
Total segment liabilities	2,538,894	1,431,585	506,722	771,142	(35,568)	5,212,775
Unallocated						<u>140,058</u>
Total liabilities						<u>5,352,833</u>
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*	<u>171,432</u>	<u>28,139</u>	<u>1,477</u>	<u>11,852</u>	<u>—</u>	<u>212,900</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 Segment assets do not include deferred tax assets, available-for-sale financial assets, cash and bank balances managed on corporate level, assets of centralised cost centre and inter-segment balances.
- 3 Segment liabilities do not include interest payables, dividends payable, deferred tax liabilities, liabilities of centralised cost centre and inter-segment balances.

Geographic information

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Sales to external customers:		
— PRC	8,689,131	7,136,007
— Others	<u>1,110,547</u>	<u>1,367,785</u>
	<u><u>9,799,678</u></u>	<u><u>8,503,792</u></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 2017 and 2016.

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:

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

5. OTHER GAINS AND LOSSES, NET

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

6. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(i) General information of subsidiaries

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

Name of subsidiaries	Place and date of incorporation and operation	Registered capital '000	Direct Indirect	Percentage of equity interest attributable to the Company	Principal activities
<i>Subsidiaries directly and indirectly held by the Company as at 31 December 2017 and 31 December 2016:</i>					
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	RMB477,400	Direct Indirect	100.00 —	Manufacture and sale of fertilisers
Hainan CNOOC Plastic Co., Ltd. (海南中海石油塑編有限公司)	PRC 28 April 2002	RMB12,716	Direct Indirect	100.00 —	Manufacture and sale of woven plastic bags
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	RMB6,250	Direct Indirect	— 73.11	Provision of transportation services
Hainan Basuo Port Limited (“Hainan Basuo Port”) (海南八所港務有限公司)	PRC 25 April 2005	RMB514,034	Direct Indirect	73.11 —	Port operation
CNOOC Tianye Chemical Limited (“CNOOC Tianye”) (中海石油天野化工有限公司)	PRC 18 December 2000	RMB2,272,856	Direct Indirect	92.27 —	Manufacture and sale of fertilisers, and methanol

Name of subsidiaries	Place and date of incorporation and operation	Registered capital '000	Direct Indirect	Percentage of equity interest attributable to the Company	Principal activities
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	RMB500,000	Direct Indirect	60.00 —	Manufacture and sale of methanol
China BlueChemical Yichang Mining Ltd. (中海油化學宜昌礦業有限公司)	PRC 7 August 2008	RMB150,000	Direct Indirect	51.00 —	Phosphate mining and processing sale of phosphate ore
CNOOC Fudao (Shanghai) Chemical Limited (海油富島(上海)化學有限公司) (Former “Shanghai Qionghua Trading Co., Ltd. 上海琼化經貿有限公司”)	PRC 7 January 2002	RMB27,000	Direct Indirect	— 100.00	Trading of fertilisers
China Basuo Ocean Shipping Tally Co., Ltd. (八所中理外輪理貨有限公司)	PRC 9 May 2008	RMB300	Direct Indirect	— 61.41	Provision of overseas shipping services
CNOOC Hualu Shanxi Coal Chemical Co., Ltd. (中海油華鹿山西煤炭化工有限公司)	PRC 29 November 2005	RMB61,224	Direct Indirect	51.00 —	Preparatory work for a methanol and dimethyl ether project
Hubei Dayukou Chemical Co., Ltd. (“Hubei Dayukou”) (湖北大峪口化工有限責任公司) (Note i)	PRC 12 August 2005	RMB1,103,127	Direct Indirect	79.98 —	Phosphate mining and processing, manufacture and sales of MAP and DAP fertilisers

Name of subsidiaries	Place and date of incorporation and operation	Registered capital '000	Direct Indirect	Percentage of equity interest attributable to the Company	Principal activities
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	RMB20,000	Direct Indirect	— 51.00	Trading of fertilisers and chemicals
CNOOC Huahe Coal Chemical Ltd. ("CNOOC Huahe") (中海石油華鶴煤化有限公司)	PRC 26 May 2006	RMB1,035,600	Direct Indirect	100.00 —	Manufacture and sale of fertilisers
China BlueChemical (HongKong) Limited (中海化學(香港)有限公司)	Hong Kong 14 November 2013	HKD100	Direct Indirect	100.00 —	Trading of fertilisers
CNOOC (Hainan) E&P Gas Limited (中海石油(海南)環保氣體有限公司) (Note ii)	PRC 8 November 2004	—	Direct Indirect	— —	Manufacture and sale of liquidised carbon dioxide
China BlueChemical Baotou Coal Chemical Industry Co., Ltd. (中海油化學包頭煤化工有限公司) (Note ii)	PRC 11 September 2008	—	Direct Indirect	— —	Manufacture and sales of fertilisers and chemical products
Guangxi Fudao Chemical Limited (廣西富島化工有限公司) (Note ii)	PRC 8 February 2006	—	Direct Indirect	— —	Trading of fertilisers and chemicals
Hainan Basuo Port Labour Service Limited ("Basuo Labour Service") (海南八所港勞動服務有限公司) (Note iii)	PRC 14 March 2007	RMB5,000	Direct Indirect	— —	Provision of overseas shipping services
Inner Mongolia Hong Feng Packaging Co., Ltd. ("Inner Mongolia Hong Feng") (內蒙古鴻豐包裝有限責任公司) (Note iii)	PRC 9 December 1999	RMB3,297	Direct Indirect	— —	Manufacture and sale of woven plastic bags

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

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

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

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

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

The subsidiaries of the Company listed in the above table are all limited liability companies which, in the opinion of management, affected the results for the year or collectively formed a substantial portion of the net assets of the Group.

The English names of certain companies above represent the best efforts by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

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

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

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
				RMB'000	RMB'000	RMB'000	RMB'000
CNOOC Kingboard Chemical Limited	Hainan	40.00%	40.00%	107,968	10,465	433,776	329,273
Hainan Basuo Port	Hainan	26.89%	26.89%	6,992	16,452	209,337	221,168
CNOOC Tianye	Inner Mongolia	7.73%	7.73%	(19,597)	(20,305)	41,306	60,903
Hubei Dayukou	Hubei	20.02%	16.03%	(39,464)	(24,228)	215,804	193,733
China BlueChemical Yichang Mining Ltd.	Hubei	49.00%	49.00%	(361)	(238)	200,976	201,338

7. IMPAIRMENT LOSSES

Given the prolonged weak prices of urea, phosphorus and compound fertiliser in 2017 and the extended increases in the price of key raw materials, including coal, the performance of certain Group's subsidiaries was affected and is expected to persist. The directors of the Company considered this as an impairment indication and performed impairment assessment on the relevant non-current assets of the aforesaid subsidiaries, each of which is a separate CGU, including CNOOC Tianye, CNOOC Huahe in the urea segment and Hubei Dayukou in the phosphorus and compound fertiliser segment. As the result of the impairment assessment, the directors of the Company recognised assets impairment losses of RMB333,882,000 for the urea plant of CNOOC Huahe, and RMB106,487,000 for the phosphate fertiliser and compound fertiliser plants of Hubei Dayukou for the year ended at 31 December 2017.

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

8. FINANCE INCOME

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

9. FINANCE COSTS

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

10. PROFIT/(LOSS) BEFORE TAX

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

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

11. INCOME TAX EXPENSES/(BENEFITS)

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

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, were entitled to preferential EIT rate of 15% for the three years ended 31 December 2016 after being assessed as high-tech enterprises from the year of 2014. Commencing from 1 January 2017, these two subsidiaries were subject to EIT rate of 25%.

(b) Hong Kong profits tax

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

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

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

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

13. INVESTMENT IN JOINT VENTURES

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

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

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

Name of entity	Place and date of incorporation and operation	Registered capital '000		Percentage of equity interest attributable to the Company	Principal activities
Guizhou Jinlin Chemical Co., Ltd. (貴州錦麟化工有限責任公司)	PRC 12 April 2007	RMB481,398	Direct Indirect	41.26 —	Phosphate mining and processing manufacture and sales of phosphate ore and chemical products
Yantai Port Fertiliser Logistics Co., Ltd. (“Yantai Port Fertiliser”) (煙台港化肥物流有限公司) (Note i)	PRC 20 July 2011	RMB122,500	Direct Indirect	— —	Cargo handling, warehousing, packaging and domestic freight forwarding
CBC (Canada) Holding Corp (“CBC (Canada)”)(中海化學(加拿大)控股公司) (Note ii)	Canada 28 May 2013	CAD24,000	Direct Indirect	60.00 —	Investment holding
Hainan Basuo Port Labour Service Limited (“Basuo Labour Service”) (海南八所港務勞動服務有限公司)	PRC 14 March 2007	RMB5,000	Direct Indirect	— 36.56	Provision of overseas shipping services

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

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

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

the Arrangement. On 5 April 2017, WRC became the TSX listed successor company to WPC. WPC's shares were delisted from the TSX and WRC's shares commenced trading simultaneously.

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

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

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

14. TRADE RECEIVABLES

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

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

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

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

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

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

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Neither past due nor impaired	266,715	485,759
Less than one month past due	600	33
One to three months past due	113	159
	<u>267,428</u>	<u>485,951</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 2017, the amounts due from CNOOC (the “ultimate holding company”), its subsidiaries, associates (other than the ultimate holding company collectively referred to as the “CNOOC group companies”), and the Company’s subsidiaries’ non-controlling shareholders and the non-controlling shareholders’ subsidiaries (the “other related parties”) included in the above trade receivable balances in aggregate was RMB236,604,000 (2016:RMB447,532,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

15. PROPOSED DIVIDENDS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Proposed dividends — RMB0.07 (2016: RMB0.05) per ordinary share	<u>322,700</u>	<u>230,500</u>

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

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

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

16. TRADE AND BILLS PAYABLES

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

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

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

(III)MANAGEMENT DISCUSSION AND ANALYSIS

1. Sector Review

Fertiliser Industry

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

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

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

(1) Urea

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

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

(2) Phosphate fertilisers

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

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

Methanol

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

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

2. Business Review

Production Management

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

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

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

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

Sales Management

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

Urea

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

Sales region	For the year ended 31 December			
	2017		2016	
	<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	803,959	35.3	631,838	31.3
Northern China	228,244	10.0	182,088	9.0
Eastern China	41,183	1.8	53,376	2.6
South-eastern China	68,649	3.0	54,644	2.7
Southern China	566,824	24.9	380,857	18.9
Hainan	82,803	3.6	87,882	4.4
International	487,602	21.4	626,719	31.1
Total	<u>2,279,264</u>	<u>100.0</u>	<u>2,017,404</u>	<u>100.0</u>

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			
	2017		2016	
	<i>Volume (tonnes)</i>	<i>Percentage (%)</i>	<i>Volume (tonnes)</i>	<i>Percentage (%)</i>
North-eastern China	281,713	29.1	244,251	25.3
Northern China	371,063	38.3	323,754	33.5
Eastern China	46,049	4.7	21,868	2.2
South-eastern China	41,499	4.3	23,016	2.4
Southern China	13,550	1.4	24,837	2.6
International	214,580	22.2	328,079	34.0
Total	<u>968,454</u>	<u>100.0</u>	<u>965,805</u>	<u>100.0</u>

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			
	2017		2016	
	<i>Volume (tonnes)</i>	<i>Percentage (%)</i>	<i>Volume (tonnes)</i>	<i>Percentage (%)</i>
North-eastern China	109,666	7.1	67,646	4.5
Northern China	91,991	6.0	68,792	4.6
Eastern China	133,999	8.7	135,157	9.0
South-eastern China	122,011	8.0	128,746	8.5
Southern China	967,057	63.1	1,002,401	66.4
Hainan	108,541	7.1	106,768	7.0
International	0	0	0	0
Total	<u>1,533,265</u>	<u>100.0</u>	<u>1,509,510</u>	<u>100.0</u>

BB fertilisers

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

Sea-land logistics services

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

3. Financial Review

Revenue

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

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

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

During the reporting period, the Group's external revenue from methanol was RMB3,458.6 million, representing an increase of RMB975.5 million, or 39.3%, from RMB2,483.1 million during the same period of 2016. The increase was primarily attributable to (1) an increase in the sales volume of methanol by 23,754 tonnes, resulting in an increase in revenue by RMB39.1 million; and (2) an increase in revenue by RMB936.4 million resulted from an increase in the selling price of methanol by RMB610.7 per tonne.

During the reporting period, the Group's external revenue from other segments (primarily comprising port operations and provision of transportation services, trading in fertilisers and chemicals, manufacture and sales of BB fertilisers and woven plastic bags) decreased by RMB602.6 million, or 38.9%, to RMB945.8 million as compared to RMB1,548.4 million during the same period of 2016, which was primarily attributable to (1) a decrease in revenue by RMB646.2 million in the trading segment of the year as compared to that of last year which was partially offset by (2) an increase in revenue of RMB14.1 million due to the increase of business volume of port loading & unloading and transportation in Basuo Port by 433,989 tonnes; (3) an increase by RMB11.1 million in revenue due to the increase of sales volume and selling price of BB fertilisers; and (4) an increase by RMB18.4 million in revenue from selling woven plastic bags, liquid ammonium and formaldehyde.

Cost of sales

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

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

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

The Group's cost of sales for methanol during the reporting period was RMB2,261.7 million, representing an increase of RMB93.7 million, or 4.3%, from RMB2,168.0 million in 2016. The increase was primarily attributable to: (1) an increase in cost of sales by RMB35.0 million caused by an increase in

sales volume of methanol by 23,754 tonnes; and (2) an increase in cost of sales by RMB39.7 million resulted from a year-on-year increase of repairment cost of Hainan Methanol Plant.

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

Gross profit

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

Other income

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

Other gains and losses, net

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

Selling and distribution expenses

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

Administrative expenses

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

Other expenses

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

Finance income and finance costs

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

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

Net exchange (losses)/gains

During the reporting period, the Group recorded an exchange loss of RMB48.2 million, whereas an exchange gain of RMB8.5 million was recorded in 2016, representing a difference of RMB56.7 million. It was primarily attributable to

an exchange loss of RMB48.9 million recorded on the US dollar deposit held by the Group during the reporting period resulted from a drop of the exchange rate of US dollar.

Impairment losses

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

Net gains/(losses) of associates and joint ventures

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

Income tax expenses

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

Net profit for the year

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

Dividends

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

Capital expenditure

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

Pledge of assets

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

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to safeguard its normal production and operations and maximise shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. The gearing ratio of the Group as at 31 December 2017 (calculated as interest bearing liabilities divided by the sum of total equity and interest bearing liabilities) was 13.4%, representing a decrease of 0.6% as compared to 14.0% as at 31 December 2016, which was primarily attributable to the decrease in the principal of financial leases and interest bearing borrowings from the bank by RMB128.9 million during the reporting period.

Cash and cash equivalents

As at the beginning of 2017, the Group's cash and cash equivalents were RMB5,698.4 million. In 2017, the net cash inflow from operating activities was RMB1,698.9 million, the net cash outflow from investing activities was RMB249.7 million, the net cash outflow from financing activities was RMB493.8 million, the decrease of cash and cash equivalent caused by the changes in exchange rates was RMB48.9 million, and the increase of cash and cash equivalent classified as the assets held for sale was RMB14.6 million. As at 31 December 2017, the Group's cash and cash equivalents were RMB6,590.3 million. The Group has sufficient working capital to meet the funds required for its day-to-day operation and future development.

Human resources and training

As at 31 December 2017, the Group had 5,163 employees. The aggregate of employees' wages and allowances for 2017 was approximately RMB628.2 million. The Group has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

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

Market risk

The major market risks faced by the Group are exposure to changes in the selling prices of the key products and in costs of raw materials (mainly natural gas, coal, phosphate ore, liquid ammonium and sulphur), fuels (mainly natural gas and coal) and energy.

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

The Group's revenue was primarily denominated in RMB and secondarily in US dollar. The Group's purchases of equipment and raw materials were primarily denominated in RMB and secondarily in US dollar. During the reporting period, the RMB to US dollar exchange rate ranged between 6.4997 and 6.9526. The fluctuation of RMB to US dollar exchange rate may affect the import of our equipment and raw materials, the export of our products as well as the financing activities in US dollar.

As at 31 December 2017, the balance of the Group's deposit in US dollar was US\$143.7 million.

Inflation and currency risk

According to the data of National Bureau of Statistics of China, the consumer price index of the PRC increased by 1.8% during the reporting period, and the consumer price index of the PRC did not have any significant effect on the Group's operating results for the year.

Liquidity risk

The Group monitors its risk exposure to a shortage of funds. The Group also considers on a comprehensive basis of the liquidity of financial investments and financial assets (for example, trade receivables and other financial assets) and the projected cash flows from operating activities. The Group's objective is to maintain a balance between the continuity and flexibility of funding through the use of various funding options, including but not limited to bank loans and bonds.

As at 31 December 2017, based on the carrying values shown on the financial statements, the Group had borrowings in the amount of RMB25.0 million and financial leases with a principal in the amount of RMB60.0 million that would reach maturity within one year. The Group has sufficient capital and is not exposed to liquidity risk.

Subsequent Events

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

Contingent Liabilities

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

Material litigation and arbitration

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

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

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

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

4. Sector Outlook

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

5. Our Key Tasks in 2018

1. To continue to enhance and improve HSE and refined production management, and ensure the smooth completion of the planned overhaul of each production plant on schedule;
2. To proactively co-ordinate upstream natural gas supply, and achieve the successful put-into-use of natural gas from the Dongfang 13-2 Gasfield in Hainan;
3. To continue to optimize the product structure, and increase the production and sales of NPK and value-added fertilisers;

4. To continue to intensify reformation of the marketing system, and steadily carry forward materialization of the marketing business; and
5. To further implement cost-reduction, quality-improvement and efficiency-enhancement, reduce the coal purchasing cost of CNOOC Huahe, promote the structural reformation of procurement management system, and endeavour to reduce inventory.

(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 2017 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 2017.

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 by the Company, during the reporting period ended 31 December 2017, 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 1 May 2018 to 31 May 2018 (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 30 April 2018.

Proposed Final Dividends, Proposed Special Dividends and Closure of the Register of Members

The Board has recommended the payment of final dividends of RMB0.005 (tax included) per share for the year ended 31 December 2017 and special dividends of RMB0.065 (tax included) per share to shareholders of the Company whose names appear on the register of members of the Company on the proposed record date, 12 June 2018. The proposed final dividends for 2017 and the proposed special dividends will be subject to the approval of shareholders of the Company at the 2017 annual general meeting to be held on 31 May 2008. 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 final and special dividends are expected to be paid to the shareholders of the Company on or around 30 June 2018.

The register of members of the Company will be closed from 7 June 2018 to 12 June 2018 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the proposed final and special dividends, 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 6 June 2018.

Withholding of Enterprise Income Tax and Individual Income Tax in respect of Dividends 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, dividend 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 2017, 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 2017 Annual Report will be available on the HKExnews and the Company's website in due course.

By Order of the Board
China BlueChemical Ltd.*
Xia Qinglong
Chairman

Hong Kong, the People's Republic of China, 28 March 2018

As at the date of this announcement, the executive Director is Mr. Xia Qinglong, the non-executive Directors are Mr. Meng Jun 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.