中海石油化学股份有限公司
China BlueChemical Ltd.

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

Annual Report 2019

HKSE CODE: 3983

COMPANY PROFILE

China BlueChemical Ltd. ("China BlueChem", the "Company" or "we", together with subsidiaries, the "Group", stock code: 03983) is a large-scale and modernized enterprise engaging in the development, production and sales of mineral fertilisers and chemical products. Headquartered in Beijing, China BlueChem's production facilities are located in Hainan Province, the Inner Mongolia Autonomous Region, Hubei Province and Heilongjiang Province. Its total designed annual production capacity amounts to 2,360,000 tonnes of urea, 1,000,000 tonnes of phosphate and compound fertilisers, 1,600,000 tonnes of methanol, and 60,000 tonnes of POM. On 29 September 2006, China BlueChem was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

China BlueChem is one of the largest listed companies in terms of production volume of fertilisers and methanol in China. As a subsidiary of China National Offshore Oil Corporation ("CNOOC"), the competitive advantages owned by China BlueChem laid a solid foundation for its robust development of mineral fertilisers and chemical businesses.

The production facilities in Hainan

The production facilities in Inner Mongolia

The production facilities in Hubei

The production facilities in Heilongjiang

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Financial Highlights

Selected consolidated income statement data

For the year ended 31 December, RMB'million

Financial Highlights	2015	2016	2017	2018	2019
Revenue	10,671.8	8,503.8	9,799.7	11,259.6	**10,858.4**
Cost of sales	(8,925.9)	(8,204.3)	(8,114.6)	(8,501.3)	**(8,937.1)**
Gross profit	1,745.9	299.5	1,685.1	2,758.3	**1,921.4**
Other income and other gains and losses	392.6	268.2	293.7	434.7	**253.2**
Selling and distribution costs	(409.4)	(344.5)	(385.7)	(418.5)	**(440.9)**
Administrative expenses	(408.3)	(450.1)	(453.0)	(455.6)	**(489.1)**
Other expenses	(17.0)	(15.5)	(13.5)	(161.6)	**(30.3)**
Finance income	9.8	8.0	10.7	11.2	**231.3**
Finance costs	(91.5)	(162.1)	(121.4)	(104.6)	**(103.1)**
Exchange (losses)/gains, net	(22.3)	8.5	(48.2)	13.3	**(0.6)**
Share of losses of joint ventures	(0.6)	(1.5)	(36.8)	(0.2)	**(3.1)**
Share of gains/(losses) of associates	(68.1)	(0.2)	1.5	1.2	**(3.2)**
Impairment losses	-	-	(442.6)	(0.9)	**(4.8)**
Change in fair value of financial assets at fair value through profit or loss	-	-	-	-	**48.4**
Gain recognised on expiry of the put option and call option	-	53.8	-	-	**-**
Gain on disposal of a subsidiary	-	-	-	62.9	**-**
Gain on loss of control of subsidiaries	-	6.3	0.3	-	**-**
Profit/(loss) before tax	1,131.1	(329.6)	490.1	2,140.2	**1,379.1**
Income tax (expenses)/benefits	(288.1)	92.9	(382.6)	(611.9)	**(624.1)**
Profit/(loss) for the year	843.0	(236.7)	107.5	1,528.3	**755.0**
Profit/(loss) for the year attributable to equity holders of the parent	829.7	(215.5)	50.2	1,378.9	**703.2**
Basic Earnings/(loss) per share attributable to ordinary owners of the Company (RMB)	0.18	(0.05)	0.01	0.3	**0.15**

Selected consolidated statement of financial position data

As at 31 December, RMB'million

Financial Highlights	2015	2016	2017	2018	2019
Assets					
Non-current assets	12,065.2	11,591.0	9,836.0	9,207.8	**8,534.6**
Current assets	8,146.7	8,075.7	9,413.0	10,741.4	**10,885.0**
Total assets	20,211.9	19,666.7	19,249.0	19,949.2	**19,419.6**
Equity and liabilities					
Total equity	14,881.6	14,313.9	14,247.9	15,127.6	**15,117.1**
Non-current liabilities	1,248.8	2,598.1	2,523.3	1,089.4	**666.0**
Current liabilities	4,081.5	2,754.7	2,477.8	3,732.2	**3,636.5**
Total equity and liabilities	20,211.9	19,666.7	19,249.0	19,949.2	**19,419.6**

Operational Highlights

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

		For the year ended 31 December					
		Production volume (tonnes)			Utilisation rate (%)		
		2019	2018	Change %	**2019**	2018	Change
Chemical fertilisers							
Urea	Fudao Phase I	**575,947**	468,786	22.9	**110.8**	90.2	20.6
	Fudao Phase II	**846,967**	863,562	(1.9)	**105.9**	107.9	(2.0)
	CNOOC Tianye	**496,327**	443,030	12.0	**95.4**	85.2	10.2
	CNOOC Huahe	**641,230**	594,005	8.0	**123.3**	114.2	9.1
	Group total	**2,560,472**	2,369,383	8.1	**108.5**	100.4	8.1
Phosphate fertilisers and compound fertilisers	DYK MAP	**57,461**	60,435	(4.9)	**38.3**	40.3	(2.0)
	DYK DAP Phase I (Note 1)	**259,502**	282,452	(8.1)	**74.1**	80.7	(6.6)
	DYK DAP Phase II	**551,695**	608,341	(9.3)	**110.3**	121.7	(11.4)
	Group total	**868,658**	951,228	(8.7)	**86.9**	95.1	(8.2)
Chemical products							
Methanol	Hainan Phase I	**601,796**	574,175	4.8	**100.3**	95.7	4.6
	Hainan Phase II	**814,362**	787,363	3.4	**101.8**	98.4	3.4
	CNOOC Tianye	**145,396**	161,445	(9.9)	**72.7**	80.7	(8.0)
	Group total	**1,561,554**	1,522,983	2.5	**97.6**	95.2	2.4
POM	CNOOC Tianye (Note 2)	**28,942**	10,275	181.7	**96.5**	102.8	(6.3)
	Group total	**28,942**	10,275	181.7	**96.5**	102.8	(6.3)

Note 1: In 2019, DYK DAP Phase I Plant produced 7,004 tonnes of DAP and 252,498 tonnes of compound fertilisers, respectively, amounting to 259,502 tonnes in total. In 2018, DYK DAP Phase I Plant produced 72,043 tonnes of DAP and 210,409 tonnes of compound fertilisers, respectively, amounting to 282,452 tonnes in total.

Note 2: Line C of CNOOC Tianye POM Plant has resumed since the end of June 2019. Its production volume in 2019 was calculated from the date of resume only.

Sales volume of the Group's various plants

Unit: tonne

		For the year ended 31 December 2019	For the year ended 31 December 2018	Change %
Chemical fertilisers				
Urea	Fudao Phase I	**556,064**	425,802	30.6
	Fudao Phase II	**894,728**	834,584	7.2
	CNOOC Tianye	**501,899**	464,916	8.0
	CNOOC Huahe	**648,059**	600,256	8.0
	Group total	**2,600,751**	2,325,557	11.8
Phosphate fertilisers and compound fertilisers	DYK MAP	**49,144**	56,944	(13.7)
	DYK DAP Phase I	**268,805**	263,575	2.0
	DYK DAP Phase II	**558,062**	594,153	(6.1)
	Group total	**876,011**	914,672	(4.2)
Chemical products				
Methanol	Hainan Phase I	**611,972**	558,377	9.6
	Hainan Phase II	**799,075**	751,333	6.4
	CNOOC Tianye	**118,451**	141,508	(16.3)
	Group total	**1,529,498**	1,451,218	5.4
POM	CNOOC Tianye	**28,832**	9,985	188.8
	Group total	**28,832**	9,985	188.8


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CEO's Report


Wang Weimin / CEO & President

Dear shareholders,

Looking back at 2019, China's economic growth remained resilient facing a more complex internal and external environment. The weak market sentiment for fertiliser products and the downtrend in methanol price resulted in poor profitability in the industry. In light of the severe operating environment, the Company actively strengthened production and operation management, reduced costs and increased efficiency, took full advantage of integrated marketing of products, and maintained its leading position within the industry in terms of its annual operating results.

Review of 2019

In 2019, the Company continued to strengthen production and operation management. With the long-term operation of various plants in a cycle, both urea production and sales reached a record high. By optimising product structure, production and sales of compound fertilisers also hit a new high. Affected by the sluggish fertiliser and methanol markets, the Company's revenue decreased by 3.6% as compared to 2018 to RMB10,858 million. In 2019, the Company's gross profit decreased to RMB1,921 million, and recorded net profit attributable to owners of the Company of RMB703 million. Compared with other companies in the industry, the Company still maintained its leading profitability in the industry. In view of the Company's sound financial position, the Board has proposed 2019 final dividends of RMB0.076 (tax inclusive) to reward our shareholders, representing a payout ratio of 50%.

In respect of corporate governance, the Board continued to optimise the internal control and risk control systems while focusing on the management of operational risks. The Company kept maintaining its solid financial policies, and enhancing its mechanism on securing shareholders' interests. During the year, the Board reviewed and approved an increase in the annual cap for continuing connected transactions to seek sharehoders' approval, in order to meet the Company's business needs. The Company complied with its information disclosure obligations to ensure fair, timely and accurate disclosure of information.

In respect of production management, the operational efficiency of the four plants of CNOOC Fudao was improved after being overhauled; the plant of CNOOC Tianye operated steadily after the successful implementation of the swap of gas in winter; DYK Chemical's sulfuric acid plant and CNOOC Huahe's chemical fertiliser plant broke their longest records in a cycle; and the Company resumed operation of Line C of POM Plant. As a result, the Company set a new record by producing 2.56 million tonnes of urea in 2019; and with a further adjustment in product structure, the Company's output of compound fertilisers reached 252 thousand tonnes, reaching another record high.

In respect of sales management, the Company took full advantage of integrated product coordination, and materialisation of the marketing business showed competitive edges, ensuring the balance between production and sales; prices were set accurately on a scientific basis to achieve better product prices. With great results from product structure adjustment, sales of compound fertilisers reached 252 thousand tonnes. The Company also proactively explored international markets by taking full advantage of the brand, geographical location and exporting logistics, and exported 409 thousand tonnes of urea and 18 thousand tonnes of DAP during the year.

The Company continued to step up its efforts on cost reduction and efficiency improvement. Electricity consumption of CNOOC Fudao's four plants for the production of ammonia per tonne fell by 10.9%; whereas CNOOC Huahe's unit power

DYK Chemical phosphoric acid plant

consumption of ammonia dropped by 4.3%, saving RMB46.77 million in production cost. The Company enhanced budget management, imposed strict control on resources and procurement, strived to reduce costs and expenses, and strengthened cooperation with external scientific research institutions. The Company refined its wealth management measures during the period and recorded wealth management gains of RMB310 million.

The Company has been consistently upholding the green and sustainable development philosophy over the years. It has been awarded the "Benchmark Enterprise of Leading Energy Efficiency of the Year" in the ammonia and methanol industry by the China Petroleum and Chemical Industry Federation for eight years consecutively. Fudao Phase I and II Ammonia Plants were evaluated as having achieved optimal energy efficiency among central enterprises, and were selected as the one of the best practices in the petroleum and petrochemical industry by the SASAC.

Outlook for 2020

Constant growth in global grain demand will steadily boost agricultural demand for fertilisers. China will continue to deepen reforms and its economic fundamentals are improving in the long term. The chemical fertiliser industry in China will undergo further integration as a result of market-based competition and higher environmental protection standards. Development of domestic methanol-to-olefin in China will still be the major driver of methanol demand while the POM market might remain weak going forward. COVID-19 epidemic will have certain impact on industry supply, demand and product transportation, etc.

In 2020, the Company will continue to enhance HSE and refine production management for the safe and smooth operation of all production plants. It will push ahead with cost reduction, quality improvement and efficiency enhancement measures to lower procurement costs of raw materials and stringently control expenses. The Company will actively respond to the impact and uncertainty caused by the COVID-19 epidemic. While strengthening product research and optimising product structure, the Company will centrally manage the marketing system and proceed with e-commerce platform construction. It will seize the opportunities arising from the construction of Hainan Free Trade Port and carry on with the petrochemical wharf project. The Company will intensify efforts in search for development opportunities and facilitate the progress of project research.

In 2020, the management of the Company will, under the guidance of the Board, stand by our employees to consolidate our current advantageous position in the industry, enhance operational efficiency, effectively respond to market changes, and actively explore development opportunities with the aim of generating desirable returns for shareholders.

Wang Weimin
CEO & President

Management Discussion and Analysis

Sector Review

Chemical fertiliser industry

In 2019, the PRC government initiated to stabilise the grain production by making unremitting efforts and ensure the effective supply of important agricultural products based on the domestic market. Grain rice and wheat have been considered as must-keep varieties, meanwhile, the PRC government has also stabilised the corn production. In order to make sure the basic selfsufficiency of grain and the absolute safety of grain rations, constant efforts were made to implement the policies of minimum purchase price for grain rice and wheat as well as subsidy for corn producers. According to data from the National Bureau of Statistics of China, the total grain production of the PRC for 2019 was 663,840,000 tonnes, representing an increase of 0.9% compared to 2018.

Since January 1, 2019, the export tariff of NPK compound fertiliser in China has been adjusted from RMB100 per tonne by volume to zero, and since then, the export tariff of all fertiliser products has been adjusted to zero. The PRC government has lowered the value-added tax rate for chemical fertilisers from 10% to 9% since April 1, 2019.

(I) Urea

In 2019, Domestic urea production volume was approximately 53.00 million tonnes (in kind), slightly higher than that of 2018. In 2019, there was a significant increase in the exportation of urea from China. The PRC exported approximately 4.945 million tonnes of urea, representing an increase by 102.1% compared to that of last year.

The ascending trend of the overall domestic urea market since 2017 has been interrupted in 2019. For the annual urea price, it fell all the way in fluctuation after a temporary increase in March and April. In 2019, price fell compared to the same period of 2018, except for March to May, during which the domestic sales price of urea was higher compared to the same period of 2018. The year-on-year difference of domestic urea price has gradually expanded especially after August, with the highest spread having reached RMB500 per tonne. Driven by the factors of successful bidding in India and the shutdowns of gas-based enterprises in late November, there was finally a turnaround for the domestic urea market, and the price continued to rise until early December. Later, as the up-climbing price was affected by weak transactions, urea price started to go down again. From a global aspect, the international urea price has shown an increasing trend in the first half of 2019, however, it continued to decrease during the second half, and even dropped to the lowest price since 2018.

(II) Phosphate fertilisers

In 2019, the total domestic production volume of ammonium phosphate was approximately 28.75 million tonnes (in kind), representing a year-on-year decrease of approximately 13%. The international market was hit by the newly increased capacity in North Africa and Saudi Arabia, which has intensified the competition for exportation. As a result, the export volume of the PRC has recorded a decrease, with the annual export of DAP having reached 6.50 million tonnes, representing a year-on-year decline of 12%.

In 2019, the market price of DAP in the PRC turned negative after a favourable start. In the beginning of the year, since the market commenced in a high-price and the decreased domestic inventory caused by the incremental export volume, the arrival price for winter storage of DAP has risen to RMB3,000 per tonne. In the second quarter, due to the adjustments of planting structure and low produce prices, domestic demand decreased, while downstream customers had lower acceptance for the price, which resulted in the downturn of the price for DAP. In the third quarter, higher levels of inventories have been recorded in major importing countries such as India and Pakistan, which resulted in an intensified competition in the global market and a rapid decrease in export price of DAP. The market demand in autumn did not bring a stable domestic market, given that the price of Sulphur, the key raw material, has gone down, DAP has fallen significantly. For the fourth quarter, with the export coming to an end, it marked the beginning of domestic winter storage. The contradiction between the supply and demand has been eased, and the prices became steady.

// CNOOC Huahe urea plant

Chemical industry

In 2019, the global market became more fluctuated. The downturn pressure in the global economy remained prominent, and the domestic commodity prices have decreased, which adversely affected the chemical industry.

The PRC government has lowered the value-added tax rates for various industries, such as manufacturing, from the existing 16% to 13%, effective from 1 April 2019. After the tax rate having been lowered, the ex-factory prices for industrial products, the duty-paid cost of imported goods after customs declaration and the buy-in cost for downstream enterprises have all gone down accordingly.

CNOOC Tianye methanol plant

CNOOC Tianye POM plant

(I) Methanol

In 2019, the cumulative production volume throughout the year was 58.5733 million tonnes, representing an increase of 5.1% compared to the same period last year. The annual import volume was 10.8957 million tonnes, representing an increase by 46.6% compared to the same period last year.

With new increased production capacities globally becoming available in 2019, there was oversupply in the general methanol market, and the import volume has recorded a historical high. The growth in the demand from traditional industry chains has further decreased due to tightened domestic environmentally friendly requirements, while the application of methanol-to-olefin still remained a higher growth. Under the impact of large imported volumes and high inventory levels at ports, the domestic price fluctuated in lower range with the price hub recording a significant decrease compared to that of 2018 was recorded.

In the first quarter, after a sheer price drop at the beginning of the year and a supply reduction in domestic facilities due to spring maintenance, the price rebounded at a low level, with the market price in South China ranging from RMB2,385 to RMB2,610 per tonne. In the second quarter, supplies eased and demands became under pressure, domestic prices dropped after a short rise with the market price in South China ranging from RMB2,260 to RMB2,540 per tonne. In the third quarter, the market has generally undergone adjustments to improve its tolerances against fluctuation and weakness. There were diversifications between inland markets and port markets. Driven by the demand for olefin, the inland markets were in a rather strong momentum, with the market price ranging from RMB1,980 to RMB2,310 in South China. For the fourth quarter, some of the newly established domestic and international methanol projects have put into operations. As a result, the import volume surged and the contradiction between supply and demand has been further worsen, which led to a decrease in market price, ranging from RMB1,910 to RMB2,340 in South China. Viewing from the price trend of the whole year, the price fluctuation in domestic methanol has relatively narrowed down, with the prices in South China fluctuating within RMB1,910 to RMB2,610 per tonne and the prices in Inner Mongolia fluctuating within RMB1,520 to RMB2,380 per tonne.

(II) POM

The production volume of POM in China was 250,200 tonnes for 2019, representing a year-on-year decrease of 15.2%. The imported POM amounted to 318,600 tonnes, representing a year-on-year decrease of 6.2%.

In 2019, the annual average price for POM was RMB12,496 per tonne, representing a decrease of a 19% on a year-on-year basis. The price continued on a downward trend during the first three quarters until it bounced in the fourth quarter. For the first quarter, it continued the favorable conditions since 2018, such as higher price level, limited imported sources and peak season for demands, and recorded the highest price for the year, i.e. RMB13,295 per tonne. The second quarter, however, is the off-season for the demand. There were low demands from the downstream and generally suffered from oversupply. The market price has dropped significantly to RMB12,782 per tonne on average. The situation has further deteriorated in the third quarter, with the average price dropped to the lowest point for the year, amounted to RMB11,852 per tonne. In the fourth quarter, the market has turned around from its lowest. As the downstream has gradually resumed their operations, the demand recorded an increase. The market price has rebounded slightly to RMB12,054 per tonne.

Business Review

Production management

In 2019, the Company continued to strengthen the management of production and operation. CNOOC Fudao has successfully completed its first simultaneous scheduled overhaul of four plants; 6 plants of CNOOC Fudao and CNOOC Tianye kept long-term running for over 150 days; the sulfuric acid plant of DYK Chemical and the fertiliser plant of CNOOC Huahe have marked a new record high of their longest operation cycle. At the same time, the Company has successfully restarted the production of line C in its POM plant. Benefited from stable production and non-stop operations of facility after CNOOC Tianye has successful realized the swap of gases for winter. In 2019, annual output of the Company for urea was 2.560 million tonnes, representing an increase of 191 thousand tonnes compared to that of 2018, hitting a historical high. Output of phosphate fertilisers and compound fertilisers was 869 thousand tonnes, among which the output of compound fertilisers hit a record high, reaching 252 thousand tonnes. Output of methanol was 1.562 million tonnes, representing an increase of 39 thousand tonnes compared to that of 2018. Output of POM was 29 thousand tonnes.

Compound fertilisers production

Details of production of the Group's plants in 2019 are set out as follows:

	For the year ended 31 December			
	2019		2018	
	Production *(tonnes)*	Utilisation rate *(%)*	Production *(tonnes)*	Utilisation rate *(%)*
Chemical fertilisers				
Urea				
Fudao Phase I	**575,947**	**110.8**	468,786	90.2
Fudao Phase II	**846,967**	**105.9**	863,562	107.9
CNOOC Tianye	**496,327**	**95.4**	443,030	85.2
CNOOC Huahe	**641,230**	**123.3**	594,005	114.2
Group total	**2,560,472**	**108.5**	2,369,383	100.4
Phosphate Fertilisers and Compound Fertilisers				
DYK MAP	**57,461**	**38.3**	60,435	40.3
DYK DAP Phase I (Note 1)	**259,502**	**74.1**	282,452	80.7
DYK DAP Phase II	**551,695**	**110.3**	608,341	121.7
Group total	**868,658**	**86.9**	951,228	95.1
Chemical products				
Methanol				
Hainan Phase I	**601,796**	**100.3**	574,175	95.7
Hainan Phase II	**814,362**	**101.8**	787,363	98.4
CNOOC Tianye	**145,396**	**72.7**	161,445	80.7
Group total	**1,561,554**	**97.6**	1,522,983	95.2
POM				
CNOOC Tianye (Note 2)	**28,942**	**96.5**	10,275	102.8
Group total	**28,942**	**96.5**	10,275	102.8

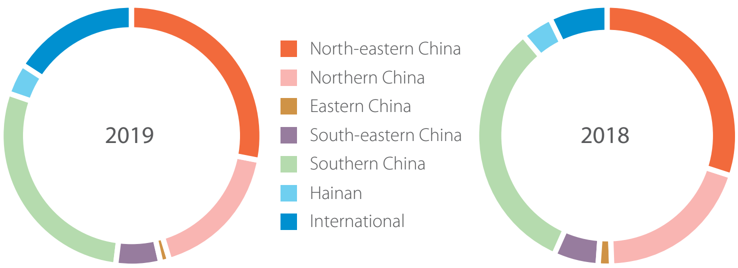
Note 1: In 2019, DYK DAP Phase I Plant produced 7,004 tonnes of DAP and 252,498 tonnes of compound fertilisers, respectively, amounting to 259,502 tonnes in total. In 2018, DYK DAP Phase I Plant produced 72,043 tonnes of DAP and 210,409 tonnes of compound fertilisers, respectively, amounting to 282,452 tonnes in total.

Note 2: Line C of CNOOC Tianye POM Plant has resumed since the end of June 2019. Its production volume in 2019 was calculated from the date of resume only.

// Urea packaging production line

Sales management

Facing the unfavorable market situation of declining prices of fertilisers and chemical products, the Company has fully exploited the overall planning strengths of its products and kept enhancing the cohesion between each other. The Company has also closely monitored the market trends and made timely adjustments to sales strategies. It has adopted a precise pricing system to achieve better selling prices. Guided by market demand, new value-added products were developed to expand the compound fertiliser market. In 2019, among the sales of our own products, the Company sold 2.601 million tonnes of urea, representing an increase of 11.8% compared to the same period last year, which hit a historical high for the same period; 1.529 million tonnes of methanol was sold, representing an increase of 5.4% compared to the same period last year; 876 thousand tonnes of phosphate fertilisers and compound fertilisers were sold, among which the sale volumes of compound fertilisers reached 252 thousand tonnes, demonstrating a record high for the same period; 29 thousand tonnes of POM was sold. The total annual export volumes of urea and DAP were 409 thousand tonnes and 18 thousand tonnes, respectively.

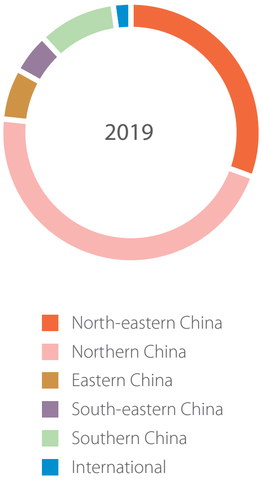


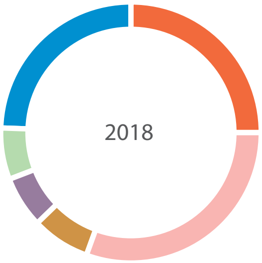
Urea

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

	For the year ended 31 December			
	2019		2018	
Sales region	**Volume** *(tonnes)*	**Percentage** *(%)*	**Volume** *(tonnes)*	**Percentage** *(%)*
North-eastern China	734,245	28.2	699,814	30.1
Northern China	449,510	17.3	455,326	19.6
Eastern China	25,607	1.0	36,253	1.6
South-eastern China	148,851	5.7	131,047	5.6
Southern China	735,451	28.3	749,087	32.2
Hainan	98,027	3.8	88,366	3.8
International	409,060	15.7	165,664	7.1
Total	2,600,751	100.0	2,325,557	100.0

CNOOC Tianye methanol tanker





Phosphate fertilisers and compound fertilisers

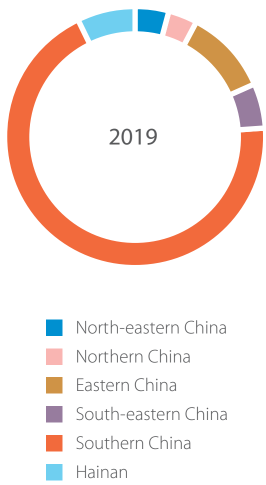
The following table sets out the Group's phosphate fertiliser and compound fertiliser sales volumes by final sales destinations of products during the preceding two financial years:

	For the year ended 31 December			
	2019		2018	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	268,533	30.7	229,023	25.0
Northern China	403,159	46.0	284,627	31.1
Eastern China	57,164	6.5	67,186	7.3
South-eastern China	44,694	5.1	55,456	6.1
Southern China	84,503	9.6	57,388	6.3
International	17,958	2.1	220,992	24.2
Total	876,011	100.0	914,672	100.0

Methanol

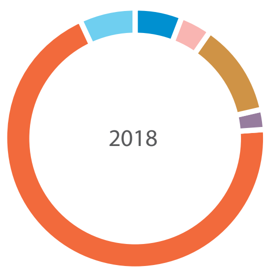
The following table sets out the Group's methanol sales volumes by final sales destinations of products during the preceding two financial years:

	For the year ended 31 December			
	2019		2018	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**67,100**	**4.4**	87,083	6.0
Northern China	**51,377**	**3.4**	54,455	3.8
Eastern China	**162,173**	**10.6**	168,704	11.6
South-eastern China	**85,093**	**5.5**	37,709	2.6
Southern China	**1,053,349**	**68.9**	1,005,432	69.3
Hainan	**110,406**	**7.2**	97,835	6.7
International	**0**	**0**	0	0
Total	**1,529,498**	**100.0**	1,451,218	100.0



BB fertilisers

In 2019, the Group produced a total of 44,530 tonnes of BB fertilisers and achieved a sales volume of 45,065 tonnes.



Sea-land logistics services

In 2019, Basuo Port in Hainan completed a volume of throughput of 11.25 million tonnes.

// Plant overhaul

Coal unloading of Basuo Port

Financial Review

// CNOOC Fudao methanol plant

Revenue

During the reporting period, the Group's revenue was RMB10,858.4 million, representing a decrease of RMB401.2 million, or 3.6%, from RMB11,259.6 million for the same period in 2018. The decrease was primarily attributable to the different levels of year-on-year decrease in the selling prices of methanol, urea and phosphate fertilisers and compound fertilisers of the Group.

During the reporting period, the Group's external revenue from urea was RMB4,424.0 million, representing an increase of RMB263.3 million, or 6.3%, from RMB4,160.7 million during the same period in 2018. The increase was primarily attributable to (1) an increase of 275,193 tonnes in the sales volume of urea, leading to an increase of RMB492.3 million in revenue; and (2) a decrease of RMB229.0 million in revenue resulted from a decrease of RMB88.1 per tonne in the selling price of urea, which partially offset the above increase.

During the reporting period, the Group's external revenue from phosphate fertilisers and compound fertilisers was RMB2,045.1 million, representing a decrease of RMB215.8 million, or 9.5%, from RMB2,260.9 million for the same period in 2018. The decrease was primarily attributable to (1) a decrease of RMB137.3 per tonne in the selling price of phosphate fertilisers and compound fertilisers, resulting in a decrease of RMB120.2 million in revenue; and (2) a total decrease of RMB95.6 million in revenue resulted from a decrease of 38,664 tonnes in the sales volume of phosphate fertilisers and compound fertilisers, which was due to a year-on-year decrease in sales volume of phosphate fertilisers notwithstanding an year-on-year increase in the sales volume of compound fertilisers.

During the reporting period, the Group's external revenue from methanol was RMB2,888.7 million, representing a decrease of RMB828.4 million, or 22.3%, from RMB3,717.1 million for the same period in 2018. The decrease was primarily attributable to (1) a decrease of RMB672.7 per tonne in the selling price of methanol, resulting in a decrease of RMB1,028.9 million in revenue; and (2) an increase of RMB200.5 million in revenue resulted from an increase of 78,280 tonnes in the sales volume of methanol, which partially offset the above decrease.

During the reporting period, the Group's external revenue from other segments (primarily comprising port operations and provision of transportation services; trading in fertilisers and chemicals, manufacture and sales of POM, BB fertilisers and liquid ammonia) increased by RMB379.7 million, or 33.9%, to RMB1,500.6 million compared to RMB1,120.9 million during the same period in 2018, which was primarily attributable to (1) that the operation of line C of POM Plant resumed this year, and line A of POM Plant only had production for half year as it commenced operation in June 2018, resulting in a year-on-year increase in revenue of RMB128.1 million; (2) that trading volume of marketing companies and Guangxi Fudao increased with the gradual improvement of marketing platform, leading to an increase in revenue of RMB265.8 million in the trading segment for the current year compared to that for last year; (3) an increase in revenue of RMB18.2 million due to the increase in the volume of transportation at Basuo Port of 1.2 million tonnes; (4) a decrease in revenue of RMB13.8 million, primarily due to a decrease in the sales volume of BB fertilisers; and (5) a decrease of 18.6 million in revenue from selling liquid ammonia, formaldehyde, carbon dioxide and woven plastic bags.

Cost of sales

During the reporting period, the Group's cost of sales was RMB8,937.1 million, representing an increase of RMB435.8 million, or 5.1%, from RMB8,501.3 million in 2018.

During the reporting period, the Group's cost of sales for urea was RMB3,421.1 million, representing an increase of RMB274.1 million, or 8.7%, from RMB3,147.0 million in 2018. The increase was primarily due to (1) decreased production and sales affected by more frequent production halts due to major and minor repairment, facility failure and insufficient supply of natural gas, resulting in an increase of RMB362.0 million in cost for the significant year-on-year increase in sales volume this year; and (2) a year-on-year decrease of RMB87.9 million in cost of sales for the year, primarily due to an increase in the fees for the major repairment on plants last year, which partially offset the above increase.

The Group's cost of sales for phosphate fertilisers and compound fertilisers during the reporting period was RMB1,837.2 million, representing a decrease of RMB163.2 million, or 8.2%, from RMB2,000.4 million in 2018. The decrease was mainly attributable to (1) a year-on-year decrease of RMB82.1 million in cost of sales resulted from a decrease in prices of raw materials for producing phosphate fertilisers and compound fertilisers, including ammonia and phosphoric acid; and (2) a decrease of RMB81.1 million in cost of sales resulted from a decrease in the sales volume of phosphate fertilisers and compound fertilisers by 38,664 tonnes.

The Group's cost of sales for methanol during the reporting period was RMB2,298.5 million, representing a decrease of RMB6.6 million, or 0.3%, from RMB2,305.1 million in 2018. The decrease was primarily attributable to (1) the significant increase in the repairment cost of Hainan Methanol Plant due to major repairment in 2018, which was saved this year, and the plant consumption, which was controlled at a normal level this year compared with the high cost consumption due to the impact of such overhauls last year, resulting in a decrease of RMB124.3 million in cost of sales; and (2) an increase of RMB117.7 million in cost of sales due to a significant increase in sales volume of methanol, which partially offset the above decrease.

The Group's cost of sales from other segments during the reporting period increased of RMB331.6 million, or 31.6%, from RMB1,048.7 million in 2018 to RMB1,380.3 million. The increase was primarily attributable to (1) the resumption of production of line C in POM Plant during the year and the fullyear operation of line A, resulting in an increase of RMB103.4 million in cost of sales; (2) an increase in cost of trading businesses of RMB273.1 million; and (3) a year-on-year decrease of RMB44.9 million in the cost of sales of

Basuo Labour Service, BB fertilisers and liquid ammonia, which partially offset the above increase.

Gross profit

The Group's gross profit during the reporting period was RMB1,921.4 million, representing a decrease of RMB836.9 million, or 30.3%, from RMB2,758.3 million in 2018. The decrease was primarily attributable to (1) a decrease of RMB821.7 million in gross profit for methanol due to the significant decrease in the selling price of methanol in 2019; (2) a decrease of RMB52.6 million in gross profit for phosphate fertilisers and compound fertilisers due to the impact of year-on-year decrease in the selling price of the fertilisers in 2019; (3) a year-on-year increase of RMB34.8 million in gross profit for Basuo Port due to the impact of increase in volume of transportation and year-on-year decrease in costs; (4) a year-on-year increase of RMB24.7 million in gross profit for POM due to increase in sales for the year and year-on-year decrease workshop expenses in early 2019; and (5) a decline of RMB22.1 million in gross profit of other business.

Other income

The Group's other income during the reporting period amounted to RMB200.6 million, representing an increase of RMB69.2 million, or 52.7%, from RMB131.4 million in 2018. The increase was primarily attributable to (1) the receipt of "Three Supplies and One Property" subsidies of RMB49.9 million in the year; (2) a year-on-year increase of RMB59.2 million in other government grants, such as grants for technology research and income from disposal of assets; and (3) a year-on-year decrease of RMB39.9 million in profit from other business, which partially offset the above increase.

Other gains and losses

The Group's other gains and losses during the reporting period was RMB52.6 million, representing a decrease of RMB250.7 million, or 82.7%, from RMB303.3 million in 2018. The decrease was primarily attributable to (1) that the major bank investment for the current period was time deposits which was different from the wealth management products of the same period last year; the interest on the wealth management products is presented under other gains and losses when it was received, while the interest on the time deposit is presented under finance income, which resulted in a year-on-year decrease of RMB274.4 million in other gains and losses; and (2) an increase in other gains and losses by RMB17.4 million due to a decrease in credit impairment losses compared to the same period last year, which partially offset the above decrease.

Selling and distribution expenses

The Group's selling and distribution expenses during the reporting period amounted to RMB440.9 million, representing an increase of RMB22.4 million, or 5.4%, from RMB418.5 million in 2018. The increase was primarily attributable to (1) a year-on-year increase of RMB20.2 million in direct selling expenses, including transportation, storage and exhibition costs, due to a general increase in sales volume for the year; and (2) a year-on-year increase of RMB2.2 million in staff costs.

Administrative expenses

The Group's administrative expenses during the reporting period amounted to RMB489.1 million, representing an increase of RMB33.5 million, or 7.4%, from RMB455.6 million in 2018. The increase was primarily attributable to (1) an increase of RMB25.0 million in staff costs; (2) an increase of RMB23.6 million in project management, technology research and consultation expenses due to increase in technology research projects this year; (3) a year-on-year decrease of RMB6.4 million in depreciation and amortisation due to the expiry of useful lives for depreciation of some of the long-term assets; and (4) a year-on-year decrease of RMB8.7 million in water, electricity and property management fees as well as taxes.

Other expenses

The Group's other expenses during the reporting period amounted to RMB30.3 million, representing a decrease of RMB131.3 million, or 81.3%, from RMB161.6 million in 2018. The decrease was primarily attributable to (1) the absence of "Three Supplies and One Property" expenses this year compared to RMB127.5 million for the same period last year; and (2) decrease of RMB3.8 million in bank handling fees and interest of bills discounting, contribution expenses and fines.

Finance income and finance costs

The Group's finance income during the reporting period increased by RMB220.1 million, or 1965.2%, to RMB231.3 million from RMB11.2 million in 2018. The increase was primarily attributable to the increase of RMB209.9 million in finance income as the Group increased the principal of its certificate of deposits by RMB5,000.0 million.

The Group's finance costs during the reporting period amounted to RMB103.1 million, representing a decrease of RMB1.5 million, or 1.4%, from RMB104.6 million in 2018. The decrease was primarily attributable to a decrease in finance costs due to the decline in the size of finance leases.

Net exchange (losses)/gains

During the reporting period, the Group recorded a net exchange loss of RMB0.6 million, whereas a net exchange gain of RMB13.3 million was recorded for 2018, representing a difference of RMB13.9 million. This was primarily attributable to an exchange loss resulting from the foreign currency transactions of the Group.

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 RMB6.3 million, representing a decrease of RMB7.3 million in the share of gains of associates and joint ventures from RMB1.0 million in 2018. The decrease was primarily attributable to (1) the recognition of a year-on-year increase of RMB3.1 million in the loss on investment in CBC (Canada) Holding Corp for the year; (2) the recognition of an increase of RMB3.4

million in the loss on investment in United Wealthfert Co., Ltd. (聯合惠農農資(北京)有限公司) for the year; and (3) the recognition of RMB1.2 million in the loss on investment in Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. (山西華鹿陽坡泉煤礦有限公司) for the year in accordance with its latest statement.

Income tax expenses

The Group's income tax expenses during the reporting period was RMB624.1 million, representing an increase of RMB12.2 million from RMB611.9 million in 2018. This was primarily attributable to (1) a corresponding decrease in income tax expenses for the current period as the Group recorded a year-on-year decrease in profit before tax for the year; and (2) that affiliate companies including CNOOC Huahe, DYK and CNOOC Tianye reversed their deferred income tax expenses provided in the prior years in accordance with the estimates on their future profits.

Net profit for the year

The Group's net profit during the reporting period was RMB755.0 million, representing a decrease of RMB773.3 million from RMB1,528.3 million in 2018.

Dividends

The board of directors of the Company (the"Board") recommended the payment of final dividends of RMB350.4 million, or dividends of RMB0.076 per share for 2019. The proposed final dividends for 2019 will be subject to the approval of the shareholders of the Company at the 2019 annual general meeting.

Capital expenditure

During the reporting period, the Group's total capital expenditure for the year amounted to RMB349.2 million, of which preliminary project research expenses accounted for RMB4.3 million, mid and downstream and related project expenses accounted for RMB5.2 million, base infrastructure projects accounted for RMB2.0 million, purchase of equipment and upgrade and improvement projects accounted for RMB309.6 million, energy saving and emission reduction projects accounted for RMB1.2 million, information technology projects accounted for RMB23.7 million, and electronic equipment purchase accounted for RMB3.2 million.

Major projects included (1) a gas turbine and upgrade and improvement project on gas exchange and denitrification for the department one of the base of Chemical Hainan, which accounted for RMB59.2 million; (2) conversion pipeline and lower gas collection pipeline replacement project for phase one of the methanol plant of Chemical Hainan, which accounted for RMB36.8 million; and (3) stripper (302C) upgrade and improvement project for phase two of the chemical fertiliser plant of Chemical Hainan, which accounted for RMB16.2 million.

Pledge of assets

During the reporting period, the Group pledged property, plant and equipment with value of RMB977.2 million as collateral to secure its interest-bearing bank borrowings.

Plant assurance department maintaining the valve

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit ranking and healthy capital structure in order to safeguard its normal production and operations and maximise shareholders' value. The Group manages its capital structure and makes timely adjustments in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. The gearing ratio of the Group as at 31 December 2019 (calculated as interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities) was 11.9%, representing a decrease of 0.4% compared to 12.3% as at 31 December 2018, which was primarily attributable to the decrease in the Company's capital by RMB10.5 million in the year and the decrease in its lease liabilities, obligations under finance leases and interest-bearing bank borrowings by RMB85.4 million.

Cash and cash equivalents

As at the beginning of 2019, the Group's cash and cash equivalents were RMB3,400.0 million. In 2019, the net cash inflow from operating activities was RMB1,142.6 million, the net cash outflow from investing activities was RMB2,689.6 million, the net cash outflow from financing activities was RMB1,030.2 million, and the increase of cash and cash equivalents caused by changes in exchange rates was RMB1.3 million. As at 31 December 2019, the Group's cash and cash equivalents were RMB824.1 million. The Group has sufficient working capital to meet the funding requirements for its day-to-day operation and future development.

Human resources and training

As at 31 December 2019, the Group had 4,745 employees. The aggregate of employees' wages and allowances for 2019 was approximately RMB719.1 million. The Group has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Group effectively provides incentive to its staff. The Group determines staff remuneration according to their positions, performance and capability.

As at 31 December 2019, the Company held 4,831 training courses, and recorded a total of 114,372 enrolments and 398,764 training hours according to its annual training plan during the reporting period. The Company also held 1,991 training courses for workplace safety with a total of 34,660 enrolments and 170,466 training hours.

Market risk

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

Commodity price risk

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

Interest rate risk

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

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 6.6850 and 7.0884. 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 2019, the balance of the Group's deposit in US dollar was US$17.41 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 2.9% 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 by using various funding options, including but not limited to bank loans and bonds.

As at 31 December 2019, based on the carrying values of borrowings as shown in the financial statements, the Group had borrowings of RMB518.0 million and financial leases with a principal in the amount of RMB1,069.0 million that would reach maturity within one year. The Group has sufficient capital and is not exposed to liquidity risk.

Subsequent events

Since the outbreak of the COVID-19 epidemic, various continuous prevention and control measures have been implemented in China, including the extension of the Chinese Lunar New Year holiday and restrictions on return to work. The production bases of the Group in China include a subsidiary located in Hubei Province. The local governmental authorities have postponed the resumption date to March 5, 2020. Although the production facilities of such subsidiary have been fully resumed since March 9, the temporary suspension of production before the resumption and shortage of production capacities have a short-term impact on the overall production level of the Group. With the cancellation of relevant epidemic prevention measures, the production and sales of the Group's base companies in China have gradually returned to normal scale.

Hainan Fudao Phase II night view

Contingent liabilities

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

Material litigation and arbitration

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

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

The Group had no acquisition and disposition during the reporting period. On 29 August 2019, 51% interests in CNOOC Hualu Shanxi Coal Chemical Co., Ltd. (中海油華鹿山西煤炭化工有限公司) and the creditors' rights of RMB61.5 million and 49% interests in Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. (山西華鹿陽坡泉煤礦有限公司) were listed for transfer on China Beijing Equity Exchange. The listing-for-sales is currently in the process. For further details, please refer to the announcement of the Company dated 28 August 2019.

Sector Outlook

Looking ahead to 2020, driven by the steady demand growth on grain, global demand on fertiliser from agriculture will increase steadily. The Chinese economy will keep growing in its pace, with the national requirements in basic stabilization in grain sown area and yield. The pressure in the supply and demand on fertilisers will further intensify the competition in the sector. The continued implementation of supply-side reform and enhanced environmental standards will also further promote the integration among the domestic fertilizer sector. The applications of ethanol-to-olefin and methanol fuel will still be the major driving forces for methanol sector, while the demand from the traditional downstream industry of methanol will remain stable. The POM market is likely to continue to be weak. COVID-19 epidemic will have certain impact on industry supply, demand and product transportation, etc.

Our Key Tasks in 2020

1. To persistently strengthen and enhance HSE and refined production management, in an effort to achieve safe and stable operation of each production unit;
2. To further implement cost-reduction, quality-improvement and efficiency enhancement, and carry on various measures to lower the purchasing cost for raw materials and strictly control on the expenses;
3. To actively respond to the impact and uncertainty of the COVID-19 epidemic;
4. To continue to optimise the product structure and devote further efforts on research and development of new products in order to boost up the production and sales proportions of NPK and value-added fertilisers;
5. To continue to thoroughly reform the marketing system and promote the construction of e-commerce platform;
6. To seize the opportunity arising from the construction of Hainan Free Trade Port and promote the development of petrochemical wharf project; and
7. To devote more efforts on the research for the Company's development opportunities and promote the research progress of projects.

Oil and gas pipeline of Hainan area two

Environmental, Social and Governance Report

Environment

The Company consistently adhere to the goal to build a green chemical company, we perform our work in environmental protection and resource conservation with utmost earnestness and pay close attention to the demands therein from interested parties of the Company. Various measures are adopted to save energy and reduce emission, and environmental protection compliance management is strengthened in order to actively establish ourselves as an environmentally friendly company. As the first batch of pilot enterprises selected by the Ministry of Industry and Information Technology, the Company have built itself as a resource-saving and environment-friendly enterprise since 2013 in general. For eight years consecutively, the Company has been awarded by China Petroleum and Chemical Industry Federation as the "Benchmark Enterprise of Leading Energy Efficiency of the Year" of the ammonia and methanol industries since its launch. Hainan Phase I plant ranked the first among enterprises of methanol production with natural gas as raw material in the petroleum and chemical industry for the year 2018; and Fudao Phase II plant ranked the third among enterprises of ammonia production with natural gas as raw material in the petroleum and chemical industry for the year 2018.

Emission and its management

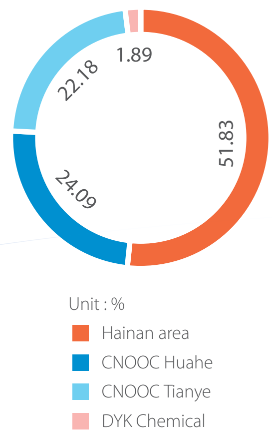
The Company produces urea, methanol and POM with natural gas and coal as raw materials, and produces ammonium phosphate (MAP and DAP) and compound fertilisers using phosphate ores, sulphur and ammonia as raw materials, which mainly give off exhaust gases such as CO_2, SO_2 and NO_X, Chemical Oxygen Demand of industrial wastewater (COD), and solid waste such as coal ashes, as well as hazardous solid waste including catalysts and radioactive materials (cobalt and cesium) arised after production. The Company strictly abides by the relevant environmental protection laws of the PRC and endeavours to ensure clean production. We are actively engaged in pollution prevention and treatment to minimise the impact on the environment. In 2019, the Company's total greenhouse gas emissions were 6,445,400 tonnes. Among these, 6,442,900 tonnes (statistical figure not verified by any third party) of CO_2 were emitted, with an emission density of 0.79 (aggregate of all products), methane and nitrous oxide emissions amounted to 2,500 tonnes in total. 1,019.39 tonnes of SO_2, 1,296.40 tonnes of NO_X and 207.03 tonnes of COD were emitted.

Management of exhaust gas and reduction of greenhouse gases

The Company strictly complies with applicable laws and regulations including Atmospheric Pollution Prevention and Control Law of the PRC, Integrated Emission Standard of Air Pollutants as well as Emission Standards of Air Pollutants for Thermal Power Plants. All our production plants fulfill the emission standards imposed by the government in respect of SO_2 and NO_X emission. In 2019, the Company completed the manufacturing of key equipment of Fudao Phase I combustion turbine renovation project to make the NO_X exhaust gas emission of auxiliary furnaces meet the newest national standards, and the dust deep treatment project of CNOOC Tianye's urea tower, which adopted dry membrane separation and low-temperature water washing techniques to remove dust and ammonia in the exhaust gas of the granulating tower.

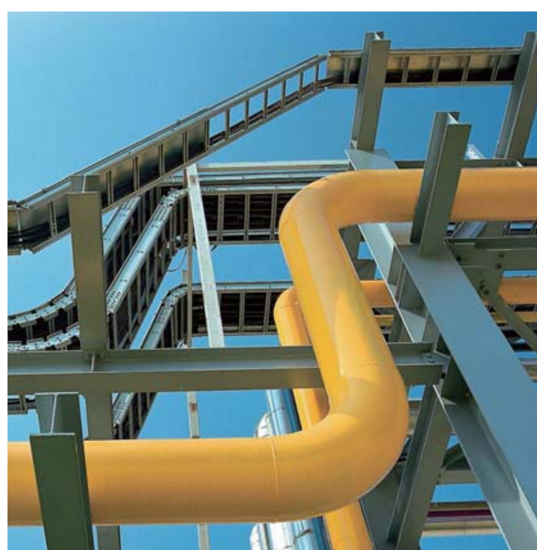
The Company pushed forward the greenhouse gas emission reduction work and actively constrcuted the emission management strategy. The company actively carried out the verification of historical carbon emissions data and completed the third party verification of carbon emissions in 2018. Listed among the second batch of enterprises admitted to carbon trading and discharge management scheme in Hubei, DYK Chemical has fulfilled the carbon emission contract for three consecutive years after completing the contract in. A volume of 22,933 tonnes was transacted during the year. In 2019, CNOOC Fudao completed the development plan of carbon dioxide recovery and utilisation project, which paved the way for the Company to distribute surplus carbon dioxide. In 2019, 222.46 tonnes of dry ice and 5,334.44 tonnes of liquid carbon dioxide were produced and sold, thereby reducing the emission of greenhouse gases. As prescribed under the Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Chemical Production Enterprises (Trial), our total carbon emission amounted to 6,442,900 tonnes (statistical figure not verified by any third party) in 2019, Among these, 3,339,500 tonnes were emitted from Hainan area, accounting for 51.83% of the total, followed by CNOOC Huahe 24.09%, CNOOC Tianye 22.18% and DYK Chemical 1.89%. Details are set out in the table below.

Percentage of carbon emission of the Company in 2019



Entity	Carbon emission amount	
	10,000 tonnes	Percentage
Hainan area	333.95	51.83%
CNOOC Huahe	155.21	24.09%
CNOOC Tianye	142.91	22.18%
DYK Chemical	12.22	1.89%
Total	644.29	100.00%

Note: Hainan area includes CNOOC Fudao, CNOOC Kingboard, CNOOC Plastic and Hainan Basuo Port



Wastewater management

In compliance with the Discharge Standard of Water Pollutants for Ammonia Industry, Emission Standard of Pollutants for Petroleum Chemistry Industry and Emission Standard of Pollutants for Petroleum Refining Industry, the Company conducts stringent treatments on its industrial and domestic sewage to ensure compliant discharge and raise the rate of reuse for wastewater, which reduced wastewater emission.

In 2019, the Company pushed ahead with the sewage renovation project to comply with discharge standards. The wastewater treatment project of CNOOC Tianye POM Plant progressed smoothly, and the civil works of POM Line A/C was completed in October. At present, anaerobic tank and aerobic tank are adding sludge to debug. In December, CNOOC Tianye started the outer drainage upgrading and reconstruction project, which has entered the public bidding stage at present. In 2019, the Company discharged an aggregate of 207.03 tonnes of COD and 7.78 tonnes of NH_3-N.

Disposal of solid waste

The Company attaches great importance to the generation and disposal of hazardous and non-hazardous wastes and complies strictly with the requirements under Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes, Standard for Pollution Control on Hazardous Waste Storage, among others. The piling and storage of tailings from phosphate ores, phosphogypsum and coal ashes were in conformity to the requirements of environmental safety of the government. In 2019, CNOOC Huahe completed the ash treatment project, in which abandoned sand pits were refilled with ashes compacted in layers, and Populus alba trees which have high survival rate and strong in soil were planted on the upper soil layer to make a green landscape. CNOOC Fudao improved its anti-seepage standards, clearly stated and labelled the materials stored in its hazardous waste temporary storage facility. The Company disposed of 40,000 tonnes of solid waste by means of resource reuse (phosphogypsum slag yard for dam building) and 1,706,000 tonnes of solid waste by piling and reclamation. Organisations with national environmental protection qualifications were engaged to handle 555,549,800 tonnes of hazardous waste in a professional manner. As such, a safe treatment rate of 100% was achieved.

Resource use

The Company is committed to conservation of energy and resource and development of circular economy. In strict compliance with the requirements under Energy Conservation Law of the PRC, various management systems have been formulated, such as Administrative Measures for Energy Conservation and Emission Reduction, Implementation Rules for Monitoring Energy Conservation and Emission Reduction and Implementation Rules for Water Conservation Control. There is designated management departments currently in place for energy saving and emission reduction, to impose quotas on energy consumption and incorporate criteria related to energy conservation and emission reduction as parts of the annual appraisal. The Company has established an energy-saving and carbon-reduction steering body to coordinate energy-saving and emission and carbon-reduction efforts, and issued the Implementation Rules for Contracted Energy Management Projects for regulated management to push ahead with energy-saving projects.

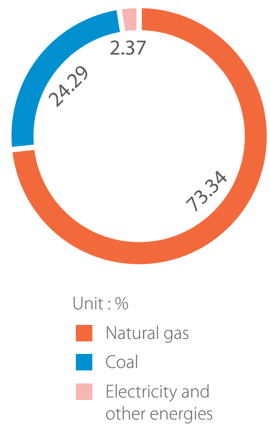
In 2019, the Company altogether consumed 60.57 million of woven bags, approximating 10,297 tonnes.

Circulating water top pressure power generation project

Energy use

The energy used by the Company mainly comprises natural gas, coal and electricity, among others. In 2019, the Company's comprehensive energy consumption increased to 4,302,963.98 tonnes of standard coal mainly due to the successful implementation of CNOOC Tianye's winter gas conversion project, in which gas supply was resumed and production capacity was increased. Among these, natural gas consumption amounted to 31,556,419,400 Nm^3, accounting for 73.34% of our total energy consumption. Coal consumption was 1,045,038.15 tonnes, representing 24.29% of our total energy consumption. Electricity and others accounted for 2.37% of our total energy consumption.

Percentage of energy consumption of the Company



Type of energy	Unit	Actual consumption	Standard coal equivalent (Tonne of standard coal)
Raw coal	Tonne	607,393.86	412,177.47
Cleaned coal	Tonne	515,195.00	454,659.59
General bituminous coal	Tonne	293,142.12	178,201.09
Natural gas	10,000Nm^3	386,129.33	3,155,641.94
Gasoline	Tonne	10.79	15.88
Diesel	Tonne	1,493.45	2,176.11
Liquefied petroleum gas	Tonne	255.31	437.68
Heat	million KJ	840,177.89	28,650.07
Electric power	kWh	57,773.92	71,004.15
Total	Tonne of standard coal		4,302,963.98

Energy conservation

The Company vigorously promotes the use of advanced energy-saving technology, equipment and so on through technological upgrades. In 2019, the Company promoted and implemented 12 energy-saving technical renovation projects, and realised a technical energy saving of 47,000 tonnes of standard coal, accounting for 1.1% of the Company's annual total energy consumption. Among these, CNOOC Fudao's general improvement and energy-saving project for recycled water saved RMB24,800,000 in electricity, and CNOOC Huahe's power generation project which made use of the residual pressure of recycled water saved more than RMB6 million annually in terms of efficiency increment. CNOOC Huahe's unit comprehensive energy consumption for ammonia products decreased by 4.3% from the same period in 2018 to 1,634kgce, which achieved both goals of making it below the 1,680kgce standard for ammonia production and the 1,650kgce standard for new ammonia plants, and saved 11,772 tonnes of standard coal and 11,036 tonnes of water for the whole year. DYK Chemical pushed ahead with product structure upgrade to increase output of compound fertilisers and explore the new process of production by ore, acid type and product. Equipment for phosphoric acid production could be operated separately to produce various grades of phosphoric acid during different time periods. The buffer of sets of equipment for phosphate and compound fertiliser production was fully used to produce different grades of phosphate and compound fertiliser products.

Company main products comprehensive energy consumption

Products	Unit product comprehensive energy consumption (tce/t)	Energy consumption quota (tce/t)
Urea	0.1671	0.1800
Methanol	1.1820	1.5600

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

Water resource conservation

The Company advocates water conservation and takes a proactive approach in adopting water-saving measures and implementing various technological upgrades. DYK Chemical achieved "zero discharge" of wastewater for complete recycling and reuse. The greywater reuse devices in CNOOC Fudao and CNOOC Huahe both function steadily and continuously play a role in water conservation. In 2019, the Company consumed 37,246.50 thousand tonnes of freshwater and conserved 76.5 thousand tonnes of water. The Company successfully obtained and utilized the water source, and caused no significant impact on the environment or the external world.

Type	Running water	Underground water	Surface water	Total
Freshwater consumption (thousand tonne)	893.28	70.90	2,760.48	3,724.65

Company main products water consumption

Products	Unit product water consumption (t/t)	Water intake quota (t/t)
Urea	2.95	3.00
Methanol	4.42	/

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

Environment and natural resources

The Company consistently applies its philosophy of "green, clean, low-carbon and circular economy" and is engaged in clean production in order to realise sustainable development for both the Company and the environment. In 2016, the Company was awarded the Protect & Sustain certification by the International Fertilizer Association (IFA) and became one of the first two fertiliser enterprises with such certification in China. In 2019, the Company continued to meet the required standards for certification renewal and was certified for the second time in August.

Environmental protection

The Company establishes and continuously improves the Health, Safety and Environment (HSE) management system and has formulated several management regulations, such as Administrative Measures for Environmental Protection, Administrative Measures for HSE in Construction Projects and Administrative Measures for HSE for Subcontractors. The Quality, Health, Safety and Environment Committee has been established, which is responsible for major decisions relating to safety and environmental concerns of the Company. The production safety department formulates the general policies for environmental protection and oversees their implementation. Each of the subsidiaries is in charge of the practical execution of environmental protection measures and is responsible for the compliance with the same.

The Company earnestly implemented Environmental Protection Law of the PRC and its ancillary requirements, strictly complying with the requirement of simultaneous design, construction and input of the environmental protection measures together with project construction. Management initiatives for potential environmental hazards were enhanced in order to control environmental risk exposures in a comprehensive manner. In 2019, the Company completed the ash treatment project of CNOOC Huahe. The windproof dust suppression net of Basuo port was completed and put it into use. This net is 960 metres long and 13 pieces of 360-degree water jets, and a C-shaped sealed cover on the coal belt conveyor to isolate and control dust production, drift, diffusion and settlement in the course of operation.

Green mines

In adherence to our principle of the "green mines", the Company acted strictly in compliance with the laws and regulations such as the Mineral Resources Law of the PRC and the Regulation on Land Reclamation. Mining was carried out in a scientific manner in pursuit for a harmonious development balancing resource exploitation and ecological protection. During the production processes in the mines, the standards for mining technology were continuously enhanced, meanwhile videos on safe operations for mine positions were produced to strengthen safety. DYK Chemical launched a project to create two green mines. Communication and consultation with the local government's natural resource management department and related authorities were made, and the first phase of work was completed in 2019.

// DYK Chemical open-pit mine

Society

Employment and labour practices

The Company strictly complied with related employment laws and regulations of the PRC. In adherence to our principle of being "people-oriented and employee-caring", pursuing a personnel policy that is scientific, reasonable and highly-efficient, we enhanced the establishment of our talent pool and incentivising mechanisms. In 2019, in accordance with our principle of "controlling total volumes, making good use of storage volume while optimising the structure to improve quality", we made great efforts in continuously perfecting and optimising our staff structure, functions adjustments, remuneration oversight, performance assessment and employee training, which provided firm guarantee in personnels required for the sustained and steadfast development of the Company.

Codes on employment and labour

In compliance with the Labour Law, Labour Contract Law, Social Insurance Law, Women's Rights and Interests Protection Law and Provisions on Prohibition of Child Labour of the PRC, the Company formulated administrative measures such as Administrative Measures on Employment, Administrative Measures on Daily Personal Affairs and Administrative Measures on Remuneration setting up a labour management system covering such aspects as employment, promotion, decruitment, working hours, wage, insurance and benefits, leaves, remuneration, equal opportunities, diversity and fair treatment.

The Company provides labour protection for its employees and makes full and timely contribution to each of the social insurance and housing fund. Female workers' rights are protected and discrimination of all kinds is strongly opposed. Forced labour and employment of child workers are strictly prohibited. The employees enjoy various kinds of leaves including annual leave, sick leave and maternity leave. Taking into account the basis of market competition and internal fairness, the Company provides employees with a sophisticated and competitive remuneration and benefit regime. Staff remunerations are determined according to their positions, performance and capabilities, taking into account the Company's results. Destitute employees are offered financial support. Physical and mental well-being of the employees are our concern as we strive to enliven their after-work life and create solidarity in the enterprise.

Health and safety

The Company regularises its occupational health management in adherence to the Law of the PRC on the Prevention and Control of Occupational Diseases. Hearing protection, respiratory protection and body protection equipment, etc., are provided for the Company's employees and the working environment is improved. Occupational health training is enhanced by formulating the annual occupational hygiene training scheme under which targeted training was provided for different categories of employees. Through the Occupational Health Management System, information from monitoring and health check-ups is filled in and reported, enhancing the management of hygiene documentation system and raising the management standards for occupational health. In 2019, no additional cases of occupational disease were reported and the rate of occupational hazard notification, the rate of testing and assessment for underlying factors relating to occupational hazard and the rate of on-job check-up performed all reached 100%.

The Company attaches great importance to production safety. Taking advantage of the "year of foundation consolidation, system optimisation, and safe production for all employees", the Company was determined to stop major accidents from happening, prevent all incidents, adhere to the "zero death" target, promote a safety culture, improve the standard of production safety, and continue with safe production. In 2019, the Company continued to carry out dual safety control with safety management by level of risk and rectification of hidden dangers, and fixed the problems found during inspection. Major hazards were regularly evaluated and closely monitored. Safety management of contractors was deepened and a guide for contractors' safety was compiled. An information system for field operation permits was built to regulate the operations on site. Safety leadership training on the safety management of chemical process was provided. Practical HAZOP training was organised, and talent for HAZOP analysis and application was selected and cultivated by means of "training-practice-retraining-repractice", HAZOP competition and subsequent exchange of ideas. In 2019, the Company held a safety and environmental protection knowledge and skills contest on the theme of "safety awareness in mind, safety skills in hand", in which the Company's entry-level employees and contractors' mastery and proficiency of national health, safety and environmental protection policies and regulations and operating procedures were assessed to enhance the safety awareness of all employees. The Company had no recorded incidents of leakage of hazardous chemicals, fire, explosion, environmental pollution or any other types of liability-incurring incidents with a direct loss of over RMB1 million during the year. The OSHA index of recordable incident rate was 0.027.

Development and training

The Company attaches great importance to employee development and training. In 2019, training was based on the theme of "training programme restructure" to further streamline and reorganise the annual training plan and key training items. Firstly, management skills training by level and category was offered to direct cadres, reserve cadres, and middle and senior-level managers of subordinate units, which achieved substantial results. Secondly, key members of the three teams participating in the three-year "six-step" training programme were replaced to continue to cultivate outstanding young cadres, high-potential professional and technical personnel, and high-potential operational technicians, establish a learning roadmap for first-tier employees, and consolidate the foundation for talent training. Thirdly, construction of the internal trainer system was improved to enhance the skills and standards of internal trainers, speed up the conversion of consulting and coaching roles of training managers, further promote the sharing and effective inheritance of corporate culture, expertise and skills, carry out training on various professional knowledge and mutual exchanges between professions, and continue to improve the professional knowledge and skills of professional teams.

The Company keeps strengthening on-the-job training by taking part in skills competitions. In 2019, we held the 16th Occupational Skills Competition. We also reached the chief chemical engineer finals in the 11th National Occupational Skills Competition of Petroleum and Chemical Industry, winning two first group prizes (6 in total), one second group prize (11 in total), one first individual prize of National Technical Expert (3 in total), and eight titles of National Technical Expert in Petroleum and Chemical Industry (25 in total).

Operation practices

Supply chain management

With Administrative Measure for Suppliers and Implementation Rules for Assessing and Evaluating Suppliers being formulated, the Company conducts centralised management on suppliers while allocating responsibilities by levels. The procurement sharing center is responsible for formulating the supplier management system and constructing a list of suppliers, while each of the subsidiaries is responsible for the practicalities relating to the referral, review and appraisal of suppliers. In 2019, 386 new suppliers were added.

A set of qualification standards has been imposed by the Company for potential suppliers in order to manage suppliers under the principle of centralised selection, focalised entry permission and regulated use. By using the procurement business information system, the Company conducts online centralised control and management on procurement dealings and suppliers' database information. Suppliers' services were tracked throughout the procurement process. Suppliers are monitored and appraised so as to enable grading and management by category and ranking.

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

Product liabilities

The Company abides by laws and regulations such as the Quality Law, Trademark Law and Anti-unfair Competition Law of the PRC and each of the national standards for various types of products. The Administrative Measures for Quality Control, Administrative Measures for Marketing of Products, etc., have been formulated by the Company, and comprehensive and stringent quality control measures in relation to product quality and safety, advertisements and promotions, trademarks, labels, privacy and remedies were implemented.

Adhering to the "people-oriented, safety-first, law-abiding, foundation-consolidating, innovation-driven, winning-in-quality" policy and leveraging its quality control system, the Company promoted QC group activities, strengthened laboratory testing management, and initiated the "Quality Month" event to further cultivate a quality culture, enhance the quality awareness of all employees, and continuously improve the Company's quality management standards. In 2019, the quality check passing rates of the Company's urea and methanol products were 100%, while the rates for such products graded as superior were 99.89% and 100%, respectively. There were no material litigation and complaint in relation to product and service quality.

Anti-corruption

Prevention and control of corruption is a major component of the Company's risk management. In rigorous compliance with, among others, the Criminal Law, Anti-Money Laundry Law of the PRC and Rules on Integrity of Executives of State-Owned Enterprises, the Company issued the Disciplinary Action Regulations for Employees' Breaches and Administrative Measures for Accountability Inquiry of Illegal Operations and Investments (Trial), required employees to act in strict conformity to the laws and requirements and ethical codes in relation to prevention of bribery, extortion, fraud and money laundering. The Company has in place a Supervisory Committee, which is responsible for overseeing the discharge of duties by Directors, president and other senior management members. A group of discipline inspectors is responsible for scrutiny of disciplinary actions and accountability works, oversight of the discipline of the Party members and leading cadres, and investigation of and dealing with cases in violation of discipline and rules, and thus, a comprehensive risk control system that promotes integrity is formed.

The Company conducts coordination for anti-corruption risk control and day-to-day production and operation, with regular focus on key projects and processes for routine monitoring in order to achieve prevention and invigilation of such incidents.

Community building

The Company accords great importance to the founding of local community ties in the place of operation and deems it obligatory to give back to the general society by active participation in charitable works, rendering service to community building, making donation and providing aids for students, thus promoting the harmonious development of both the Company and society.

As always, the Company regarded integration with and service to local economies as the requirements of corporate development in 2019. It adhered to the spirit of volunteering of CNOOC, assumed the social responsibility of a central enterprise, gave full play to the unique advantages enjoyed by a central enterprise, continuously improved the volunteering system, and launched a series of public welfare activities.

CNOOC Huahe's youth volunteer team "Future Power" actively expanded its voluntary services, continuously enriched its service contents, and organised over 100 voluntary activities, such as agrochemical services, targeted poverty alleviation, donations to schools, voluntary labour, public welfare promotion, solicitude for military police, rescue and disaster relief missions, that benefited more than 60,000 people. More than RMB400,000 worth of monetary and in-kind donations were made in aggregate.

Hainan Basuo port installed the windproof dust suppression net, at the meantime protection forests were planted to reduce the noise during operation, achieving a comprehensive dust-proof efficiency of over 85%. The measures took port environmental management to a new level by effectively addressing the needs of surrounding residents, promoting the harmonious development of the port area and the city.

On 28 October 2019, the Company participated in the poverty alleviation work after a magnitude 5.7 earthquake hit Xiahe County, Gansu Province. Immediately after the disaster, a poverty alleviation cadre of our company coordinated with relevant departments to organise an evacuation to prevent secondary disasters and ensure the safety of people. Disaster relief work was actively initiated after the situation was fully assessed to minimise the economic loss of local people. Our company will continue to pay close attention to the progress of the relief work in Xiahe County, and provide assistance within its ability to restore production and normal life as soon as possible. In the past two years, the Company invested more than RMB9.34 million in aggregate in a yak breeding project, which effectively drove the economic development of the farming villages in Xiahe County, the construction of a good breeding system, and the adjustment of industry structure, so that farmers and herdsmen could escape poverty and be better off. Meanwhile, poverty alleviation projects such as the construction of auxiliary facilities for Qu'aoxiang health centre, the poverty alleviation tourism campsite project, and the education and poverty alleviation fund were actively carried out.

In 2019, the Company has complied with the "comply or explain" provisions set out in the ESG Reporting Guide.

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

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

Corporate Governance Report

The Company continued to be committed to implementing corporate governance policy and practice with a high standard in 2019, striving incessantly for excellence in corporate governance with the goal of maintaining the healthy and sustainable growth of the Company and creating greater values for the shareholders.

Since 2006, the Company has established a well-balanced and independently-operating modern corporate governance structure comprising the general meeting, the board of directors (the "Board"), the supervisory committee of the Company (the "Supervisory Committee") and the senior management of the Company in accordance with the laws and regulations such as the Company Law of the People's Republic of China (the "Company Law"), rules and guidelines promulgated by domestic and overseas regulatory bodies, and the requirements of the provisions set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Appendix 14 thereto.

The Company was in compliance with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules, except for deviration from provision A.2.1 of the Corporate Governance Code. During the reporting period, the Company continued to pursue professional governance standards and the Board continued to enhance its decision-making efficiency. The information disclosure of the Company was compliant, timely and accurate, and no incident of enquiry, disciplinary hearing or censure by the regulatory authorities in Hong Kong had incurred. Through holding roadshows for the Company's results and participating in international investment forums, the Company maintained smooth and effective communication with the capital market and the media to preserve its positive image in the capital market. Directors and Supervisors have been timely and comprehensively provided with the production and operation information. The internal control system has been maintained and improved. Connected transactions and non-competition are in compliance with the requirements.

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

1 General Meeting

Duties of the general meeting

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

- to decide on the operating strategies, investment plans, proposals for annual financial budgets and final accounts and proposals for profit distribution and losses recovery of the Company;
- to elect and replace Directors and Supervisors who are not employee representatives and to determine the remunerations of Directors and Supervisors;
- to consider and approve the reports of the Directors and the Supervisory Committee;
- to pass resolutions on matters such as changes in registered capital, mergers, division, changes in corporate form, dissolution and liquidation of the Company;
- to pass resolutions on issue of bonds and other securities and listing of the Company;
- to pass resolutions on appointment, removal or non-reappointment of the accounting firm;

- to consider and approve major guarantees and acquisitions or disposals of major assets of the Company;
- to amend the articles of association of the Company (the "Articles");
- to consider interim proposals made by shareholders who, either individually or collectively, hold three percent or more of the voting shares of the Company;
- to consider and approve share incentive schemes;
- such matters as may be authorized or delegated by the general meeting to the Board; and
- other matters which are required by laws, administrative regulations and the Articles to be resolved by the general meeting.

Shareholders' rights

Pursuant to the provisions of the Articles, specific rights of the shareholders of the Company in the following three aspects are as follows:

Convening extraordinary general meetings

When shareholders who individually or collectively hold ten percent or more of the issued and outstanding voting shares in the Company request in writing to convene an extraordinary general meeting, the Board shall convene an extraordinary general meeting within 2 months and include the proposals put forward by the requestor in the agenda of the meeting.

Procedures for putting forward proposals at general meetings

Where a general meeting is being convened by the Company, shareholders individually or collectively holding three percent or more of the total voting shares in the Company shall be entitled to put forward and submit interim proposals in writing ten days before the date of the general meeting to the convener of the general meeting, who shall issue a supplementary notice of the general meeting within two days after receipt of the same to all other shareholders and include matters in the proposals that fall within the scope of duties of the general meeting in the meeting agenda for consideration by the general meeting.

Proposals for a general meeting shall satisfy the following conditions: (1) the contents of the proposals shall not contravene the provisions of law and regulations and shall fall within the scope of business of the Company and the duties of the general meeting; (2) the proposal shall have clear topics for discussion and specific matters to be resolved upon; and (3) the proposals shall be submitted or delivered to the Board in writing.

The said proposals and the written requests from the aforesaid requestor calling for the convening of an extraordinary general meeting may be delivered to the Board or the Company Secretary by hand, mail or courier at the following address: Unit 1707, Kaikang CNOOC Mansion, No.15, Sanqu, Anzhenxili, Chaoyang District, Beijing.

Procedures for making enquiries to the Board and information available thereon

Shareholders of the Company may obtain such relevant information as stipulated in the Articles after payment of fees at cost in accordance with the provisions of the Articles, and may raise their concerns with or make enquiries about the aforesaid information to the Board via the email address, postal address and telephone numbers posted on the Company's website.

Information on general meetings

During the reporting period, the Company held one annual general meeting, one H shareholders' class meeting, one domestic shareholders' class meeting and one extraordinary general meeting, at which 11 proposals were considered and passed, including, among others, the 2018 annual financial report, the report of the Board, the report of the Supervisory Committee, the 2018 profit distribution plan, the 2019 budget proposal, the grant of the general mandate to the Board to repurchase H Shares, and the adjustment of caps for certain continuing connected transactions for 2019 and 2020. Directors of the Company, namely Wang Weimin, Meng Jun, Lee Kit Ying, Lee Kwan Hung and Yu Changchun, attended the above general meetings with the attendance rate being all 100%, while Xia Qinglong, the then Chairman of the Company, and Guo Xinjun, a Director, were unable to attend the extraordinary general meeting due to other work commitment, and their attendance rate of general meetings during the reporting period was 75%.

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

2 Board of Directors

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

Duties of the Board

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

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

Directors and Diversity Policy

As at 31 December 2019, the Board consists of six Directors, including one executive Director, two non-executive Directors, and three independent non-executive Directors. No relationship (including financial, business, family or other significant or relevant relationship) exists among the members of the Board. The profiles of the Directors are set out on pages 41 to 42 of this annual report.

In addition to compliance with the provisions of the Company Law and the Listing Rules, the composition and structure of the Board not only provides an efficient internal check-and-balance mechanism but also caters to the needs of the Company's operation and development. The composition of the Board is diversified in many respects, including but not limited to gender, age, culture and educational background, professional experience, skills and knowledge. The Company has adopted a board diversity policy, which sets out the approach to achieve diversity on the Board. The appointment of all Directors of the Board has taken into consideration such objective conditions as qualification and experience and the requirements of the Board diversity policy. The decision is ultimately determined based on the professional edges and possible contributions to the Board of the candidates. In terms of the factors mentioned above, especially gender, professional background and skills, the Board is characterised by significant diversity.

As at 31 December 2019, the members of the Board are as follows:

Board member	Position	Date of appointment
Wang Weimin	Acting Chairman (note), Executive Director, CEO, President	31 May 2018
Meng Jun	Non-executive Director	31 May 2018
Guo Xinjun	Non-executive Director	31 May 2018
Lee Kit Ying	Independen non-executive Director	31 May 2018
Lee Kwan Hung	Independen non-executive Director	31 May 2018
Yu Changchun	Independen non-executive Director	31 May 2018

Note: Mr. Xia Qinglong ceased to be the Chairman and executive Director of the Company on 24 December 2019 due to work commitment. On the same date, the Board appointed Mr. Wang Weimin, an executive Director of the Company, to perform the duties and responsibilities of the Chairman until the effective date of the appointment of the new Chairman by the Board of the Company.

Directors appointed by the Company have entered into service contracts with the Company, and their terms of office are three years commencing on the date of their appointment at the 2017 annual general meeting held by the Company (i.e. 31 May 2018) or ending when Directors of the new session are elected at the 2020 annual general meeting of the Company. As such, no director service contract is subject to consideration and approval during the reporting period. However, if new Directors are not yet elected when the terms of office of the existing Directors expire, the existing Directors shall, in accordance with the provisions of the laws, regulations, and the Articles, continue to perform their duties as Directors prior to the election at the general meeting held by the Company in the year when their terms of office expire. Directors of the Company may be reappointed if re-elected upon the expiry of their terms of office.

The Board has three independent non-executive Directors, representing over one-third of the total members of the Board. During the reporting period, all independent non-executive Directors have submitted to the Company their annual confirmation letters in respect of their independence. The Board has assessed the independence of each independent non-executive Director and considers all independent non-executive

Directors to be independent within the meaning of the Listing Rules. One of the independent non-executive Directors fully meets the requirements of Rule 3.10 (2) of the Listing Rules, i.e., having appropriate professional qualifications or appropriate accounting or relevant financial management expertise. The number of the independent non-executive Directors, their independence and qualifications are in compliance with the provisions of the Listing Rules. The independent non-executive Directors own a fiduciary duty to the Company and its shareholders, and in particular, are entrusted with the duty to safeguard the interests of minority shareholders. They perform an important check-and-balance function in the decision-making process of the Board and play a key role in corporate governance. During the reporting period, all the independent non-executive Directors expressed their views and advice on matters concerning the interests of shareholders and the Company at the Board meetings.

Information on Board meetings

During the reporting period, the Board held five physical meetings and four interim meetings by written resolutions, based on actual working practicality. Details of attendance of Board members at the physical Board meetings for the year ended 31 December 2019 are as follows:

Board member	Number of meetings attended / held	Attendance rate (%)
Xia Qinglong (Note)	4/5	80
Wang Weimin	5/5	100
Meng Jun	3/5	60
Guo Xinjun	4/5	80
Lee Kit Ying	5/5	100
Lee Kwan Hung	5/5	100
Yu Changchun	5/5	100

Note: Mr. Xia Qinglong ceased to be the Chairman and executive Director of the Company on 24 December 2019 due to work commitment. In 2019, Mr. Xia Qinglong, the then Chairman, and independent non-executive Directors held one meeting without the presence of other Directors.

The procedures for convening these Board meetings and considering and approving proposals were in compliance with the provisions of the relevant laws and regulations and the Articles. The Directors of the Company fulfilled their fiduciary duty in a practical manner and made decisions on important matters of the Company only after prudent discussion. The Directors must declare their direct and indirect interests (if any) in relation to the issues to be discussed at Board meetings and the Directors having such interests must abstain from voting on such issues at such meetings and shall not vote on behalf of other Directors so as to protect the interests of all shareholders of the Company.

Training for Directors

In accordance with Code Provision A.6.5 of the Corporate Governance Code, all Directors should take part in continuous professional development to develop and upgrade their knowledge and skills so as to ensure continued contributions to the Board in a comprehensively informed and relevant manner.

During the reporting period, all Directors of the Company participated in a number of training sessions held in various formats. In particular, all the then Directors (namely Xia Qinglong, Wang Weimin, Meng Jun, Guo Xinjun, Lee Kit Ying, Lee Kwan Hung and Yu Changchun) attended an on-site training organized by the Company on 30 May 2019 in relation to the execution trend of the Securities and Future Commission and case analysis. The Company also circulated by mail to all Directors on 26 November 2019, six sets of learning materials in written form concerning the issuers' report on the disclosure of corporate governance practices, and the Directors completed the training by reading through such materials. From 4 to 5 December 2019, independent non-executive Directors of the Company made a field visit to Hainan base to gain further understanding of the business and planning of major production bases by way of on-site visits and investigations.

Corporate governance functions

The Board is responsible for carrying out the corporate governance functions and has fulfilled its duties and responsibilities as set out in Code Provision D.3.1 of the Corporate Governance Code. During the reporting period, the Board reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and its disclosures in the Corporate Governance Report, reviewed and inspected the training and continuous professional development of Directors and senior management, enhanced the risk management and internal controls of the Company and further enhanced the corporate governance policies and practices.

3 Committees of the Board

There are four subordinate committees under the Board, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Review Committee, the terms of reference of each of which have been defined in writing and approved by the Board, covering its duties, powers and functions. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee have been defined by reference to terms recommended by the Corporate Governance Code and published on the websites of the Hong Kong Stock Exchange and the Company respectively. Each committee has adequate resources to perform its duties and shall report and provide recommendations to the Board regularly to assist the Board in making decisions.

Audit Committee

The Audit Committee currently consists of five members, including independent non-executive Directors Ms. Lee Kit Ying, Mr. Lee Kwan Hung and Mr. Yu Changchun and non-executive Directors Mr. Meng Jun and Mr. Guo Xinjun. Among those, Ms. Lee Kit Ying is the chairperson. The qualifications of the chairperson of the Audit Committee are in compliance with the requirements under Rule 3.21 of the Listing Rules.

The primary duties of the Audit Committee are to review and supervise the completeness and preparation procedures of the consolidated financial statements of the Group, review the annual production operation and financial budget proposals and review the effectiveness of the risk control procedures and internal control procedures of the Company to ensure efficiency of business operation and achievement of the Company's corporate objectives and strategies. The Audit Committee is also responsible for the review of the independence and objectivity of the external auditors of the Company and the validity of audit procedures, the appointment, remuneration and terms of engagement of external auditors of the Company and any issues in connection with the appointment and dismissal of external auditors. The Audit Committee also examines the internal audit and supervisory work plan of the Company and submits relevant reports, opinions and recommendations to the Board.

The Audit Committee held four meetings during the reporting period and the work it performed is summarised as follows:

- Reviewed the 2018 consolidated financial statements and the 2019 interim condensed consolidated financial statements and results, focusing on the compliance with accounting standards, the Listing Rules and other regulations, and provided recommendations and advice to the Board;
- Reviewed the 2020 operating and financial budgets of the Company, and made recommendations and advice to the Board;
- Reviewed the independence of the external auditor and provided recommendations to the Board on the appointment of the external auditor, and approved the terms of engagement of the external auditor and the audit fees for 2019;
- Reviewed the statutory audit plan of the external auditor and the nature and scope of their audit; and
- Reviewed the internal audit and supervisory work reports of the Company for 2019 and approved the internal audit plan of the Company for 2020 and reviewed the effectiveness of the risk management as well as internal control systems and internal audit function of the Company.

Details of attendance of members of the Audit Committee at committee meetings during the reporting period are set out as follows:

Audit Committee member	Number of meetings attended / held	Attendance rate (%)
Lee Kit Ying (Chairperson)	4/4	100
Lee Kwan Hung	4/4	100
Yu Changchun	4/4	100
Meng Jun	3/4	75
Guo Xinjun	3/4	75

Remuneration Committee

The Remuneration Committee currently consists of three members, including independent non-executive Directors Mr. Lee Kwan Hung and Ms. Lee Kit Ying, and a non-executive Director Mr. Meng Jun. Among those, Mr. Lee Kwan Hung is the chairman. The qualifications of the chairman of the Remuneration Committee are in compliance with the requirements under Rule 3.25 of the Listing Rules.

The Remuneration Committee is primarily responsible for studying, reviewing and formulating the remuneration policies and proposals, including the standards, procedures and major regimes of performance appraisal, and major proposals and system of rewards and penalties, for Directors, Supervisors and senior management of the Company, and making recommendations thereon to the Board. The Remuneration Committee shall, with delegated responsibility from the general meeting and the Board, determine the remuneration of the executive Director, Supervisors and senior management. It is also responsible for monitoring the implementation of the Company's remuneration system. In discharging its duties, the Remuneration Committee may consult the chairman, the president and other executive Directors of the Company.

Remuneration policy

- The remuneration package policy for the executive Director is designed to peg the executive Director's remuneration and performance with the Company's corporate objectives and operating results, while taking into account market conditions, in order to provide performance incentives to and retain the executive Directors.
- The remuneration of non-executive Directors and independent non-executive Directors, which is subject to approval by the Company's general meetings, is determined mainly based on the complexity of the matters to be handled by them and their responsibilities. Pursuant to the service contracts entered into between the Company and both the non-executive Directors and the independent non-executive Directors, the expenses incurred in the performance of their duties (including attending meetings of the Company) by non-executive Directors and the independent non-executive Directors are reimbursable by the Company.

The Directors are not entitled to decide upon and approve their own remuneration. Details of the remuneration of each Director for the year ended 31 December 2019 are set out in Note 12 to the consolidated financial statements.

During the reporting period, the Remuneration Committeee did not hold any meeting.

Nomination Committee

From 1 January to 24 December 2019, the Nomination Committee consisted of three members, including the then Chairman and executive Director, Mr. Xia Qinglong, and independent non-executive Directors Mr. Lee Kwan Hung and Mr. Yu Changchun. Among those, Mr. Xia Qinglong was the chairman. The qualifications of the chairman of the Nomination Committee are in compliance with the requirements under Code Provision A.5.1 of the Corporate Governance Code.

On 24 December 2019, Mr. Xia Qinglong ceased to be the Chairman and executive Director of the Company and the member and chairman of the Nomination Committee due to work commitment. On the same date, the Board appointed Mr. Wang Weimen as a member of the Nomination Committee and assumed the duties of the chairman of the Nomination Committee until the effective date of the appointment of the new chairman of the Nomination Committee by the Board of the Company.

The Nomination Committee is primarily responsible for assessing and reviewing the structure, size and composition (including skills, knowledge and experience) of the Board, making recommendations to the Board in respect of the appointment, re-appointment and succession of Directors and senior management of the Company and relevant personnel to be appointed pursuant to the requirements of the Listing Rules. Detailed standards of adoption include the suitability of candidates in terms of appropriate professional skills, knowledge and experience, personal integrity, honesty and skills. It also assesses and reviews the independence of each independent non-executive Director.

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

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

The Nomination Committee held one physical meeting and one interim meeting by written resolutions, based on actual working practicality during the report period, at which the structure, size and composition (including the skills, knowledge and experience) of the Board and its four specialised committees, namely the Audit Committee, the Remuneration Committee, the Investment Review Committee and the Nomination Committee, were reviewed. The Board has formulated and passed the above director nomination policy and diversity policy. The appointment of all Directors of the Board has taken into consideration such objective conditions as qualification and experience and the requirements of the Board diversity policy. The decision is ultimately determined based on the professional edges and possible contributions to the Board of the candidates. In terms of the factors mentioned above, especially gender, professional background and skills, the Board is characterised by significant diversity.

Details of attendance of members of the Nomination Committee at the physical committee meetings during the reporting period are set out as follows:

Nomination Committee member	Number of meetings attended / held	Attendance rate (%)
Xia Qinglong (Chairman) (Note)	0/1	0
Lee Kwan Hung	1/1	100
Yu Changchun	1/1	100

Note1: Mr. Xia Qinglong ceased to be the chairman of the Nomination Committee on 24 December 2019 due to work commitment. The Nomination Committee held one meeting during the period between 1 January 2019 and 24 December 2019.

Investment Review Committee

The Investment Review Committee currently consists of five members, including independent non-executive Directors Mr. Yu Changchun, Ms. Lee Kit Ying and Mr. Lee Kwan Hung, and non-executive Directors Mr. Meng Jun and Mr. Guo Xinjun, among whom, Mr. Yu Changchun is the chairman.

The Investment Review Committee is primarily responsible for reviewing investment projects that are beyond the decision-making authority delegated to the senior management by the Board and making recommendations to the Board.

During the reporting period, the Investment Review Committee held two physical meetings and one interim meeting by written resolutions, based on actual working practicality, to review the investment projects of the Company, and reported the review comments to the Board.

Details of attendance of members of the Investment Review Committee at the physical committee meetings during the reporting period are set out as follows:

Investment Review Committee member	Number of meetings attended/held	Attendance rate (%)
Yu Changchun (Chairman)	2/2	100
Lee Kit Ying	2/2	100
Lee Kwan Hung	2/2	100
Meng Jun	1/2	50
Guo Xinjun	1/2	50

4 Supervisory Committee

The Supervisory Committee is accountable to thegeneral meeting and exercises the following authorities in accordance with the law:

- To review the financial matters of the Company;
- To supervise the behaviour of Directors and senior management in discharging their duties and propose to remove those who have violated the laws, administrative regulations and the Articles;
- To demand Directors, the president and other senior management personnel to rectify any improper behaviour that would be detrimental to the interests of the Company;
- To verify such financial information as financial reports, business reports and profit distribution proposals that are to be submitted by the Board to the general meeting, and to appoint certified public accountants or auditors to re-examine the same in the name of the Company in case of doubt;
- To propose the convening of extraordinary general meetings, and convene and preside over general meetings when the Board fails to fulfil its duty under the Articles to do so;
- To put forward proposals to the general meeting;
- To initiate legal actions against Directors, the president and other senior management personnel of the Company in accordance with the Company Law; and
- To exercise other authorities stipulated in the Articles.

The Supervisory Committee currently consists of three members, two of whom are external supervisors (shareholder's representative Supervisor and independent Supervisor, respectively) and one of whom is the Supervisor representing employees of the Company.

For details of the work performed by the Supervisory Committee, please refer to the Report of the Supervisory Committee on page 59 to 60 of this annual report.

5 Senior management

The senior management consists of the chief executive officer, president, chief financial officer, vice president and Board secretary (Company Secretary).

Together with other senior management personnel, the chief executive officer/president of the Company organizes and carries out operational and managerial activities of the Company in accordance with the laws and regulations the Articles and the powers delegated to him/her by the Board, and exercise the following principal duties and powers:

- To oversee the production, operation and management of the Company and to organise the implementation of the resolutions of the Board;
- To organise the implementation of the annual business plans and investment plans of the Company;
- To draw up plans for the establishment of the Company's internal management structure;
- To draw up the basic management system and formulate the basic rules and regulations of the Company;
- To propose the appointment or dismissal of the chief financial officer and the vice president of the Company and to appoint or dismiss management staff other than those required to be appointed or dismissed by the Board;
- To exercise other authorities conferred by the Articles and the Board.

The senior management of the Company implement the development strategies and business management plans formulated by the Board. They have extensive expertise and management experience in the respective fields which they are in charge of or responsible for, and form a management team which cooperate closely to ensure the day-to-day operation of the Company be carried out efficiently.

The management of the Company furnish the management accounts of the Company (including analysis of production and sales data and internal financial statements), QHSE monthly report and risk management monthly report to members of the Board and the Supervisory Committee every month and provide background and explanatory information relating to matters to be discussed by the Board so that each Director and Supervisor can fully understand the progress of material events and the latest business status of the Company. They provide such information and reports on the capital market as trends of stock price, analysis reports prepared by investment bank analysts and media news on a weekly basis so as to provide the Directors and Supervisors with an idea of developments in the capital market relating to the Company. They also circulate a daily report on stock price movements to keep the Directors and Supervisors informed of changes in the price of shares of the Company.

The Company has set up the Quality, Health, Safety and Environmental Protection Committee, the Budget Management Committee, the Investment Review Committee, the Science and Technology Committee and the Risk Management Committee. These committees fully ensure that the production and operation, decision-making process and risk management of the Company be conducted in a scientific and prudent way .

The range of remuneration of members of the senior management for the year ended 31 December 2019 is set out in Note 13 to the financial statements.

6 Securities Transactions by Directors and Supervisors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the model code for securities transactions by its Directors and Supervisors. Upon specific inquiries with the Directors and Supervisors, all Directors and Supervisors confirmed that during the accounting period covered by this annual report, they had strictly complied with the requirements of the Model Code.

The Board will examine the corporate governance and operations of the Company from time to time so as to ensure compliance with the relevant provisions of the Listing Rules and to safeguard shareholders' interests.

7 Chairman and President

From 1 January to 24 December 2019, Mr. Xia Qinglong served as the chairman of the Company and Mr. Wang Weimin served as the chief executive officer/president. The chairman is responsible for providing leadership over the effective operation of the Board, while the chief executive officer/president is responsible for the day-to-day business operation of the Group and reports to the Board on the overall operation of the Company, which is in accordance with Code Provision A.2.1 of the Corporate Governance Code providing that the roles of chairman and chief executive officer should be separated and not be held by the same individual.

On 24 December 2019, Mr. Xia Qinglong resigned as the Chairman and executive Director of the Company. On the same date, the Board appointed Mr. Wang Weimin, an executive Director of the Company, to perform the duties and responsibilities of the Chairman until the effective date of appointment of the new chairman. Given Mr. Wang's experience, personal qualifications and positions in the Company, the Board considers that in addition to serving as the President of the Company, Mr. Wang's performance of the duties of the Chairman has no adverse effect on the business prospects and operation efficiency of the Company. The Board considers that such structure would not affect the check-and-balance between the Board and the management of the Company since: (i) any decision to be made by the Board shall be subject to the approval by a majority of Directors, and the Board of the Company comprises of three independent non-executive Directors out of six Directors, which complies with the requirements of the Listing Rules. Hence, the Board has sufficient check-and-balance; (ii) Mr. Wang and other Directors acknowledge and undertake to perform the fiduciary duties of Directors, which requires them to, among others, act in the benefits and the best interests of the Company, and make decisions for the Company on such basis; (iii) the Board comprises of experienced and quality talents to ensure the check-and-balance within the Board, and these talents would meet regularly to discuss matters affecting the Company's operation; and (iv) the overall strategy as well as other major business, financial and operation policies of the Company are jointly formulated by the Board and senior management upon detailed discussion. The Company is identifying suitable candidate to fill up the vacancy of Chairman to comply with the requirements under A.2.1 of the Corporate Governance Code.

8 Company Secretary

During the reporting period, Ms. Wu Xiaoxia and Ms. Ng Sau Mei were the Joint Company Secretaries. Acting also as the chief financial officer/vice president of the Company, Ms. Wu Xiaoxia is familiar with the day-to-day affairs of the Company. All Directors are entitled to obtain the advice and services of the Company Secretaries to ensure the Board procedures and all applicable laws, rules and regulations are complied.

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

9 Communications with investors

The Board recognises the importance of good and effective communication with all shareholders. In addition to the publication of information, announcements and circulars, the Company has also set up a section titled "Investors Relations" on its website www.chinabluechem.com.cn where shareholders may access relevant information.

Pursuant to the provisions and requirements of the regulatory authorities, the Company is proactive in maintaining a good relationship with investors and making proper information disclosure, as well as maintaining continuous communication with shareholders, which includes, specifically, annual results presentation roadshows, participation in investors' forum organised by investment banks, invitation of investors/analysts to visit our sites, as well as interviews or teleconferences with investors.

10 Risk management and internal control

The Company maintains an internal audit function. In strict compliance with the relevant requirements under the Listing Rules and the Basic Standard for Enterprise Internal Controls in the PRC, the Board is responsible for evaluating and determining the nature and level of risks that the Company is willing to assume in order to achieve its strategic goals, and maintaining a robust and effective risk management and internal control system. The Board, by itself and through the Audit Committee, reviews the adequacy and effectiveness of the risk management and internal control system of the Company in order to protect the investment of the Shareholders and the Company's assets. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Board only provides reasonable and not absolute assurance against material misstatement or loss.

The Company has formulated internal control and comprehensive risk management system as well as internal systems such as comprehensive risk management method. The Company formed a three-tier risk management structure consisting of the Risk Management Committee, the risk management department and the subsidiaries. Each subsidiary identifies and reports risk issues. The risk management department analyses and identifies major risks of the Company and reports them to the management of the Company. The Risk Management Committee reviews the monthly risk management report, discusses and determines measures to cope with such major risks, and requires the subsidiaries to implement them. During the reporting period, centering on the reform of its marketing and procurement systems and mechanisms, the Company has enhanced governance by building up three lines of defense, namely the self-risk control of business department, implementation of risk evaluation by risk management department and the control advice on identified risks by internal audit department. Under the co-ordination and complimentary mechanism among risk management, internal control and audit, the three lines of defense integrate and put the functions of protection, defense and supervision into full play. By establishing a risk-oriented internal control management system, the Company prevented and resolved material risks, while continuously monitored its major risks and improves the risk management and monthly reporting mechanism. The Board and management of the Company are reported with key risks to be controlled. The internal audit department of the Company plays an important role in supporting the Board, the management and the risk management and internal control system. During the year, the Board reviewed the risk management and internal control system of the Company, including finance, operation and compliance control. The Audit Committee of the Board debriefted two reporting sessions and discussed the risk management and internal control system of the Company. The Company considers that its risk management and internal control system is adequate and operates effectively.

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

The Company has adopted the dividend policy (the "Dividend Policy") and the further information of the Dividend Policy was disclosed in the Report of Directors of this report.

The management confirms, and the Board concurs, that for the year ended 31 December 2019, (1) the risk management and internal control system of the Company was adequate and operated effectively; (2)the Company had adopted necessary inspection and control mechanisms to oversee and rectify non-compliance matters; and (3) the Company had complied with the risk management and internal control requirements as set out in the Corporate Governance Code.

11 Auditors and fees

During the reporting period, BDO Limited and BDO China Shu Lun Pan Certified Public Accountants LLP were appointed as the overseas and domestic auditors of the Company respectively. In 2019, the audit fees amounted to RMB2.97 million, which has been approved by the Audit Committee. In addition, the Company paid a year-end final accounts advisory service fee of RMB100,000.

The responsibility statement of the Company's external auditor on the consolidated financial statements is set out on pages 61 to 63 of this annual report.

12 2019 Annual review on non-competition

On 7 September 2006, the Company and CNOOC entered into a non-compete agreement, pursuant to which CNOOC (a) agreed that it will not, and will procure its subsidiaries not to, directly or indirectly, engage in businesses that compete or are likely to compete with the Company's core businesses in China or abroad; and (b) granted the Company the first transaction right, first option and pre-emptive right to acquire any competing businesses.

On 26 March 2020, the Company and CNOOC held the 2019 annual review meeting on non-competition and reviewed the investment opportunities obtained during the reporting period by CNOOC and its subsidiaries (excluding the Group) which compete or are likely to compete with the Group's core businesses.

CNOOC and its subsidiaries (excluding the Group) have made a declaration confirming that they have fully complied with such undertakings. The independent non-executive Directors of the Company have also reviewed whether CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings and are satisfied that CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings.

13 Directors' responsibilities for the financial statements

The Directors acknowledge that they have responsibilities in relation to the preparation of the Group's financial statements, and that they should assess the Company's financial position, results, cash flow and prospects for the reporting period in a lucid and comprehensive manner based on such financial statements and the timely and appropriate data provided by the management. The Board undertakes that, save as those disclosed by the Company in this annual report, there is no major uncertain event or circumstances that may significantly affect the Company's ability to continue as a going-concern.

Directors, Supervisors and Senior Management

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Executive Directors

①Mr. **Wang Weimin**, born in 1965, graduated from the department of Chemical Engineering of Hebei Institute of Technology (now known as Hebei University of Technology) in 1989 majoring in Organic Chemistry with a bachelor's degree. He obtained an MBA degree from the School of Management of Tianjin University in March 2001, an EMBA degree from China Europe International Business School in July 2001, and was later awarded the title of senior engineer (professor grade). He was a technician at Qinhuangdao SinoArab Chemical Fertilizer Corp. (秦皇島中阿化肥配套總公司) from July 1989 to January 1990 and served successively as shift leader of process workshop, section leader of finished product workshop and head of finished product workshop of Sino-Arab Chemical Fertilizers Co. Ltd. (中國–阿拉伯化肥有限公司, hereinafter referred to as 'SACF') from January 1990 to June 1994; assistant to general manager of SACF from June 1994 to December 1995; production plant manager of SACF from December 1995 to June 1998; deputy general manager of SACF from June 1998 to August 2005; leader of the on-site initiation team of the mineral-fertilizer integration project at Dayukou, Hubei from November 2002 to August 2005; general manager of Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限責任公司) from August 2005 to July 2012; assistant to the president of the Company from July 2008 to July 2012. He was appointed as a vice president of the Company from August 2012 to March 2018. He has been served as the chairman of Hubei Dayukou Chemical Co., Ltd. since November 2012. He was appointed as an executive director of China BlueChemical (Hong Kong) Ltd. (中海化學(香港)有限公司) from October 2014 to June 2018; and a director of CNOOC Kingboard Chemical Limited in January 2015. He was appointed as the Chief Executive Officer of the Company from March 2018 and executive Director of the Company from May 2018.

Non-executive Directors

②Mr. **Meng Jun**, born in 1960, graduated with a MBA degree from Open University of Hong Kong in December 2004 and an EMBA degree from Sun Yat-sen University in June 2007. He was awarded the title of senior accountant in December 2003. He worked successively as accountant, leader of the finance group, deputy section chief, section chief and chief accountant of the finance department of CNOOC Nanhai West Corporation from April 1978 to January 1997. He worked as manager of the planning and finance department of CNOOC Chemical Limited and chief accountant of CNOOC Fudao Limited from January 1997 to June 2001. He worked as chief financial officer of CNOOC Fudao Limited from June 2001 to October 2005. He worked as Chief Financial Officer of CNOOC Chemical Limited from October 2005 to April 2006. He worked as vice president, secretary to the board of directors and company secretary of China BlueChemical Ltd. from April 2006 to April 2007. He worked as deputy general manager of the financial management department of CNOOC from April 2007 to December 2011. He worked as deputy general manager of the financial and assets management department of CNOOC from December 2011 to July 2017. He has been a director of Offshore Oil Engineering Co., Ltd. (listed on the Main Board of the Shanghai Stock Exchange, stock code: 600583) since January 2014. He has served as the general manager of the financial and assets department of CNOOC between July 2017 and December 2019. Since December 2019, he has been engaging in the specific projects of CNOOC. He was appointed as a non-executive Director of the Company in October 2017. And he has been a non-executive director of China Oilfield Services Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 2883; the Main Board of the Shanghai Stock Exchange, stock code: 601808) since December 2017.

③Mr. **GuoXinjun**, born in 1964, graduated from Wuhan University with a bachelor's degree majoring in law in 1986. In 2008, he obtained a master's degree in business administration from Peking University, and subsequently qualified as a senior economist. From July 1986 to September 1989, he worked as a clerk in the Operation Division of the Supply and Sales Bureau of Ministry of Chemical Industry. From September 1989 to December 1997, he worked in China National Chemical Supply & Sales Corporation successively as chief of the General Office, deputy head of General Office, deputy head of the Inorganic Chemicals Department, and deputy head of the Administrative Department. From January 1998 to November 2003, he worked for China National Chemical Supply & Sales (Group) Corporation as head of the Administrative Department, head of General Office, head of the Auditing and Supervising Department, and assistant to general manager, successively. From November 2003 to March 2008, he was the deputy general manager of China National Chemical Supply & Sales (Group) Company. He was the deputy general manager of China Oil & Gas Development & Utilization Company from March 2008 to January 2016. Since January 2016, he was the deputy general manager of the Strategy and Planning Department of CNOOC. He was appointed as a non-executive Director of the company in May 2016.

Independent non-executive Directors

④Ms. **Lee Kit Ying**, born in 1948, obtained a bachelor's degree from City of London Polytechnic, U.K. (now known as London Metropolitan University) in 1979 majoring in accountancy and a master's degree from City University of Hong Kong in 1998 majoring in Financial Engineering. Ms. Lee is a senior fellow of the Institute of Chartered Accountants in England and Wales. She previously held a number of senior positions in Hong Kong Futures Exchange, the Hong Kong Stock Exchange and Hong Kong Exchanges and Clearing Limited. Ms. Lee has over 20 years' experience in derivative products and the operation, supervision and risk management of securities markets. Currently, Ms. Lee is the chairman of Virtus Foundation Limited. She was appointed as an independent executive Director of the Company in June 2012. Currently, Ms. Lee is also an independent non-executive director of Century Global Commodities Corporation (世紀全球商品有限公司) (listed on Toronto Stock Exchange, Canada) and an independent non-executive director of Gemilang International Limited (彭順國際有限公司) (listed on the main board of the Hong Kong Stock Exchange, stock code: 06163).

⑤Mr. **Lee Kwan Hung**, born in 1965, received his Law (LL.B (Honours)) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr. Lee was a senior manager of the Listing Division of the Hong Kong Stock Exchange between December 1992 and April 1994; a partner of Philip KH Wong, Kennedy YH Wong Co. between April 1994 and March 2000; a partner and chief representative of Beijing office in Woo Kwan Lee & Lo between April 2001 and February 2011; a consultant in Cheung & Choy solicitor & notaries between November 2011 and June 2014. Mr. Lee was appointed as an independent non-executive Director of the Company in June 2012; and is a consultant in Howse Williams Bowers from July 2014; Mr. Lee served as an independent non-executive director of Futong Technology Development Holdings Limited and Asia Cassava Resources Holdings Limited (both are companies listed on the Main Board of the Hong Kong Stock Exchange) in the past three years. Mr. Lee currently holds the positions of independent non-executive director respectively at Embry Holdings Limited, NetDragon Websoft Holdings Limited, Newton Resources Ltd., Tenfu (Cayman) Holdings Company Limited, Landsea Green Properties Co., Ltd.(now known as Landsea Green Group Co., Ltd., listed on the Main Board of the Hong Kong Stock Exchange, stock code: 106), Red Star Macalline Group Corporation Ltd., Glory Sun Financial Group Limited, FSE Service Group Holdings Limited and Ten Pao Group Holdings Limited, the shares of all of which are listed on the Hong Kong Stock Exchange.

⑥Mr. **Yu Changchun**, born in 1969, graduated with a bachelor's degree from Sichuan Normal College majoring in chemistry in 1990. He obtained a master's degree of physical chemistry from Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1993, and a doctor's degree of physical chemistry from the OSSO State Key Lab (OSSO國家重點實驗室) of Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1997 and obtained the assistant professor title afterward. From April 1997 to December 2002, Mr. Yu Changchun worked as a teacher in the Chemical Industry Institute of China University of Petroleum (Beijing). He was a visiting scholar in University of British Columbia, Canada from January 2003 to January 2004; From February 2004 to February 2012, he worked as a secretary to Academic Committee of China National Petroleum Corporation Catalyst Key Lab of China University of Petroleum (Beijing) and a teacher of the School of Chemical Engineering of China University of Petroleum (Beijing). He is a member of the Committee for Affairs of New Energy Research Center in China University of Petroleum (Beijing) and a teacher of this institute from March 2012 to December 2018. He is a teacher of College of New Energy and Materials in China University of Petroleum (Beijing) since January 2019. Mr. Yu Changchun's main research areas include conversion and utilisation of natural gas, catalytic conversion of light hydrocarbons, Fislcher-Tropsch synthesis, methanol and DME to chemicals, and

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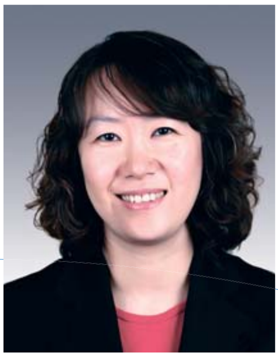

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substitute natural gas synthesis. He was appointed as an independent non-executive Director of the company in May 2016.

Supervisors

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

⑧Mr. **Li Xiaoyu**, born in 1958, graduated from Shandong University, Department of Chemistry with a bachelor's degree of science majoring in Organic Chemistry in 1981. He graduated from the Major of Polymers Materials of the Department of Polymers of Beijing Institute of Chemical Technology (now known as Beijing University of Chemical Technology, (BUCT)) with a master's degree of engineering in 1985. He graduated from the Major of Materials Science of the Department of Materials Science of BUCT with a doctoral degree (on-the-job) of engineering and title of professor in 1998. From May 1985 to June 1987, he was a teaching assistant in the Department of Applied Chemistry of BUCT; from July 1987 to June 1994, he was a lecturer in the Department of Applied Chemistry and Department of Polymers of BUCT; from July 1994 to June 1998, he was an associate professor of the Department of Polymers of BUCT; from July 1997 to June 1999, he was an deputy dean of the College of Materials Science of BUCT; since July 1998, he has been the professor and Ph. D. candidate supervisor of the College of Materials Science of BUCT; from July 1999 to January 2003, he served as the director of Science and Technology Department in BUCT. In May 2015 he was appointed as an independent Supervisor of the Company.

⑨Ms. **Liu Lijie**, born in 1970, graduated from China Finance Institute (now known as School of Banking and Finance, University of International Business and Economics) in 1993 with a bachelor's degree majoring in International Finance, and was later awarded the title of senior accountant and she is a certified public accountant in China. Ms. Liu worked with the Finance Department of China National Chemical Construction Corporation ("CNCCC") from August 1993 to February 2003. She was the head of the import and export accounting division of the Finance Department of CNCCC from March 2003 to June 2006; deputy manager of the Finance Department of CNCCC Fine Chemical Industry Co., Ltd. (中化建精細化工有限責任公司) from July 2006 to May 2007; assistant to the general manager of the Finance Department of CNCCC from June 2007 to June 2008; assistant to the general manager of the Financial Management Department of the Company from July 2008 to August 2009; the deputy general manager of the Treasury Management Department of the Company from September 2009 to August 2012; the general manager of the Audit and Supervising Department of the Company from September 2012 to December 2015; the general manager of the Audit Department of the Company since December 2015. She was elected as the Supervisor Representing the Employees at the Employee Representative Meeting of the Company held in September 2012, February 2015 and January 2018 respectively, and has been the chairman of the supervisor committee of CNOOC Tianye Chemical Limited since October 2014. Since May 2019, she has been served as the chairperson of the supervisory committee of Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限責任公司)

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Senior management

⑩Mr. **Miao Qian**, born in 1963, graduated from Fuzhou University majoring in 1983 magering in civil construction with a bachelor's degree and obtained a master's degree in management engineering from China University of Petroleum (Beijing) in 2007. He was subsequently qualified as a senior engineer. He served successively as deputy head of the engineering management division of CNOOC Nanhai West Corporation, head of the engineering management division of CNOOC Nanhai West Real Estate Company and manager of CNOOC Nanhai West Jianyuan Company from August 1983 to May 2002. He served successively as assistant to the general manager of the CNOOC Chemical Limited, manager of the methanol project cost control department as well as deputy general manager and general manager of the methanol project from May 2002 to October 2005,. He served as deputy general manager of the CNOOC Chemical Limited from October 2005 to April 2006. He served as vice president of the Company from April 2006 to September 2014. He was appointed as chairman/executive director of Hegang Huahe Coal Chemical Ltd. (was subsequently renamed as CNOOC Huahe Coal Chemical Co., Ltd.) from September 2010 to September 2014,. He served as the deputy general manager of the preparation team for the Ordos coal-based gas project from September 2014 to January 2015. He served as the deputy general manager of CNOOC Inner Mongolia Energy Investment Company Limited (中海油內蒙古能源投資有限責任公司) and CNOOC Ordos Energy Chemical Company Limited (中海油鄂爾多斯能源化工有限責任公司) from January 2015 to May 2017. He was appointed as vice president of the Company in June 2017, the chairman of the supervisor committee of CNOOC Kingboard Chemical Limited in July 2017, and the chairman of CNOOC Tianye Chemical Limited in March 2018.

⑪Mr. Yao Jun, born in 1964, graduated from the University of International Business and Economics with a master's degree in international economic law in July 1989. In August 2002, he obtained a master's degree in business administration from China Europe International Business School and the professional qualification of senior international business engineer. From July 1989 to December 1992, he worked as a clerk with the storage and transportation company of China National Chemicals Import and Export Corporation and a US start-up company. From December 1992 to January 2002, he worked for Dalian West Pacific Petrochemical Co., Ltd. in which Sinochem International Oil Company had invested, and served as a clerk in the sales department, assistant to the general manager of the petroleum sales department, deputy general manager of the petroleum sales department, deputy general manager of the crude oil department, and deputy general manager of the strategic planning department. From January 2002 to December 2003, he served as an office manager, general manager of the risk management department, and assistant to the general manager of Sinochem International Oil Company. From December 2003 to August 2008, he was the general manager of Sinochem Xingzhong Oil Staging (Zhoushan) Co., Ltd. From August 2008 to May 2011, he was the deputy general manager of Sinochem International Industry Company. From May 2011 to March 2020, he served as the deputy general manager of CNOOC Chemical Import and Export Co., Ltd. He was appointed as a vice president of the Company in March 2020.

⑫Mr. **Zhou Renlin**, born in 1962, graduated from Nanjing Maritime School (now known as Jiangsu Maritime Institute) in 1983 majoring in Ship Navigation. He graduated from Jianghan Petroleum University (now known as Yangtze University) in June 2002 majoring in Business Administration with a bachelor's degree and obtained his qualification as a chief officer. He served successively as crewman, helmsman, captain and deputy manager of Business Department of China Offshore Oil Southern Shipping Company (中海石油南方船舶公司) from September 1983 to April 2000; manager of the Marine Technology Services Company of China Offshore Oil Southern Shipping Company (南方船舶海上技術服務公司) from April 2000 to November 2001; deputy manager of the Crew Services Company of CNOOC Shipping Company Limited (中海石油船舶有限公司船員服務公司) from November 2001 to October 2002; deputy general manager of Zhanjiang Branch Company of China Oilfield Services Limited from October 2002 to September 2004; general manager of the terminal project team of CNOOC Chemical Limited from September 2004 to May 2006; general manager of Hainan Basuo Port Limited (海南八所港務有限責任公司) from May 2006 to April 2010; assistant to president of the Company from March 2007 to July 2012; and executive deputy general manager of CNOOC Fudao Limited from April 2010 to July 2012; chairman of Hainan Basuo Port Limited from May 2010 to July 2019. He was appointed as a vice president of the Company in August 2012; a director and the chief executive officer of CBC (Canada) Holding Corp in May 2013. He was appointed as the chairman of CNOOC Tianye Chemical Limited from October 2014 to March 2018.

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

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

Ms. **Ng Sau Mei**, born in 1977, graduated with a bachelor's degree from City University of Hong Kong in 2001 majoring in Laws. She obtained a master's degree in Laws from the University of London in 2017. Ms. Ng is a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. She is a deputy director of the listing services department of TMF Hong Kong Limited and is responsible for provision of corporate secretarial and compliance services to listed company clients. She currently serves as the joint company secretary for various companies listed, including China Reinsurance (Group) Corporation (listed on Main Board of the Hong Kong Stock Exchange, stock code: 1508), Metallurgical Corporation of China Ltd. (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1618) and The People's Insurance Company (Group) of China Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1339). She was appointed as Joint Company Secretary in July 2017.

Report of Directors

The Directors of the Company are pleased to present the report of Directors and the audited consolidated financial statements for the year ended 31 December 2019.

Principal activities

The Company and its subsidiaries (the "Group") and associates are principally engaged in the manufacture and sale of fertilizers (mainly urea, phosphate fertilisers and compound fertilisers) and chemical products (mainly methanol and POM).

Results

Profit of the Group for the year ended 31 December 2019 and the financial position of the Company and the Group as at that date are set out on pages 64 to 71 of the consolidated financial statements.

Business review

A review of the business of the Company and a discussion and analysis of the Company's performance during the year, an analysis using financial key performance indicators, main risks and uncertain factors faced, and the material factors underlying its results and financial position are provided in the Management Discussion and Analysis on pages 6 to 21 and Independent Auditors' Report on page 61 to 63, respectively. Particulars of the important events affecting the Company that have occurred since the end of the financial year of 2019 are set out in the Management Discussion and Analysis on pages 6 to 21 and Note 48 to the consolidated financial statements. The future development of the Company's business is discussed throughout this annual report including the CEO's Report on pages 4 to 5 and Management Discussion and Analysis on pages 6 to 21. In addition, details regarding the Company's performance on environmental and social-related key performance indicators and policies are provided in the Environmental, Social and Governance Report on pages 22 to 30; compliance with relevant laws and regulations which have significant impacts on the Company are provided in the "compliance with laws and regulations" of this Report of Directors; and an account of the Company's relationships with its employees, customers, suppliers, shareholders, etc. are disclosed, respectively, in "human resources and training" of Management Discussion and Analysis, Environmental, Social and Governance Report on pages 22 to 30, and "major customers and suppliers" and "connected transactions" of this Report of Directors. The above contents constitute an integral part of this Report of Directors.

Dividends and Relevant Policies

The Board recommended the payment of final dividends of RMB350.4 million for the year of 2019, in aggregate RMB 0.076 per share (tax inclusive). The proposed dividend for the year will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Dividends to holders of domestic shares are payable in Renminbi whereas dividends to holders of H shares are payable in Hong Kong Dollars. The value of Hong Kong Dollar shall be calculated on the basis of the mid-price of the average official exchange rate of Renminbi and Hong Kong Dollar, as quoted on the website of the People's Bank of China (the "PBOC"), for the 7 business days before the date of declaration of the dividends.

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

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

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

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

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

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

Subsidiaries

Particulars of the major subsidiaries of the Company as at 31 December 2019 are set out in Note 45 to the consolidated financial statements.

Summary of financial information

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

Property, plant and equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in Note 17 to the consolidated financial statements.

Share capital

As at 31 December 2019 the total share capital of the Company was RMB4,610,000,000 divided into 4,610,000,000 ordinary shares with a nominal value of RMB1 per share, of which 2,813,999,878 shares were domestic shares, 25,000,122 shares were unlisted foreign Shares, and the remaining 1,771,000,000 shares were H shares, accounting for approximately 61.04%, 0.54% and 38.42% respectively of the total issued share capital of the Company.

Details of the share capital structure of the Company as at 31 December 2019 are set out in Note 32 to the consolidated financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Articles and the PRC laws.

Debentures issued

No debentures were issued by the Group during the year ended 31 December 2019.

Equity-linked agreements

No equity-linked agreements were entered into by the Group during the year ended 31 December 2019.

Permitted indemnity provision

The Company has arranged appropriate liability insurance to indemnify our Directors and senior officers of the Group for their liabilities arising out of corporate activities.

Purchase, sale or redemption of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2019.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Distributable reserves

As at 31 December 2019, the reserves available for distribution of the Company was RMB9,374.1 million.

Charitable donations

During the year, the Group made charitable donations of RMB7.34 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's top five customers accounted for 14% of the total sales of the year and sales to the largest customer included therein amounted to 5% of the total sales of the year. Purchases from the Group's top five suppliers accounted for 39% of the total purchases for the year and purchases from the largest supplier accounted for 29% of the total purchases for the year.

The Group purchased raw materials from certain companies under the common control of the same ultimate holding company as the Company, details of which are set out in "Connected Transactions" below. Save as aforesaid, none of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's top five customers and top five suppliers.

Directors and Supervisors

The Directors and Supervisors of the Company as at 31 December 2019 were:

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

Note 1: Mr. Xia Qionglong ceased to be an executive Director of the Company with effect on 24 December 2019 due to other work commitments.

Pursuant to the Articles, all Directors and Supervisors are appointed for a term of three years or until the new Directors and Supervisors are elected at a general meeting of the Company to be held in the year in which the term of office expires (save for the Supervisor representing the Company's employees), and may serve consecutive terms upon re-election. However, if the Directors and Supervisors are not re-elected prior to the expiry of their term of office, the existing Directors and Supervisors shall discharge their duties and responsibilities until new Directors and Supervisors are elected at a general meeting of the Company to be held in the year in which the term of office expires in accordance with the provisions of laws, regulations and the Articles, save that the Supervisor representing the Company's employees shall be elected by the Company's employee representatives.

The Company has received the annual confirmations of their independence from each independent non-executive Director as at the date of this annual report and considered them to be independent from the Company.

Biographies of Directors, Supervisors and senior management

Biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 41 to 45 of this annual report.

Service contracts of Directors and Supervisors

At the AGM of the Company held on 31 May 2018, a new session of Directors and Supervisors (save for the Supervisor representing the Company's employees) have been elected. Each of the Directors and Supervisors elected on 31 May 2018 has entered into a service contract with the Company for a term of office of three years, or more precisely (save for the Supervisor representing the Company's employees) from 31 May 2018 until new Directors and Supervisors (save for the Supervisor representing the Company's employees) are elected at a general meeting of the Company to be held in the year in which the term of office expires, and may serve consecutive terms upon re-election.

A meeting of the employee representatives was held on 30 January 2018 by the Company at which Ms. Liu Lijie was elected as the Supervisor representing the Company's employees of the fifth session of the Supervisory Committee of the Company. She has entered into a service contract with the Company and shall hold office until a new Supervisor representing the Company's employees is elected at the meeting of the employee representatives of the Company to be held in the year in which her term of office expires.

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

Remunerations of Directors and Supervisors

Details of the remunerations of current and former Directors and Supervisors are set out in Note 12 to the consolidated financial statements.

Remuneration policy

The remunerations of the Directors are reviewed from time to time by the Remuneration Committee with reference to their professional qualifications, responsibilities, experiences, performances and the Group's operating results.

Interests of Directors and Supervisors in contracts

None of the Directors and Supervisors nor any entity connected with the Director or the Supervisor had a material interest, either directly or indirectly, in any material contract, transaction or arrangement in relation to the business of the Group to which the Company, its holding Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting at the end of 2019 or subsisted at any time during the year.

Interests and short positions of Directors, Supervisors and chief executive in shares, underlying shares and debentures

As at 31 December 2019, to the best knowledge of the Directors and chief executives of the Company, none of the Directors, Supervisors, chief executive nor their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or the associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed to have or taken into have under such provisions of the SFO), or to be entered into the register kept pursuant to Section 352 of the SFO, or to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules, except that the associate of Ms. Liu Lijie, a Supervisor of the Company, held 80,000 H shares of the Company.

Interests of substantial shareholders

As at 31 December 2019, to the best knowledge of any of the Directors and chief executive of the Company, pursuant to the register kept under Section 336 of the SFO, the interests and short positions in any shares and underlying shares of the Company of substantial shareholders and other persons (excluding Directors, Supervisors and chief executives of the Company or their respective associates) are set out as below:

Names of substantial shareholders	Capacity	Number of Shares held (shares)	Class of shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total shares in issue (%)
China National Offshore Oil Corporation (Note 1)	Beneficial owner	2,738,999,512(L)	Domestic Shares	97.33(L)	59.41(L)
Hermes Investment Management Ltd	Investment manager	229,536,000(L)	H Shares	12.96(L)	4.98(L)
Mitsubishi UFJ Financial Group, Inc. (Note 2)	Interests in controlled corporation	211,622,000(L)	H Shares	11.94(L)	4.59(L)
Citigroup Inc. (Note 3)	Approved lending agent	146,057,265(L) 522,000(S) 145,318,734(P)	H Shares	8.24(L) 0.02(S) 8.20(P)	3.17(L) 0.01(S) 3.15(P)
Hermes Investment Funds PLC	Beneficial owner	143,333,345(L)	H Shares	8.09(L)	3.11(L)
Edgbaston Investment Partners LLP	Investment manager	106,376,000(L)	H Shares	6.01(L)	2.31(L)
Invesco Asset Management Limited	Investment manager	92,894,000(L)	H Shares	5.24(L)	2.02(L)
Edgbaston Asian Equity Trust	Beneficial owner	88,582,000(L)	H Shares	5.00(L)	1.92(L)

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

(1) Mr. Meng Jun, a non-executive Director, is also engaged in special works of CNOOC. Mr. Guo Xinjun, a non-executive Director, is also the deputy general manager of the Strategy and Planning Department of CNOOC.

(2) Mitsubishi UFJ Financial Group, Inc. indirectly holds these shares through its controlled corporations, namely Mitsubishi UFJ Trust and Banking Corporation, First Sentier Investors Holdings Pty Ltd, First Sentier Investors Asia Holdings Ltd and First State Investments (Hong Kong) Ltd.

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

Save as disclosed above, to the best knowledge of any of the Directors and chief executive of the Company, as at 31 December 2019, no person (other than Directors, Supervisors and chief executive of the Company or their respective associates) had any interests and short positions in the shares and underlying shares (as the case may be) of the Company which were required to be entered into the register kept pursuant to Section 336 of the SFO.

Management contract

No contracts in respect of the management or administration of the whole or any substantial part of the business of the Company and its subsidiaries were entered into or subsisted during the year.

Connected transactions

Continuing connected transactions

Details of the continuing connected transactions of the Group which required reporting and annual review in 2019 were as follows:

Connected persons

1 CNOOC and its associates

CNOOC is the controlling shareholder of the Company and, therefore, CNOOC and its associates (other than the Group) are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules.

CNOOC Limited is a subsidiary of CNOOC. CNOOC Limited and its subsidiaries principally engage in exploration, development, production and sales of offshore oil and natural gas. CNOOC China Limited ("CNOOC China") is a wholly-owned subsidiary of CNOOC Limited. Both CNOOC Limited and CNOOC China are associates of CNOOC pursuant to Rule 14A.13 of the Listing Rules and, therefore, connected persons of the Company pursuant to Rule 14A.07(4) of the Listing Rules.

CNOOC Finance Corporation Limited ("CNOOC Finance") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 14A.13 of the Listing Rules, and also a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules.

CNOOC International Financial Leasing Limited* (中海油國際融資租賃有限公司) ("CNOOC Leasing") is a wholly-owned subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 14A.13 of the Listing Rules, and a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules.

2 Kingboard Investment Limited ("Hong Kong Kingboard") and its associates

The Company holds 60% of the equity interests in CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") while Hong Kong Kingboard, a subsidiary of the Kingboard Chemical Group, holds the remaining 40% equity interests. CNOOC Jiantao was previously a jointly-controlled entity of the Company. From 29 April 2008, the Company gained control of CNOOC Jiantao, which became a subsidiary of the Company, with Hong Kong Kingboard as its substantial shareholder. Pursuant to Rule 14A.07 of the Listing Rules, Hong Kong Kingboard and its associates (including the parent company of Hong Kong Kingboard, i.e., the Kingboard Chemical Group) are connected persons of the Company.

Continuing connected transactions

1 Properties Leasing Agreement

The Group is required to lease certain properties from CNOOC Group as well as lease certain properties to CNOOC Group in the ordinary and usual course of its business. On 3 November 2017, the Company entered into the Properties Leasing Agreement with CNOOC on normal commercial terms, pursuant to which:

(1) CNOOC Group may provide properties leasing services and relevant property management services to the Group;

(2) the Group may provide properties leasing services and relevant property management services (if needed) to CNOOC Group.

The term of the Properties Leasing Agreement commenced on 1 January 2018 and will expire on 31 December 2020, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Properties Leasing Agreement are being conducted on normal commercial terms and conditions which shall not be less favorable to the Group than those offered to third parties and priced in accordance with the following principles:

the property rent and management fees for each leased property shall be determined by both parties by taking into account factors including locations of the properties, the state of the properties and the property management service scope;

1. As to provision of properties leasing services and relevant property management services by CNOOC Group to the Group:

   (1) property rent

   a. shall not be higher than the property rent payable by other third party lessees of other properties owned by CNOOC Group or other owners (if any) in the same building; and

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

(2) property management fees

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

b. shall not be higher than the property management fees payable by other third party lessees of other properties owned by CNOOC Group or other owners (if any) in the same building; and

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

2. As to the provision of properties leasing services and relevant property management services by the Group to CNOOC Group:

(1) property rent

a. shall not be lower than the property rent payable by other third party lessees of other properties owned by the Group or other owners (if any) in the same building; and

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

(2) property management fees

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

b. shall not be lower than the property management fees payable by other third party lessees of other properties owned by the Group or other owners (if any) in the same building; and

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

The Group may, from time to time when the situation requires, enter into specific agreements which will set out the specific scope of services, terms and conditions of providing such services according to the principles laid down by the Properties Leasing Agreement.

In order to effectively implement the Properties Leasing Agreement, when determining the pricing standard, to the extent practicable, the relevant department of the Group will obtain property rent and management fees payable by other third party lessees of other properties owned by CNOOC Group and other owners (if any) in the same building, and property rent and management fees for the same or similar types of properties in the same area or adjacent areas to make sure the price and terms offered by CNOOC Group are in compliance with the above-mentioned principles as set out in the Properties Leasing Agreement.

In the year of 2019, the annual expenses paid by the Group for the properties leasing and management services from CNOOC Group were RMB25,996,000.

2 Natural Gas Sale and Purchase Agreements

(1) During the year, the Group continued to purchase natural gas pursuant to the four long-term agreements (collectively known as the "Natural Gas Sale and Purchase Agreements") entered into with CNOOC China, a wholly-owned subsidiary of CNOOC Limited:

(i) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between the Company and CNOOC China Limited dated 28 July 2003, under which CNOOC China Limited has committed to supply natural gas to the Company for Fudao Phase II Urea Plant at prices that are subject to adjustments on a quarterly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding quarter. The natural gas delivery period under this agreement is 20 years, commencing on 1 October 2003 and will expire on 30 September 2023;

(ii) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between CNOOC Jiantao and CNOOC China Limited dated 10 March 2005, under which CNOOC China Limited has committed to supply natural gas to CNOOC Jiantao for Hainan Phase I Methanol Plant at prices that are subject to adjustments on a monthly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding month. The natural gas delivery period under this agreement is 20 years, commencing on 16 October 2006 and will expire on 15 October 2026.

(iii) Natural Gas Sale and Purchase Framework Agreement between the Company and CNOOC China Limited on 1 September 2006, under which CNOOC China Limited has committed to supply natural gas for the Company's future plants. This agreement does not include the transactions conducted under the two preexisting agreements mentioned above. Under this framework agreement, CNOOC China Limited will sell natural gas to the Company and/or the Company's subsidiaries at a price which is determined on a fair and reasonable basis (including by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire) and in accordance with normal commercial customs. The term of the agreement is of 20 years commencing on the date of the agreement. CNOOC China Limited and the Company or the Company's relevant subsidiaries will enter into separate agreements which will set out the specific terms and conditions for natural gas sales and purchases according to the principles laid down by this framework agreement.

On 26 March 2010, the Company and CNOOC China Limited entered into the Ledong Natural Gasfield Natural Gas Sale and Purchase Agreement under the Natural Gas Sale and Purchase Framework Agreement dated 1 September 2006 pursuant to which CNOOC China Limited has agreed to supply natural gas to the Company for Hainan Phase II Methanol Plant at prices of natural gas that are subject to adjustments on a quarterly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding quarter. The natural gas delivery period under this agreement is 15 years, commencing on 1 January 2011 and will expire on 31 December 2025.

(iv) Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement among the Company, CNOOC Fudao and CNOOC China Limited dated 28 October 2014 pursuant to which CNOOC China Limited has agreed to supply to the Group with natural gas as feedstock required mainly for Fudao Phase I Urea Plant. The natural gas delivery period under this framework agreement is nine years, commencing on 1 August 2015.

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

The four types of crude oil referred to in Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement, Natural Gas Sale and Purchase Framework Agreement and Ledong Natural Gasfields Natural Gas Sale and Purchase Agreement entered into between the Company and CNOOC China Limited and Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement entered into between CNOOC China Limited and CNOOC Jiantao are: West Texas Intermediate Crude Oil (西德克薩斯中質原油), Tapis Crude Oil (塔皮斯原油), Brent Crude Oil (混合布倫特原油) and Minas Crude Oil (米納斯原油).

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

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

In 2019, the aggregate costs of the Group on purchases of natural gas from CNOOC China Limited amounted to RMB2,446,715,000.

3 Comprehensive Services and Product Sales Agreement

On 3 November 2017, the Company entered into the Comprehensive Services and Product Sales Agreement ("Comprehensive Services and Product Sales Agreement") with CNOOC, which was approved by the Shareholders at the extraordinary general meeting held on 28 December 2017, pursuant to which:

(a) the Group has agreed to provide services and supplies to CNOOC Group, including but not limited to provision of offices and facilities, labour services, technical training services, project management services, logistics management services, accommodation/ catering services, port management, logistics assistance, transportation services, material supplies for utility system, etc., dependent upon service locations and the types of facilities established;

(b) CNOOC Group has agreed to provide services and supplies to the Group, including but not limited to engineering services, telecommunication and network services, construction services, management system/technology development services, equipment leasing, equipment maintenance, project management services, labour services, materials/ equipment procurement services, transportation services, technical training services, catering, accommodation, medical, insurance services, conference services, consultancy services, logistics management services, etc., dependent upon service locations and the facilities established; and

(c) the Group has agreed to sell products (urea, phosphate fertiliser, methanol, potash, Polyoxymethylene, ammonia, etc.) to CNOOC Group and CNOOC Group has agreed to sell products (potash, medicament, etc.) to the Group.

The term of the Comprehensive Services and Product Sales Agreement commenced on 1 January 2018 and will expire on 31 December 2020, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

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

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

   Before entering into specific service or supply provision agreements with CNOOC Group, the designated department of the Group will evaluate and assess the scope of the relevant services or supplies requested and prepare a fee proposal based on detailed cost calculation referencing to cost of materials, products and labors, technical difficulties and expertise involved, as well as fee quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available) collected from regional data available in the market and market data gathered by the Group's marketing team during on-site visits, which will be submitted to the senior management for approval. The senior management of the Company will determine the price of the Group's services or supplies based on the market information collected by the Group's marketing team with reference to the then marketing strategy of the Company, so as to ensure that the fees for the services or supplies that the Group will be charging CNOOC Group are competitive and comparable to those being offered to independent third party customers of the Group.

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

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

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

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

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

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

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

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

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services, supplies and products, and the terms and conditions of providing such services, supplies and products according to the principles laid down by the Comprehensive Services and Product Sales Agreement.

The annual costs of services, supplies and products obtained by the Group from CNOOC Group in 2019 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB430,613,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB504,550,000.

4 Financial Services Agreement

The Group utilizes from time to time financial services provided by CNOOC Finance and, therefore, entered into a financial services framework agreement (the "Financial Services Agreement") with CNOOC Finance on 3 November 2017, pursuant to which CNOOC Finance will provide to the Group a range of financial services that the Group may require, including the following:

(1) provision of financing services to the Group, including but not limited to loans;

(2) deposit services;

(3) bank notes acceptance and discounting services;

(4) arrangement of entrustment loans between the Company and its subsidiaries or among its subsidiaries;

(5) transfer and settlement services, including transfer and settlement for transactions between the Company and its subsidiaries and for transactions between the Group and CNOOC Group; and

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

The term of the Financial Services Agreement commenced on 1 January 2018 and will expire on 31 December 2020 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Financial Services Agreement will be conducted on normal commercial terms and conditions and will be priced in accordance with the following principles:

(1) provision of loans to the Group: the interest rates for such loans are determined in accordance with the loan benchmark interest rates promulgated by the PBOC from time to time, and with appropriate discount to the comparable loan interest rate provided by major financing banks of the Company;

(2) deposit services: the interest rates for such deposits are determined in accordance with the deposit benchmark interest rates promulgated by the PBOC from time to time, and with appropriate adding to the comparable deposit interest rate provided by major deposit banks of the Company;

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

(4) arrangement of entrustment loans: the annual service fees are to be calculated based on the outstanding principal of the loans, and the aggregate amount of service fees and loan interest together shall not exceed the interest for securing a loan of the same term directly from independent third party financial institutions by the Group; and if there are standard rates promulgated by the PBOC or other competent regulatory authorities, the service fees shall be determined with reference to the standard rates promulgated by the PBOC or other competent regulatory authorities and with appropriate discount to the comparable entrustment loan service fees provided by major financing banks of the Company;

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

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

Pursuant to the Financial Service Agreement entered into between the Company and CNOOC Finance, the Company shall be entitled to have a unilateral right of set-off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group, the Group will be able to offset the amount due to the Group from CNOOC Finance against the amount outstanding from the Group to CNOOC Finance, and CNOOC Finance shall not be entitled to have any such offset right in this circumstance. In 2019, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB399,857,000.

5 Finance Lease Agreement

On 3 November 2017, the Company entered into a finance lease agreement (the "Finance Lease Agreement") with CNOOC Leasing, which was approved by the Shareholders at the extraordinary general meeting held on 28 December 2017, pursuant to which:

(a) CNOOC Leasing agrees to provide finance lease services to the Group when the Group so requires, by means including but not limited to (1) the Group selling its production facility/equipment to CNOOC Leasing, leasing them back from CNOOC Leasing for its own use and repurchasing them at the end of the lease period; or (2) CNOOC Leasing purchasing production facility/equipment in accordance with the Group's choice of the suppliers and the facility/equipment, leasing them to the Group for its use and selling them to the Group at the end of the lease period; and

(b) the Group agrees to pay lease rent (principal plus lease interest) and commission fees to CNOOC Leasing for provision of the finance lease service.

The term of the Finance Lease Agreement commenced on 1 January 2018 and will expire on 31 December 2020, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions contemplated under the Finance Lease Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those provided to independent third parties by CNOOC Leasing, and the principal amount, the lease interest rate and commission fees shall be determined in accordance with the following principles:

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

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

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

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific terms and conditions of obtaining such finance lease services according to the principles laid down by the Finance Lease Agreement.

In 2019, the annual costs, being the maximum principal amount outstanding plus lease interest and commission fees accrued, paid by the Group for the finance lease services provided by CNOOC Leasing under the Finance Lease Agreement amounted to RMB1,140,235,000.

6 Kingboard Product Sales and Services Agreement

The Company entered into a framework agreement for product sales and services (the "Kingboard Product Sales and Services Agreement") with Hong Kong Kingboard on 3 November 2017, pursuant to which the Company agreed to sell products produced by the Group, including but not limited to methanol; and to provide related services such as transportation services to Hong Kong Kingboard and its associates, including but not limited to short-distance transportation, train loading, ship loading, sea transportation, railway transportation, purchase/arrangement of cargo transportation insurance.

The term of Kingboard Product Sales and Services Agreement commenced on 1 January 2018 and will expire on 31 December 2020 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Kingboard Product Sales and Services Agreement will be conducted on normal commercial terms and conditions which shall not be less favorable than those offered to independent third parties by the Group and priced in accordance with the following principles:

(i) not lower than the prices charged by the Group to comparable independent third parties for sales or provision of the same type of products or services; or

(ii) with reference to the prices for the same type of products or services sold or provided in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third parties; or

(iii) with reference to the prices for the same type of products or services sold or provided in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third parties.

Nevertheless, when relevant government authorities publish a government-prescribed price in relation to the transactions contemplated under Kingboard Product Sales and Services Agreement during the term of the Kingboard Product Sales and Services Agreement, the relevant prices shall be adjusted with reference to government-prescribed price accordingly.

Hong Kong Kingboard (and/or its associates) and the Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific products and scope of services, terms and conditions of selling products or providing services according to the principles laid down by the Kingboard Product Sales and Services Agreement.

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

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

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

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

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

   In 2019, the aggregate revenue of the Group from Hong Kong Kingboard and its associates for sales of products and provision of related services amounted to RMB267,770,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2019 are set out below:

	Annual cap amount for 2019 (RMB'000)	Actual transaction amounts for 2019 (RMB'000)
A. Continuing connected transactions with CNOOC and its associates		
(1) Leasing of properties by the Group from CNOOC Group under the Properties Leasing Agreement	27,969	25,996
(2) Purchases of natural gas by the Group from CNOOC China Limited under the Natural Gas Sale and Purchase Agreements	2,945,741	2,446,715
(3) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by CNOOC Group to the Group (Note 1)	498,525	430,613
(b) Provision of services, supplies and sales of products by the Group to CNOOC Group	1,624,386	504,550
(4) Financial Services Agreement		
(a) Deposits placed in CNOOC Finance by the Group (Note 2)	400,000	399,857
(5) Provision of finance lease services by CNOOC to the Group under the Finance Lease Agreement	1,579,000	1,140,235
B. Continuing connected transactions with Hong Kong Kingboard and its associates		
Sales of products and provision of services by the Group to Hong Kong Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	464,244	267,770

Note 1: The Company convened an extraordinary general meeting on 20 December 2019, in order to consider and approve the Proposed Revised Annual Caps for the provision of services and supplies and sale of products by CNOOC Group to the Group under the Comprehensive Services and Product Sales Agreement for the two financial years commencing on 1 January 2019 and ending on 31 December 2020. The annual cap for 2019 has been revised from RMB383,469,000 to RMB498,525,000.

Note 2: The actual and annual cap amounts refer to the Company's maximum daily balance during the year.

Independent non-executive Directors have reviewed the above continuing connected transactions and confirmed as follows:

1. the above transactions were conducted in the ordinary and usual course of business of the Group with connected persons or their respective associates (if applicable);

2. the above transactions were conducted on normal commercial terms or terms which (if no comparable terms are available) were no less favourable than those offered to or by independent third parties; and

3. the above transactions were conducted in accordance with the relevant agreements governing the transactions and all terms were fair and reasonable to the independent shareholders and in the interests of the shareholders of the Company as a whole.

The Company's Auditors have reviewed the above connected transactions and confirmed to the Company in writing that:

1. the above transactions have been approved by the Board;

2. where the above transactions were related to products and services provided by the Company, they were conducted in accordance with the Company's pricing policy;

3. the above transactions were conducted in accordance with the terms of relevant agreements governing such transactions; and

4. the above transactions (if applicable) did not exceed the relevant annual caps as disclosed in previous announcements.

The Directors confirm that the Company has complied with the requirements set out under Chapter 14A of the Listing Rules for the abovementioned connected transactions. Save as disclosed above, other related parties transactions disclosed in Note 41 to the Accountant's Report of this annual report do not fall under connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

Sufficiency of public float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, during the year ended 31 December 2019 and up to the date of this annual report, the Company has maintained a sufficient public float of no less than 25% of the Company's total issued share capital as required under the Listing Rules.

Litigation and arbitration

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

Compliance with laws and regulations

For the year ended 31 December 2019, so far as the Company is aware, the Company has complied with relevant laws and regulations that have material effect on the Company in all material aspects. The Company's compliance with relevant environmental protection laws and regulations are provided in the Environmental, Social and Governance Report on pages 22 to 30.

Audit Committee

The 2019 annual results of the Company have been reviewed by the Audit Committee of the Board. The Committee has reviewed the accounting principles and practices adopted by the Company, and also discussed the auditing, internal control and financial reporting matters, including the review of the 2019 audited annual results with the management. There is no disagreement between the Audit Committee and BDO Limited and BDO China Shu Lun Pan CPAs the independent auditor, in relation to the accounting methods adopted in the preparation of the annual results during the reporting period.

Corporate governance code and model code for securities transactions

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

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

Auditors

On 2 June 2017, Deloitte Touche Tohmatsu Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the overseas and domestic auditors of the Company respectively on the 2016 annual general meeting of the Company, whose service terms expired at the conclusion of the 2017 annual general meeting of the Company and was not extended.

On 31 May 2018, BDO Limited and BDO China Shu Lun Pan CPAs were appointed as the overseas and domestic auditors of the Company respectively on the 2017 annual general meeting of the Company whose term of office expired at the 2018 annual general meeting, at which a resolution was proposed by the Company for the reappointment of BDO Limited and BDO China Shu Lun Pan CPAs as the overseas and the domestic auditors of the Company respectively.

On 31 May 2019, BDO Limited and BDO China Shu Lun Pan CPAs were appointed as the overseas and domestic auditors of the Company respectively on the 2018 annual general meeting of the Company. The consolidated financial statements of the year have been audited by BDO Limited whose term of office will expire at the 2019 annual general meeting, at which a resolution will be proposed by the Company for the reappointment of BDO Limited and BDO China Shu Lun Pan CPAs as the overseas and the domestic auditors of the Company respectively.

For and on behalf of the Board
Executive Director, President
Wang Weimin

Beijing the PRC, 26 March 2020

Report of the Supervisory Committee

In 2019, all the members of the Supervisory Committee earnestly performed their supervisory functions in accordance with relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules. The Supervisory Committee inspected the Company's operations on a regular basis to ensure compliance, supervised the performance of duties by the Directors and senior management of the Company by attending general meetings and Board meetings of the Company and visited the Company's major production bases on an as-needed basis to conduct investigations. During the year, the Supervisory Committee adequately performed its supervisory functions to safeguard the interests of the shareholders as a whole in an effective manner.

1 Meetings of the Supervisory Committee

In 2019, the Supervisory Committee of the Company convened two physical meetings. The convening of the aforesaid meetings was in compliance with provisions of relevant laws and regulations and the Articles, the details of which were as follows:

(1) The First Meeting of the Supervisory Committee in 2019 was held in Shenzhen, Guangdong Province on 25 March 2019, at which the 2018 Report of Supervisory Committee of the Company was considered and approved, the 2018 financial report of the Company was reviewed and the key tasks of the Supervisory Committee for 2019 was discussed.

(2) The Second Meeting of the Supervisory Committee in 2019 was held in Beijing on 27 August 2019, at which the 2019 interim financial report of the Company was reviewed.

2 Principal inspection and supervision work carried out by the Supervisory Committee in 2019

(1) Members of the Supervisory Committee carried out supervision and inspection in respect of the financial position of the Company and the implementation of its internal control systems, including regular inspections of the financial reports and budgets of the Company and reviews of the Company's accounting books, vouchers, related contracts and other relevant information from time to time.

(2) Members of the Supervisory Committee attended one annual general meeting, one H Shareholders' class meeting, one Domestic Shareholders' class meeting and one extraordinary general meeting. Mr. Li Xiaoyu, an independent Supervisor of the Company, acted as scrutineer for the voting at the above general meetings.

(3) Members of the Supervisory Committee attended five Board meetings and exercised supervision effectively over the legal and procedural compliance of Board proceedings and Board implementation of resolutions of general meetings.

(4) Key members of the Supervisory Committee communicated with the management of the Company as necessary from time to time to understand the operating condition, development plan, and all significant decision-making and significant events of the Company.

(5) In 2019, members of the Supervisory Committee vi sited the production bases of the Company in Hain an, Inner Mongolia and Hubei to carry out on-site inspection on the production and operations of prod uction facilities and problems in management.

3 Independent opinions issued by the Supervisory Committee on relevant matters

(1) Operation and management of the Company

During the reporting period, domestic economy faced challenges with chemical fertilisers industry in downturn and methanol price trending downwards. In view of such severe operation environment, the Company proactively enhanced production and operation management to lower costs and increase efficiency. By fully putting its advantages in terms of products and marketing organisation, the Company maintained an industry leading annual operating result. Information disclosure of the Company was timely, accurate and complete. The procedures for decision-making at the general meetings and Board meetings of the Company were legitimate and in compliance with relevant provisions. The Directors and senior management of the Company have diligently implemented resolutions passed by the general meetings and the Board in faithful performance of their duties as stipulated in the Articles, without acting compromising the Company's interests and in violation of laws and regulations.

(2) Finanical position of the Company

Members of the Supervisory Committee have conducted supervision and inspection of the Company's financial management system and financial conditions and reviewed relevant financial information, such as the financial reports and profit distribution plans, proposed to be tabled at the general meeting by the Board. After due examination, the Supervisory Committee is of the view that the Company has strictly complied with relevant laws and regulations governing financial and economic matters and financial regulations, the financial management system has been sound and effectively implemented, accounting treatments have been applied with consistency, and the Company's financial reports represent a fair and objective view of the financial position and operating results of the Company.

The Supervisory Committee has reviewed the unqualified audit reports in respect of the financial position and operating results of the Company for 2019 issued by BDO China Shu Lun Pan CPAs and BDO Limited in accordance with domestic and international accounting standards, respectively, and does not dispute the report.

(3) Connected transactions

The Supervisory Committee has conducted examination of the connected transactions with connected persons entered into by the Company and its subsidiaries from time to time during the reporting period, and is of the view that relevant provisions of the Listing Rules have been complied with, and that the prices of the connected transactions were reasonable, open and fair without any prejudice to the interests of the shareholders and the Company.

(4) Implementation of resolutions of the general meetings

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

In 2020, the Supervisory Committee will continue to closely monitor the Company's day-to-day operations and significant initiatives in business development, continue to conduct investigation and research, and supervise the actions of the Directors and senior management in the performance of their duties, in diligent performance of their supervisory duties through the lawful and independent exercise of powers vested in them in accordance with relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules, with the aim of facilitating standardized operations at and healthy development for the Company and faithfully protecting the interests of all shareholders and the Company.

By order of the Supervisory Committee
Tang Quanrong
Chairman of the Supervisory Committee

Beijing, the PRC, 26 March 2020

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of China BlueChemical Ltd. (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 64 to 151, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirement of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Recognition of deferred tax assets	
We identified the recognition of deferred tax assets as a key audit matter due to the significant estimates and assumptions used by management in determining the future profits and the period over which the deferred tax assets are expected to be realised. Details of the key estimation uncertainties and the deferred tax assets are disclosed in Notes 5(b) and 25, respectively, to the consolidated financial statements.	Our procedures in relation to the recognition of deferred tax assets included: • assessing and challenging the reasonableness of management's estimates and assumptions of future profitability; and • comparing management's estimates and assumptions used in assessing the future taxable profits for the relevant subsidiaries with those used in the approved budgets.

Independent Auditor's Report - Continued

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirement of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report - Continued

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

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants

Amy Yau Shuk Yuen
Practising Certificate no. P06095

Hong Kong, 27 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	7	10,858,435	11,259,591
Cost of sales		(8,937,079)	(8,501,281)
Gross profit		1,921,356	2,758,310
Other income	7	200,603	131,386
Other gains and losses, net	8	52,588	303,266
Selling and distribution costs		(440,918)	(418,466)
Administrative expenses		(489,120)	(455,598)
Other expenses		(30,267)	(161,582)
Finance income	9	231,286	11,187
Finance costs	10	(103,141)	(104,635)
Gain on disposal of a subsidiary	39	-	62,879
Change in fair value of financial assets at fair value through profit or loss		48,451	-
Impairment losses	17,20	(4,813)	(879)
Exchange (losses)/gains, net		(598)	13,296
Share of losses of joint ventures	22	(3,120)	(193)
Share of (losses)/profits of associates	23	(3,224)	1,210
Profit before income tax	11	1,379,083	2,140,181
Income tax expenses	14	(624,095)	(611,891)
Profit for the year		754,988	1,528,290
Other comprehensive income for the year, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating of foreign operations		625	946
Share of other comprehensive income of joint ventures	22	3,758	(2,002)
Share of other comprehensive income of associates	23	53	78
		4,436	(978)
Total comprehensive income for the year		759,424	1,527,312

Consolidated Statement of Profit or Loss and Other Comprehensive Income - Continued

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Profit attributable to:			
Owners of the Company		703,217	1,378,890
Non-controlling interests		51,771	149,400
		754,988	1,528,290
Total comprehensive income attributable to:			
Owners of the Company		707,653	1,377,912
Non-controlling interests		51,771	149,400
		759,424	1,527,312
Earnings per share attributable to owners of the Company			
– Basic for the year (RMB per share)	16	0.15	0.30

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	6,752,340	7,100,978
Mining rights	18	133,744	135,593
Prepaid lease payments	19	571,221	573,582
Investment properties	20	99,445	110,053
Intangible assets	21	28,574	33,282
Investment in joint ventures	22	227,919	227,281
Investment in associates	23	216,587	219,758
Financial asset at fair value through other comprehensive income	24	600	600
Deferred tax assets	25	504,140	806,692
		8,534,570	9,207,819
CURRENT ASSETS			
Inventories	26	1,110,767	1,286,322
Trade receivables	27	32,608	41,357
Bills receivable	28	333,354	113,949
Contract assets	29	58,233	16,116
Prepayments, deposits and other receivables	30	337,246	323,819
Financial assets at fair value through profit or loss	24	2,898,451	-
VAT recoverable		286,118	248,982
Pledged bank deposits	31	4,129	50,003
Time deposits with original maturity over three months	31	5,000,000	5,260,802
Cash and cash equivalents	31	824,096	3,400,039
		10,885,002	10,741,389
TOTAL ASSETS		19,419,572	19,949,208
EQUITY			
CAPITAL AND RESERVES			
Issued capital	32	4,610,000	4,610,000
Reserves		9,350,089	8,909,182
Proposed dividends	15	350,360	691,500
Equity attributable to owners of the Company		14,310,449	14,210,682
Non-controlling interests		806,640	916,956
TOTAL EQUITY		15,117,089	15,127,638

Consolidated Statement of Financial Position - Continued

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Benefits liability	33	42,455	52,037
Interest-bearing bank borrowings	34	422,000	685,000
Lease liabilities	38	22,190	-
Deferred tax liabilities	25	19,382	43,147
Deferred revenue	35	130,126	169,327
Other long term liabilities		29,880	139,896
		666,033	1,089,407
CURRENT LIABILITIES			
Interest-bearing bank borrowings	34	1,587,000	100,000
Trade payables	36	688,471	708,390
Contract liabilities	29	442,869	557,099
Other payables and accruals	37	876,619	843,668
Obligations under finance leases	38	-	1,336,131
Lease liabilities	38	4,527	-
Income tax payable		36,964	186,875
		3,636,450	3,732,163
TOTAL LIABILITIES		4,302,483	4,821,570
TOTAL EQUITY AND LIABILITIES		19,419,572	19,949,208
TOTAL CURRENT ASSETS		7,248,552	7,009,226
TOTAL ASSETS LESS CURRENT LIABILITIES		15,783,122	16,217,045
NET ASSETS		15,117,089	15,127,638

On behalf of the Board

Wang Weimin
Director

Lee Kit Ying
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company			
	Share capital RMB'000	Capital reserve RMB'000 (Note i)	Statutory surplus reserve RMB'000 (Note ii)	Special reserve RMB'000 (Note iii)
Balance at 1 January 2019	**4,610,000**	**1,025,702**	**1,185,957**	**62,302**
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Capital contribution from ultimate holding company	-	**83,614**	-	-
Appropriation and utilisation of safety fund, net	-	-	-	**(11,261)**
2019 proposed dividends (note 15)	-	-	-	-
2018 final dividends declared	-	-	-	-
Transfer from retained earnings	-	-	**234,604**	-
Dividends paid to non–controlling interests	-	-	-	-
Balance at 31 December 2019	**4,610,000**	**1,109,316**	**1,420,561**	**51,041**
Balance at 1 January 2018	4,610,000	1,025,702	1,071,998	48,212
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Disposal of a subsidiary (Note 39)	-	-	-	-
Appropriation and utilisation of safety fund, net	-	-	-	14,090
2018 proposed dividends (note 15)	-	-	-	-
2017 final dividends declared	-	-	-	-
Transfer from retained earnings	-	-	113,959	-
Dividends paid to non–controlling interests	-	-	-	-
Balance at 31 December 2018	4,610,000	1,025,702	1,185,957	62,302

Note:

i. The capital reserve mainly comprises of (i) share premium arising from the issuance of H shares; and (ii) contribution and distribution from/to ultimate holding company.

ii. Statutory surplus reserve represents statutory reserve fund. In accordance with relevant rules and regulations in the People's Republic of China (the "**PRC**"), the Group's PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund at financial year end, until the accumulated total of the fund reaches 50% of their registered capital. The appropriation to the statutory reserve fund is determined by the articles of association of the Company's subsidiaries and approval by the boards of directors of the subsidiaries.

iii. Special reserve represents safety fund. The Group's PRC subsidiaries are required to appropriate an amount of safety fund, in accordance with relevant PRC rules and regulations. Safety fund is used to improve, renovate and maintain safety facilities and equipment and update the safety supplies for the operation personnel, etc.

Retained earnings RMB'000	Proposed dividends RMB'000	Translation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
6,634,282	**691,500**	**939**	**14,210,682**	**916,956**	**15,127,638**
703,217	**-**	**-**	**703,217**	**51,771**	**754,988**
-	**-**	**4,436**	**4,436**	**-**	**4,436**
703,217	**-**	**4,436**	**707,653**	**51,771**	**759,424**
-	**-**	**-**	**83,614**	**-**	**83,614**
11,261	**-**	**-**	**-**	**-**	**-**
(350,360)	**350,360**	**-**	**-**	**-**	**-**
-	**(691,500)**	**-**	**(691,500)**	**-**	**(691,500)**
(234,604)	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(162,087)**	**(162,087)**
6,763,796	**350,360**	**5,375**	**14,310,449**	**806,640**	**15,117,089**
6,074,941	322,700	1,917	13,155,470	1,092,459	14,247,929
1,378,890	-	-	1,378,890	149,400	1,528,290
-	-	(978)	(978)	-	(978)
1,378,890	-	(978)	1,377,912	149,400	1,527,312
-	-	-	-	(200,886)	(200,886)
(14,090)	-	-	-	-	-
(691,500)	691,500	-	-	-	-
-	(322,700)	-	(322,700)	-	(322,700)
(113,959)	-	-	-	-	-
-	-	-	-	(124,017)	(124,017)
6,634,282	691,500	939	14,210,682	916,956	15,127,638

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		1,379,083	2,140,181
Adjustment for:			
Other gains or losses, net	8	(52,588)	(303,266)
Finance income	9	(231,286)	(11,187)
Finance costs	10	103,141	104,635
Share of losses of joint ventures	22	3,120	193
Share of losses/(profits) of associates	23	3,224	(1,210)
Impairment losses	17,20	4,813	879
Depreciation and amortisation		703,030	743,670
Release of government grants	35	(104,250)	(6,962)
Change in fair value of financial assets at fair value through profit or loss		(48,451)	-
Reversal of write-down of inventories		(15)	(37,025)
Gain on disposal of a subsidiary	39	-	(62,879)
Operating profit before working capital changes		1,759,821	2,567,029
Decrease/(increase) in inventories		175,570	(38,865)
Net (increase)/decrease in trade receivables, bills receivable, contract assets, prepayments, deposits and other receivables		(240,362)	124,987
Net decrease in trade payables, contract liabilities, other payables and accruals and other long-term liabilities		(47,639)	(106,820)
Decrease in benefits liability		(9,582)	(13,815)
Cash generated from operations		1,637,808	2,532,516
Income tax paid		(495,219)	(528,139)
Net cash flows generated from operating activities		1,142,589	2,004,377

Consolidated Statement of Cash Flows - Continued

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Interest received		150,695	11,187
Purchases of property, plant and equipment		(359,532)	(163,110)
Proceeds from disposal of property, plant and equipment		522	18,638
Proceeds from disposal of a subsidiary, net of cash disposed	39	-	259,089
Purchases of intangible assets		(2,847)	(13,512)
Purchased of financial assets at fair value through profit or loss		(5,483,000)	(15,590,898)
Disposal of financial assets at fair value through profit or loss		2,678,641	15,911,447
Government grants received	35	65,049	1,079
Placement of time deposits with original maturity over three months		-	(5,260,802)
Withdrawal of time deposits with original maturity over three months		260,802	287,505
Net cash flow used in investing activities		(2,689,670)	(4,539,377)
FINANCING ACTIVITIES			
Bank borrowings raised		1,950,000	696,500
Repayment of bank borrowings		(726,000)	(721,500)
Repayment of obligations under finance leases		-	(59,987)
Decrease/(increase) in pledged bank deposits		45,874	(43,061)
Interest paid related to obligations under finance leases		-	(39,630)
Interest paid		(87,720)	(48,539)
Dividends paid		(691,500)	(322,700)
Dividends paid to non-controlling interests		(162,087)	(129,395)
Transaction charge paid for finance leases		-	(22,991)
Payment of lease liabilities		(1,358,759)	-
Net cash flows used in financing activities		(1,030,192)	(691,303)
Net decrease in bank balances and cash		(2,577,273)	(3,226,303)
Cash and cash equivalents at 1 January		3,400,039	6,604,933
Effect of foreign exchange rate changes		1,330	21,409
Cash and cash equivalents at 31 December	31	824,096	3,400,039
Represented by:			
Cash and cash equivalents in the consolidated statement of financial position		824,096	3,400,039

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. General information

China BlueChemical Ltd. (the "**Company**") was established in the PRC on 3 July 2000 as a limited liability. 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 Hong Kong dollar ("**HKD**") 1.90 per share to the public, which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

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

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

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

(a) Adoption of new or revised IFRSs – effective 1 January 2019

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features and Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes and IAS 23, Borrowing costs

The impact of the adoption of IFRS 16 Leases have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the group's accounting policies.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has initial adopted IFRS 16 from 1 January 2019 and applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 Leases and related interpretations. The details of the changes in accounting policies are disclosed below.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

(a) Adoption of new or revised IFRSs – effective 1 January 2019 – Continued

A. Definition of a lease

Previously, the Group identified leases in accordance with IAS 17 and IFRIC-4 Determining Whether an Arrangement contains a Lease. The Group assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term of 12 months or less. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease. The Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

(a) Adoption of new or revised IFRSs – effective 1 January 2019 – Continued

B. As a lessee - Continued

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The lease payments include: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

C. As a lessor

The Group has leased out its investment property to a number of tenants. As the accounting under IFRS 16 for a lessor is substantially unchanged from the requirements under IAS 17, the adoption of IFRS 16 does not have significant impact on these financial statements.

D. Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. None of the right-of-use assets were impaired at 1 January 2019.

The Group has also applied the follow practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (ii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

(a) Adoption of new or revised IFRSs – effective 1 January 2019 – Continued

D. Transition - Continued

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-4.

For those finance leases previously classified as finance leases under IAS 17, the Group recognised the carrying amount of the lease assets and lease liabilities immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities on 1 January 2019.

E. Impact on transition

The table below summaries the impact on the adoption of IFRS 16:

	IAS 17 Carrying amount 31 December 2018 RMB'000	Reclassi-fication RMB'000	Capitalisation of operating lease contracts RMB'000	IFRS 16 Carrying amount **1 January 2019** **RMB'000**
Assets				
Right–of–use assets comprise of				
-Property, plant and equipment	1,181,338	1,882	4,478	**1,187,698**
-Prepaid lease payments	573,582	15,204	—	**588,786**
Prepayments, deposits and other receivables	323,819	(17,086)	—	**306,733**
Liabilities				
Lease liabilities	—	1,362,322	4,478	**1,366,800**
Obligations under finance leases	1,336,131	(1,336,131)	—	**—**
Other long-term liabilities	139,896	(26,191)	—	**113,705**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

(a) Adoption of new or revised IFRSs – effective 1 January 2019 – Continued

E. Impact on transition – Continued

The table below explains the differences between the operating lease commitments disclosed at 31 December 2018 by applying IAS 17 and the lease liabilities at the date of initial application at 1 January 2019 by applying IFRS 16:

	RMB'000
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitments at 31 December 2018	7,367
Less: short term leases for which lease terms end within 31 December 2019	(2,076)
Less: future interest expenses	(813)
Add: obligations under finance leases recognised as at 31 December 2018	1,336,131
Add: obligation under finance lease recognised under other long-term liabilities as at 31 December 2018	26,191
Lease liabilities recognised as at 1 January 2019	**1,366,800**

The weighted average lessee's incremental borrowing rate at 1 January 2019 was 4.84%.

F. Impacts for the year

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16.

	Amounts reported under IFRS 16 RMB'000	Add back IFRS 16 additional depreciation and interest RMB'000	Deduct: Estimated rental payment related to operating leases under IAS 17 RMB'000 (Note 1)	Hypothetical amounts under IAS 17 RMB'000
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Profit from operations	**1,482,224**	**2,480**	**(2,920)**	**1,481,784**
Finance costs	**(103,141)**	**300**	**—**	**(102,841)**
Profit before income tax	**1,379,083**	**2,780**	**(2,920)**	**1,378,943**
Profit for the year	**754,988**	**2,780**	**(2,920)**	**754,848**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

(a) Adoption of new or revised IFRSs – effective 1 January 2019 – Continued

F. Impacts for the year – Continued

	Amounts reported under IFRS 16 RMB'000	Deduct: Estimated rental payment related to operating leases under IAS 17 RMB'000 (Note 2)	Hypothetical amounts under IAS 17 RMB'000
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of IFRS 16:			
Net cash generated from operating activities	**1,142,589**	**(2,920)**	**1,139,669**
Net cash used in financing activities	**(1,030,192)**	**2,920**	**(1,027,272)**

Note 1: The "estimated rental payment related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored due to immaterial.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised right-of-use assets of RMB8,415,000 and lease liabilities of RMB6,393,000 as at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised additional depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised additional depreciation of RMB2,480,000 and additional interest of RMB300,000 from these leases. In contrast, rental expenses decreased by RMB2,920,000.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

(a) Adoption of new or revised IFRSs – effective 1 January 2019 – Continued

F. Impacts for the year – Continued

The following are the changes in carrying amounts of the Group's right-of-use assets and related lease liabilities during the year:

	Right-of-use assets				
	Plant and machinery RMB'000	Buildings RMB'000	Prepaid lease payments RMB'000	Total RMB'000	Lease liabilities RMB'000
At 1 January 2019	**1,181,338**	**6,360**	**588,786**	**1,776,484**	**1,366,800**
Additions	**—**	**4,535**	**—**	**4,535**	**4,535**
Depreciation	**(53,493)**	**(2,480)**	**(15,377)**	**(71,350)**	**—**
Disposal	**—**	**—**	**(2,188)**	**(2,188)**	**—**
Transfer*	**(1,107,162)**	**—**	**—**	**(1,107,162)**	**—**
Interest	**—**	**—**	**—**	**—**	**14,141**
Lease payments	**—**	**—**	**—**	**—**	**(1,358,759)**
At 31 December 2019	**20,683**	**8,415**	**571,221**	**600,319**	**26,717**

* The amounts were transferred to owned assets upon the maturity of the leases during the year ended 31 December 2019.

IFRIC-Int 23 - Uncertainty over Income Tax Treatments

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

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

Amendments to IFRS 9 - Prepayment Features with Negative Compensation

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

(a) Adoption of new or revised IFRSs – effective 1 January 2019 – Continued

Amendments to IAS 19 - Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

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

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

Annual Improvements to IFRSs 2015-2017 Cycle - Amendments to IFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

2. Adoption of IFRSs – Continued

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

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

Amendments to IFRS 3	Definition of a business[1]
Amendments to IAS 1 and IAS 8	Definition of material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 Effective for annual periods beginning on or after 1 January 2020

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred or removed. Early application of the amendments of the amendments continue to be permitted.

Amendments to IFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 – Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all IFRS Standards and the Conceptual Framework, and incorporating supporting requirements in IAS 1 into the definition.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

3. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance (the "**CO**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

4. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, using consistent accounting policies. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(a) Basis of consolidation – Continued

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. The carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them) is derecognised. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

(b) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influences. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired. In the Company's statement of financial position, investments in associates and joint ventures are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(b) Investments in associates and joint ventures – Continued

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/ partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(c) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the year in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Land and buildings	1.80% to 6.79%
Plant and machinery	5.00% to 19.00%
Motor vehicles	6.00% to 19.00%
Computer and electronic equipment	18.00% to 19.40%
Office and other equipment	5.28% to 20.00%

Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(c) Property, plant and equipment – Continued

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the year of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(d) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The principal annual rates used for depreciation purpose are 4.67% to 5%.

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

(e) Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on the units of production method utilising only proved and probable mineral reserve in the depletion base.

(f)A Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

(i) Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(f)A Leasing (accounting policies applied from 1 January 2019) - Continued

(i) Right-of-use asset - Continued

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under IAS 40 (see accounting policy (d)) and held for own use under HKAS 16 (see accounting policy (c)) are carried at cost less accumulated depreciation and impairment losses. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

(ii) Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iii) Accounting as a lessor

The Group leases certain of its buildings under operating lease arrangements with leases negotiated for terms from one year to ten years to CNOOC group companies and third-party companies. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

(f)B Leasing (accounting policies applied until 31 December 2018)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Land use rights under operating leases are presented as prepaid lease payments in the consolidated statement of financial position and are initially stated at cost and subsequently charged to the profit or loss on the straight-line basis over the lease terms.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(f)B Leasing (accounting policies applied until 31 December 2018) – Continued

Sale and leaseback

A sale and leaseback is a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the seller-lessees, or it may be an operating lease. If the transaction gives rise to a finance lease, any excess of the sales proceeds over the carrying amount is deferred and amortised over the lease term.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

(g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Intangible assets with finite lives are subsequently amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation year and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of ten years.

(h) Financial Instruments

(i) Financial assets

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

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(h) Financial Instruments – Continued

(i) Financial assets – Continued

Debt instruments

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

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

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

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

Equity instruments

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

(ii) Impairment loss on financial assets

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(h) Financial Instruments – Continued

(ii) Impairment loss on financial assets – Continued

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

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

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

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

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

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

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

(iii) Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(h) Financial Instruments – Continued

(iii) Financial liabilities – Continued

Financial liabilities at FVTPL – Continued

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

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

Financial liabilities at amortised cost

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

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

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

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(j) Revenue recognition

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

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

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

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

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

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

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

(ii) Provision of port operation and transportation services

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(j) Revenue recognition – Continued

(iii) Other income

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

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

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

Contract assets and liabilities

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

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

(k) Income taxes

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the tax authorities, based on taxable profit for the year and tax rates that have been enacted or subsequently enacted by the end of the reporting year, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(k) Income taxes – Continued

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

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

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

(l) Foreign currency

Foreign currency transactions are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve, attributed to non-controlling interests as appropriate.

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

(m) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement plan

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

(iii) Termination benefits

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(n) Benefits liability

The Group participates and makes contributions into the government-regulated defined contribution pension scheme, medical benefit plan and housing fund at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the profit or loss as incurred.

中海石油天野化工有限責任公司 (transliterated as CNOOC Tianye Chemical Limited ("**CNOOC Tianye**") and 海南八所港務有限責任公司 (transliterated as Hainan Basuo Port Limited) ("**Hainan Basuo Port**"),both are non-wholly owned subsidiaries of the Company, pay early retirement benefits to qualifying early retirees in accordance with an internal retirement plan and post-employment allowances to retired employees in accordance with the local labour regulations (collectively "**Benefits liability**"), as detailed in Note 33. The cost of providing the Benefits liability is assessed using the projected unit credit method, with actuarial valuation method being carried out at the end of each reporting period. The Group's benefit liability costs include service cost, net interest expense and remeasurement. Remeasurement, including actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in the period in which they occur in other comprehensive income that will not be reclassified to profit or loss and reflected immediately in retained profits. Net interest is calculated by applying the discount rate at the beginning of the period to the net benefit liability. The service cost and net interest are included in cost of sales and administrative expenses.

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a CGU for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on a carrying value of each assets in the unit. The carrying amount of an assets is not reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would be otherwise have been allocated to the asset is allocated pro rata to the other assets of the units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

(p) Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the year in which they are incurred.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(q) Provision and contingent liabilities

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

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

(r) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expense for losses already incurred for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(s) Dividends

Final dividends proposed by the directors of the Company are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

(t) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

4. Significant accounting policies – Continued

(t) Related parties – Continued

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

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

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

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

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

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

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

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

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting year that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

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

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets or CGUs used in ways specific to the Group's operation may not be readily available, therefore management use the value in use model in determining the recoverable amount of the CGUs. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years approved by management and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

In determining the value in use, expected cash flows generated by the CGUs are discounted to their present value, which requires significant judgments and estimates with respect to the discount rate as well as the underlying cash flows. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

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

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

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-off may be higher than the amount estimated and will have an impact to profit or loss in the year in which such estimate is revised or when actual write-off occur.

(b) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. The assessment requires management to make estimates and assumptions relating to the future taxable profits and the period over which the deferred tax assets are expected be realised. In developing these estimations, management considers future earnings, availability of taxable temporary differences, and the ability of the Group's relevant subsidiaries to offset any of its accumulated losses against these expected profits. Where the actual or expected tax positions of the relevant subsidiaries of the Group in future are different from the original estimates and assumptions, such differences will impact the recognition of deferred tax assets and income tax charge in the year in which such estimates and assumptions has been changed. The amount of deferred tax assets are disclosed in Note 25.

(c) Write-down of inventories to net realisable value

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the inventories and the write-down charge/write-back in the year in which these estimates have been changed. The amount of write-down of inventories is disclosed in Note 26.

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

As disclosed in Notes 27, 29 and 30, the measurement of impairment losses under both IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment if a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

(e) Depreciation of property, plant and equipment

The cost of items of property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of plant and machinery to be 5 to 18 years, and other assets ranging from 5 to 50 years.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, and therefore depreciation charges might be revised in future.

The amount of depreciation of property, plant and equipment for the year ended 31 December 2019 is disclosed in Note 17.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

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

(f) Fair value measurement

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

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

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs;

Level 3: Unobservable inputs (i.e. not derived from market data).

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

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

6. Operating segment information

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

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

(b) the phosphorus and compound fertiliser segment is engaged in the manufacture and sale of phosphorus fertilisers which include MAP and DAP and compound fertiliser;

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 4. Segment performance is evaluated based on segment result and is measured consistently with profit before income tax in the consolidated financial statements. However, the Group's finance income, finance costs, exchange (losses)/gains, other gains and losses, net, other expenses, share of results of associates and joint ventures, gain on disposal of a subsidiary, impairment losses, change in fair value of financial assets at FVTPL and income tax expenses are managed on a group basis and are not allocated to operating segments.

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

6. Operating segment information – Continued

Operating segments

	Urea RMB'000	Methanol RMB'000	Phosphorus and compound fertiliser RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2019						
Segment revenue:						
Sales to external customer	4,424,023	2,888,703	2,045,121	1,500,588	-	10,858,435
Inter-segment sales	-	-	-	351,887	(351,887)	-
Total	4,424,023	2,888,703	2,045,121	1,852,475	(351,887)	10,858,435
Segment profit/(loss) before income tax	710,303	433,187	75,409	(26,978)	-	1,191,921
Interest and unallocated income						332,325
Corporate and other unallocated expenses						(138,221)
Exchange losses, net						(598)
Share of losses of joint ventures						(3,120)
Share of losses of associates						(3,224)
Profit before income tax						1,379,083
As at 31 December 2019						
Total segment assets	10,379,431	4,580,593	1,952,984	2,271,130	(713,812)	18,470,326
Unallocated						949,246
Total assets						19,419,572
Total segment liabilities	2,304,130	479,929	924,027	1,246,372	(713,812)	4,240,646
Unallocated						61,837
Total liabilities						4,302,483
Other segment information						
Depreciation and amortisation	324,407	198,388	140,644	39,591	-	703,030
Capital expenditure*	204,494	88,218	44,513	44,685	-	381,910

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

6. Operating segment information – Continued

Operating segments - Contuned

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

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

6. Operating segment information – Continued

Operating segments - Contuned

1 Inter-segment revenues are eliminated on consolidation.

2 Segment assets do not include deferred tax assets, financial asset at FVOCI and investments in joint ventures and associates.

3 Segment liabilities do not include dividends payable, deferred tax liabilities and benefits liability.

Geographic information

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

	2019 RMB'000	2018 RMB'000
Sales to external customers		
– PRC	10,208,733	10,293,409
– Others	649,702	966,182
	10,858,435	11,259,591

(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 2019 and 2018.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

7. Revenue and other income

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

An analysis of revenue and other income is as follows:

	2019 RMB'000	2018 RMB'000
Revenue		
Sale of goods, recognsied at a point in time*	10,482,423	10,901,787
Render of services, recognised overtime*	376,012	357,804
	10,858,435	11,259,591
Other income		
Income from sale of other materials, recognised at a point in time*	43,022	52,473
Income from render of other services, recognised overtime*	7,661	25,766
Gross rental income	9,834	22,156
Government grants	104,250	24,876
Indemnities received	9,344	6,115
Sundry income	26,492	-
	200,603	131,386

* Revenue from contracts with customer within the scope of IFRS 15.

8. Other gains and losses, net

	2019 RMB'000	2018 RMB'000
Gain on maturity of financial assets at FVTPL	45,641	320,549
Reversal of impairment loss/(impairment loss) on trade and other receivables	174	(17,032)
Gain/(loss) on disposal of property, plant and equipment	6,773	(251)
	52,588	303,266

9. Finance income

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

10. Finance costs

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	**89,000**	48,445
Finance charges payable under other long-term liabilities and obligations under finance leases	**-**	56,190
Interest on lease liabilities	**14,141**	-
	103,141	104,635

11. Profit before income tax

Profit before income tax is arrived at after charging:

	2019 RMB'000	2018 RMB'000
Cost of inventories sold	**8,621,952**	8,208,539
Reversal of write-down of inventories	**(15)**	(37,025)
Cost of services provided	**315,142**	329,767
Cost of sales recognised as expenses	**8,937,079**	8,501,281
Depreciation and amortisation:		
Depreciation of property, plant and equipment		
-Owned property, plant and equipment	**616,914**	709,564
-Right-of-use assets included:		
-Buildings	**2,480**	-
-Plant and machinery	**53,493**	-
Amortisation of mining rights	**1,849**	2,150
Amortisation of prepaid lease payments	**15,377**	15,365
Amortisation of investment properties	**5,795**	6,030
Amortisation of intangible assets	**7,122**	10,561
	703,030	743,670
Auditors' remuneration	**3,107**	3,552
Employee benefit expense (including directors' and supervisors' remunerations explained in Note 12)		
-Wages and salaries	**785,143**	774,518
-Defined contribution pension scheme	**100,791**	99,922
-Early retirement benefits and post-employment allowances	**3,871**	1,109
-Medical benefit costs	**50,456**	51,495
-Housing fund	**60,898**	55,899

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

12. Key management personnel remuneration

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

	Group	
	2019	2018
	RMB'000	RMB'000
Fee	**-**	-
Other emoluments		
Salaries and other allowances	**1,472**	1,610
Discretionary bonuses	**2,219**	2,402
Pension scheme contributions	**276**	27
	3,967	4,039

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

12. Key management personnel remuneration – Continued

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2019 was set out below:

	Fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Directors					
Non-executive directors					
Guo Xinjun	-	-	-	-	-
Meng Jun	-	-	-	-	-
	-	-	-	-	-

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

Executive directors					
Xia Qinglong (Note 1)	-	338	669	99	1,106
Wang Weimin	-	319	1,092	93	1,504
	-	657	1,761	192	2,610

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

Independent non-executive directors					
Lee Kit Ying	-	260	-	-	260
Lee Kwan Hung	-	260	-	-	260
Yu Changchun	-	130	-	-	130
	-	650	-	-	650

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

The remuneration of each of the supervisors of the Group for the year ended 31 December 2019 was set out below:

Supervisors					
Liu Lijie	-	100	458	84	642
Li Xiaoyu	-	65	-	-	65
Tang Quanrong	-	-	-	-	-
	-	165	458	84	707

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

Total	-	1,472	2,219	276	3,967

Notes:

1 Xia Qinglong resigned as Executive director on 24 December 2019.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

12. Key management personnel remuneration – Continued

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

	Fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Directors					
Non-executive directors					
Guo Xinjun	-	-	-	-	-
Chen Bi (Note 1)	-	-	-	-	-
Meng Jun	-	-	-	-	-
	-	-	-	-	-

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

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

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

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

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

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

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

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

	Fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Total	-	1,610	2,402	27	4,039

Notes:

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

13. Five highest paid employees

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

	2019 Number	2018 Number
Directors and supervisors	2	2
Non-director and non-supervisor employees	3	3
	5	5

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

	2019 RMB'000	2018 RMB'000
Salaries and other allowances	708	1,712
Discretionary bonuses	3,272	3,840
Pension scheme contributions	279	52
	4,259	5,604

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

	2019 Number	2018 Number
HK$Nil to HK$1,000,000	3	3

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

14. Income tax expenses

	2019 RMB'000	2018 RMB'000
Current tax		
PRC Enterprise Income Tax	341,767	567,410
Deferred tax (Note 25)	278,787	29,481
	620,554	596,891
Under-provision in prior year	3,541	15,000
	624,095	611,891

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

(a) Enterprise Income Tax ("EIT")

Under the Enterprises Income Tax Law of the PRC (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

(b) Hong Kong Profits Tax

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

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

	2019 RMB'000	2018 RMB'000
Profit before income tax	1,379,083	2,140,181
Tax at the statutory tax rate of 25%	344,771	535,045
Income tax on concessionary rate	(229)	(584)
Under-provision in respect of prior year	3,541	15,000
Tax effect of share of losses/(profits) of joint ventures and associates	1,586	(254)
Tax effect of tax losses not recognised	13,127	21,867
Reversal of tax losses previously recognised	243,960	-
Tax effect of deductible temporary differences not recognised	15,354	37,531
Expenses not deductible for tax	1,985	3,286
Income tax expenses	624,095	611,891
The Group's effective income tax rate	45%	29%

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

15. Proposed dividends

	2019 RMB'000	2018 RMB'000
Proposed dividends – RMB0.076 (2018: RMB0.150) per ordinary share	350,360	691,500

The proposed final dividend for the year ended 31 December 2018 was approved at the annual general meeting on 30 May 2019. Proposed final dividend for the year ended 31 December 2019 is subject to the approval of the Company's shareholders at the forthcoming 2019 annual general meeting.

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

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

16. Earnings per share attributable to owners of the Company

	2019 RMB'000	2018 RMB'000
Earnings		
Profits for the year attributable to owners of the Company	703,217	1,378,890

	Number of shares	
	2019 '000	2018 '000
Shares		
Number of shares in issue during the year	4,610,000	4,610,000

The Group had no potential dilutive ordinary shares in issue during the year.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

17. Property, plant and equipment

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2018 as originally presented							
Cost	5,898,341	13,684,077	170,244	1,092,971	568,856	209,372	21,623,861
Accumulated depreciation and impairment	(3,326,251)	(9,665,095)	(125,362)	(1,012,990)	(328,245)	(64,940)	(14,522,883)
Net carrying amounts	2,572,090	4,018,982	44,882	79,981	240,611	144,432	7,100,978
Initial application of IFRS16 (Note 2(a))	6,360	-	-	-	-	-	6,360
Restated net carrying amounts at 1 January 2019	2,578,450	4,018,982	44,882	79,981	240,611	144,432	7,107,338
Cost at 1 January 2019, net of accumulated depreciation and impairment	2,578,450	4,018,982	44,882	79,981	240,611	144,432	7,107,338
Additions	4,535	30,466	9,056	4,191	4,864	325,951	379,063
Disposals	(2,618)	(36,413)	(399)	(1,131)	(51)	(20,562)	(61,174)
Transfer	36,254	91,003	2,660	18,408	4,435	(152,760)	-
Depreciation	(156,360)	(468,001)	(10,083)	(32,871)	(5,572)	-	(672,887)
Costs at 31 December 2019, net of accumulated depreciation and impairment	2,460,261	3,636,037	46,116	68,578	244,287	297,061	6,752,340
At 31 December 2019							
Cost	5,937,387	13,750,972	176,132	1,097,620	577,644	362,002	21,901,757
Accumulated depreciation and impairment	(3,477,126)	(10,114,935)	(130,016)	(1,029,042)	(333,357)	(64,941)	(15,149,417)
Net carrying amounts	2,460,261	3,636,037	46,116	68,578	244,287	297,061	6,752,340

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

17. Property, plant and equipment – Continued

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018							
Cost	5,910,845	13,730,030	175,828	1,090,326	568,499	122,353	21,597,881
Accumulated depreciation and impairment	(3,142,619)	(9,280,788)	(127,448)	(1,000,117)	(321,047)	(64,837)	(13,936,856)
Net carrying amounts	2,768,226	4,449,242	48,380	90,209	247,452	57,516	7,661,025
Cost at 1 January 2018, net of accumulated depreciation and impairment	2,768,226	4,449,242	48,380	90,209	247,452	57,516	7,661,025
Additions	265	37,760	3,819	7,720	542	119,179	169,285
Disposals	(6,028)	(6,468)	(866)	(878)	(115)	(4,534)	(18,889)
Transfer	7,566	8,950	1,714	9,108	291	(27,629)	-
Impairment	(209)	(418)	-	(118)	(34)	(100)	(879)
Depreciation	(197,730)	(470,084)	(8,165)	(26,060)	(7,525)	-	(709,564)
Costs at 31 December 2018, net of accumulated depreciation and impairment	2,572,090	4,018,982	44,882	79,981	240,611	144,432	7,100,978
At 31 December 2018							
Cost	5,898,341	13,684,077	170,244	1,092,971	568,856	209,372	21,623,861
Accumulated depreciation and impairment	(3,326,251)	(9,665,095)	(125,362)	(1,012,990)	(328,245)	(64,940)	(14,522,883)
Net carrying amounts	2,572,090	4,018,982	44,882	79,981	240,611	144,432	7,100,978

The Group has no capitalised borrowing costs on qualifying assets during the year (2018: RMBNil).

As at 31 December 2019, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB933,460,000 (2018: RMB998,077,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned buildings.

Security

As at 31 December 2019, property, plant and equipment of RMB977,166,000 were pledged as securities for the Group's interest-bearing bank borrowings. The details are disclosed in Note 34.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

17. Property, plant and equipment – Continued

Right-of-Use assets

	Plant and machinery RMB'000	Buildings RMB'000	Prepaid lease payments RMB'000	Total RMB'000
At 1 January 2019	**1,181,338**	**6,360**	**588,786**	**1,776,484**
Additions	**—**	**4,535**	**—**	**4,535**
Depreciation	**(53,493)**	**(2,480)**	**(15,377)**	**(71,350)**
Disposal	**—**	**—**	**(2,188)**	**(2,188)**
Transfer*	**(1,107,162)**	**—**	**—**	**(1,107,162)**
At 31 December 2019	**20,683**	**8,415**	**571,221**	**600,319**

* The amounts were transferred to owned assets upon the maturity of the leases during the year ended 31 December 2019.

At 31 December 2018, the carrying amount of plant and machinery included amounts of RMB1,181,338,000 in respect of assets acquired under finance leases.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

18. Mining rights

	2019 RMB'000	2018 RMB'000
Cost as at 1 January, net of accumulated amortisation	**135,593**	137,743
Amortisation for the year	**(1,849)**	(2,150)
Cost as at 31 December, net of accumulated amortisation	**133,744**	135,593
As at 31 December		
Cost	**158,665**	158,665
Accumulated amortisation	**(24,921)**	(23,072)
Net carrying amount	**133,744**	135,593

19. Prepaid lease payments

	2019 RMB'000	2018 RMB'000
Carrying amount as at 1 January	**588,786**	604,236
Amortisation for the year	**(15,377)**	(15,365)
Disposals	**(2,188)**	(85)
Carrying amount as at 31 December	**571,221**	588,786
Current portion included in prepayments, deposits and Other receivables	**-**	(15,204)
Non-current portion	**571,221**	573,582

As of the date of issuance of the consolidated financial statements, the land use right certificate held by 中海油华鹿山西煤炭化工有限公司 (transliterated as CNOOC Hualu Shanxi Coal Chemical Co., Ltd. ("**CNOOC Hualu**") has not been invalidated after CNOOC Hualu was served the relevant seizure notification by the local land bureau and provided full impairment against the carrying amount of the land use right in 2014. In addition, the directors of the Company are of the view that there is no evidence the payables for acquisition of the said land use right amounting to RMB26,339,000 (2018: RMB26,339,000), presented under "Other long term liabilities" and "Other payables and accruals", are no longer payable.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

20. Investment properties

	Total RMB'000
Cost	
At 1 January 2018	130,681
Disposals	(6,190)
At 31 December 2018, 1 January 2019 and 31 December 2019	124,491
Depreciation and impairment	
At 1 January 2018	8,408
Depreciation for the year	6,030
At 31 December 2018 and 1 January 2019	14,438
Depreciation for the year	5,795
Impairment loss for the year	4,813
At 31 December 2019	25,046
Carrying amounts	
At 31 December 2019	99,445
At 31 December 2018	110,053

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

21. Intangible assets

	Computer Software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2019, net of accumulated amortisation	**8,370**	**24,912**	**33,282**
Additions	**2,847**	**-**	**2,847**
Disposal	**-**	**(433)**	**(433)**
Amortisation for the year	**(4,213)**	**(2,909)**	**(7,122)**
Cost as at 31 December 2019, net of accumulated amortisation	**7,004**	**21,570**	**28,574**
As at 31 December 2019			
Cost	**66,642**	**163,014**	**229,656**
Accumulated amortisation	**(59,638)**	**(141,444)**	**(201,082)**
Net carrying amount	**7,004**	**21,570**	**28,574**
Cost as at 1 January 2018, net of accumulated amortisation	10,183	20,148	30,331
Additions	2,620	10,892	13,512
Amortisation for the year	(4,433)	(6,128)	(10,561)
Cost as at 31 December 2018, net of accumulated amortisation	8,370	24,912	33,282
As at 31 December 2018			
Cost	63,795	163,582	227,377
Accumulated amortisation	(55,425)	(138,670)	(194,095)
Net carrying amount	8,370	24,912	33,282

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

22. Investment in joint ventures

	2019 RMB'000	2018 RMB'000
Cost of investment in joint ventures	265,299	265,299
Share of post-acquisition profits and other comprehensive income, net of dividends received	(37,380)	(38,018)
	227,919	227,281

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

The Group's other receivables and other payables with its joint ventures are disclosed in Notes 30 and 37 respectively.

Particulars of the joint ventures of the Group at the end of the reporting period are set out as follows:

Name of the entity	Place and date of incorporation and operation	Registered capital '000	Percentage of equity interest attributable to the Company	%	Principal activities
貴州錦麟化工有限責任公司 (transliterated as Guizhou Jinlin Chemical Co., Ltd.)	PRC 12 April 2007	RMB481,398	Direct Indirect	41.26 –	Phosphorus mining and processing manufacture and sales of phosphorus ore and chemical products
CBC (Canada) Holding Corp. (中海化學(加拿大)控股公司)	Canada 28 May 2013	CAD24,000	Direct Indirect	60.00 –	Investment holding
海南八所港勞動服務有限公司 (transliterated as Hainan Basuo Port Labour Service Limited)	PRC 24 April 2005	RMB5,000	Direct Indirect	– 36.56	Provision of overseas shipping services

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

	2019 RMB'000	2018 RMB'000
The Group's share of profits/(losses) and other comprehensive income	638	(2,195)
Aggregate carrying amount of the Group's investment in joint ventures	227,919	227,281

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

23. Investment in associates

	2019 RMB'000	2018 RMB'000
Cost of investment in associates	**670,031**	670,031
Share of post-acquisition profits and other comprehensive Income, net of dividends received	**(453,444)**	(450,273)
	216,587	219,758

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

The Group's trade receivables, contract liabilities, other receivables, trade and other payables with its associates are disclosed in Notes 27, 29, 30, 36 and 37 respectively.

Particulars of the associates of the Group are set out as follows:

Name of the entity	Place and date of incorporation and operation	Registered capital '000	Percentage of equity interest attributable to the Company	%	Principal activities
山西華鹿陽坡泉煤礦有限公司 (transliterated as Shanxi Hualu Yangpoquan Coal Mining Co., Ltd.) ("Yangpoquan Coal")(Note)	PRC 31 August 2001	RMB52,000	Direct Indirect	**49.00** -	Mining and sale of coal
中國八所外輪代理有限公司 (transliterated as China Basuo Overseas Shipping Agency Co., Ltd.)	PRC 24 May 2000	RMB1,800	Direct Indirect	- **36.56**	Provision of overseas shipping services
內蒙古鴻豐包裝有限責任公司 (transliterated as Inner Mongolia Hong Feng Packaging Co., Ltd.)	PRC 9 December 1999	RMB3,297	Direct Indirect	- **45.21**	Manufacture and sale of woven plastic bags
聯合惠農農資(北京)有限公司 (transliterated as United Agricultrual Means of Production (Beijing) Co.,Ltd.)	PRC 7 June 2016	RMB100,000	Direct Indirect	**30.00** -	Merchandising

Note:

The Company proposed to initiate a listing-for-sales process to dispose Yangpoquan Coal by virtue of equity transfer on 北京產權交易所有限公司 (transliterated as China Beijing Equity Exchange ("**CBEX**")).

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

23. Investment in associates – Continued

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

	2019 RMB'000	2018 RMB'000
The Group's share of (losses)/profits and other comprehensive income	(3,171)	1,288
Aggregate carrying amount of the Group's investment in associates	216,587	219,758

24. Other financial assets

	2019 RMB'000	2018 RMB'000
Non-current		
Financial asset at FVOCI	600	600
Current		
Financial assets at FVTPL	2,898,451	-

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

Financial assets at FVTPL represent wealth management products in licensed bank. Gain on maturity of financial assets at FVTPL of RMB45,641,000 (2018: RMB320,549,000) was recognised during the year. The wealth management products will mature on 16 January 2020 and 27 May 2020 (2018: all wealth management products matured during the year).

25. Deferred tax assets/liabilities

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	504,140	806,692
Deferred tax liabilities	(19,382)	(43,147)
	484,758	763,545

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

25. Deferred tax assets/liabilities – Continued

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

	Accelerated tax depreciation	Impairment losses	Wages and salaries	Fair value adjustment on acquisition of subsidiaries	Unused tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018	23,496	530,323	16,021	(47,079)	255,878	14,387	793,026
(Charge)/credit to profit or loss	(1,920)	(33,434)	-	3,932	8,434	(6,493)	(29,481)
As at 31 December 2018 and 1 January 2019	**21,576**	**496,889**	**16,021**	**(43,147)**	**264,312**	**7,894**	**763,545**
(Charge)/credit to profit of loss	**(4,442)**	**(51,795)**	**(1,706)**	**23,765**	**(242,159)**	**(2,450)**	**(278,787)**
As at 31 December 2019	**17,134**	**445,094**	**14,315**	**(19,382)**	**22,153**	**5,444**	**484,758**

As at 31 December 2019, the Group has unused tax losses of RMB1,057,248,000 (2018: RMB1,857,744,000) of available for offset against future profits. A deferred tax asset has been recognised in respect of RMB88,612,000 (2018: RMB1,057,248,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB968,636,000 (2018: RMB800,496,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB968,636,000 (2018: RMB800,496,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB647,372,000 (2018: RMB591,454,000) that has not been recognised as deferred tax assets as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

26. Inventories

	2019	2018
	RMB'000	RMB'000
Raw materials and spare parts	**451,814**	354,869
Work in progress	**164,741**	335,980
Finished goods	**499,058**	600,334
	1,115,613	1,291,183
Write-down	**(4,846)**	(4,861)
Net realisable value	**1,110,767**	1,286,322

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

27. Trade receivables

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

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

	2019 RMB'000	2018 RMB'000
Trade receivables	33,370	42,119
Less: impairment loss	(762)	(762)
Net realisable value	32,608	41,357

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

	2019 RMB'000	2018 RMB'000
Within six months	32,608	41,329
Over six months but within one year	-	28
	32,608	41,357

The ECLs allowance is assessed collectively for receivables that were neither past due nor impaired and individually for impaired trade receivables with an aggregate carrying amount of RMB762,000 (2018: RMB762,000).

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

	2019 RMB'000	2018 RMB'000
Neither past due nor impaired	32,608	41,170
One to three months past due	-	187
	32,608	41,357

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

27. Trade receivables – Continued

Movement in the ECLs allowance in respect of trade receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	**762**	361
Impairment loss recognised	**-**	401
Balance at end of the year	**762**	762

The Group recognised impairment loss based on the accounting policy stated in Note 4(h)(ii) for the years ended 31 December 2019 and 2018 respectively. Further details on the group's credit policy and credit risk arising from trade receivables are set out in Note 44(iii).

As at 31 December 2019, the amount due from the ultimate holding company, its subsidiaries and 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 balances, which are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group, can be analysis as follow:

	2019 RMB'000	2018 RMB'000
CNOOC group companies	**1,700**	20,403
Associates	**1,650**	349
Other Related Parties	**114**	1,198
	3,464	21,950

28. Bills receivable

The bills receivable of the Group as at 31 December 2019 and 2018 are all mature within six months.

At 31 December 2019, the Group has transferred bills receivables having maturity less than six months from the reporting dates to its suppliers to settle its payables through endorsing the bills to its suppliers amounted to RMB374,999,000 (2018: RMB278,726,000). The Group has derecognised these bills receivables and the payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 31 December 2019, the Group's maximum exposure to loss, which is same as the amount payable by the Group to banks or the suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB374,999,000 (2018: RMB278,726,000).

The fair value of bills receivable are close to their carrying amounts given all bills receivable will mature within six months.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

29. Contract assets and contract liabilities

(a) Contract assets

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

	2019 RMB'000	2018 RMB'000
Contract assets arising from:		
Provision of port operation and transportation services	58,233	16,116

The expected timing of recovery or settlement for contract assets as at 31 December 2019 is as follows:

	2019 RMB'000	2018 RMB'000
Within one year	58,233	16,116

As at 31 December 2019, the amount due from CNOOC group companies included in the above contract assets amounted to RMB53,444,000 (2018: RMBNil).

(b) Contract liabilities

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

	2019 RMB'000	2018 RMB'000
Contract liabilities arising from:		
Sale of goods	442,869	557,099

All the contract liabilities as at 31 December 2018 were recognised as revenue during the year ended 31 December 2018. The Group expects that the contract liabilities as at 31 December 2019 will be recognised as revenue within a year or less.

As at 31 December 2019, the amount dues to the ultimate holding company, CNOOC group companies, Associates and Other Related Parties included in the above contract liabilities can be analysed as follow:

	2019 RMB'000	2018 RMB'000
Ultimate holding company	11,892	-
CNOOC group companies	4,763	-
Associates	525	-
Other Related Parties	16,496	21,690
	33,676	21,690

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

30. Prepayments, deposits and other receivables

	2019 RMB'000	2018 RMB'000
Prepayments	156,201	175,671
Prepaid lease payments	-	15,204
Deposits and other receivables	196,198	157,199
Less: impairment loss	(15,153)	(24,255)
	337,246	323,819

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

	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	24,255	7,624
(Reversal of impairment loss)/impairment loss recognised	(174)	16,631
Written off of impairment loss recognised	(8,928)	-
Balance at end of the year	15,153	24,255

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

Apart from the loss allowance mentioned above, none of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

The amounts due from the ultimate holding company, CNOOC group companies, associates, joint venture and Other Related Parties included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	2019 RMB'000	2018 RMB'000
Ultimate holding company	14	1,563
CNOOC group companies	47,069	36,226
Associates	6,383	8,143
Joint venture	5,205	-
Other Related Parties	1,643	274
	60,314	46,206

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

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

	2019 RMB'000	2018 RMB'000
Cash and bank and financial institution balances	**5,828,225**	8,710,844
Less: Pledged bank deposits	**(4,129)**	(50,003)
Time deposits with original maturity over three months	**(5,000,000)**	(5,260,802)
Cash and cash equivalents in the consolidated statement of cash flows	**824,096**	3,400,039

The Group's cash and bank balances were denominated in RMB as at 31 December 2019 and 2018, except for (i) RMB121,474,000 (2018: RMB369,427,000) which was translated from US$17,413,000 (2018: US$53,800,000); (ii) RMB11,409,000 (2018: RMB12,116,000) which was translated from HK$12,737,000 (2018: HK$10,616,000); and (iii) RMBNil (2018: RMB24,000) which was translated from EURNil (2018: EUR3,000).

The RMB is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2019, included in the Group's cash and cash equivalents were RMB399,857,000 (2018: RMB399,402,000) deposited in CNOOC Finance Corporation Limited ("**CNOOC Finance**"), a licensed financial institution, which is a subsidiary of the ultimate holding company.

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

32. Issued capital

	Number of shares '000	Nominal value RMB'000
Registered capital	4,610,000	4,610,000
Issued and fully paid		
Domestic shares of RMB1 each, currently not listed:		
- State-owned shares	2,739,000	2,739,000
- other legal person shares	75,000	75,000
Unlisted foreign shares of RMB1 each	25,000	25,000
H shares of RMB1 each	1,771,000	1,771,000
As at 31 December 2019 and 2018	**4,610,000**	**4,610,000**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

33. Benefits liability

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

	2019 RMB'000	2018 RMB'000
Post-employment allowances	**10,975**	10,975
Early retirement benefits	**31,481**	41,062
Total benefits liability	**42,456**	52,037

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

	Post-employment allowances RMB'000	Early retirement benefits RMB'000
At 1 January 2018	12,962	52,890
Net interest cost	-	1,109
Benefits paid	(1,987)	(12,937)
At 31 December 2018 and 1 January 2019	**10,975**	**41,062**
Service cost	**-**	**3,649**
Net interest cost	**-**	**222**
Benefits paid	**-**	**(13,452)**
At 31 December 2019	**10,975**	**31,481**

The principal assumptions used in determining post-employment allowances and early retirement benefits of the Group as at 31 December 2019 are shown below:

	Post-employment allowances		Early retirement benefits	
	2019	2018	**2019**	2018
Discount rate				
- CNOOC Tianye	**4.00%**	4.00%	**4.00%**	4.00%
- Hainan Basuo Port	**0.00%**	0.00%	**2.75%**	0.00%
Annual growth rate of employee benefits				
- CNOOC Tianye	**0.00%**	0.00%	**7.00%**	7.00%
- Hainan Basuo Port	**0.00%**	0.00%	**0.00%**	0.00%

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

33. Benefits liability – Continued

The directors of the Company have reviewed the actuarial valuation as at 31 December 2019 which was performed by an independent actuary service provider, using the valuation method detailed under Note 4(n), and considered that the Group's current provision for the net benefit expenses was adequate as at 31 December 2019. The directors of the Group do not expect significant changes in principal assumptions.

34. Interest-bearing bank borrowings

	2019 RMB'000	2018 RMB'000
Within one year	1,587,000	100,000
More than one year, but not more than two years	312,000	55,000
More than two year, but not more than five years	110,000	630,000
	2,009,000	785,000
Analysed for reporting purposes as:		
Current	1,587,000	100,000
Non-current	422,000	685,000

As at 31 December 2019, bank borrowings of RMB1,069,000,000 (2018: RMBNil) were secured by property, plant and equipment of RMB977,166,000 (2018: RMBNil) (Note 17). The secured bank borrowings had effective interest rates of 3.37%–4.41% per annum, and payable within one year. The remaining bank borrowings were unsecured with effective interest rates of 4.35%–4.41% per annum, payable within 2020 and 2023. The amounts due were based on the scheduled repayment dates set out in the loan agreements. As at 31 December 2019, the amount due to CNOOC International Financial Leasing Limited ("**CNOOC Leasing**") included in the above interest-bearing bank borrowings amounted to RMB1,069,000,000 (2018: RMBNil).

35. Deferred revenue

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

	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	169,327	175,210
Additions	65,049	1,079
Credited to consolidated statement of profit or loss	(104,250)	(6,962)
Balance at end of the year	130,126	169,327

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

36. Trade payables

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

	2019 RMB'000	2018 RMB'000
Within six months	671,056	588,115
Over six months but within one year	-	19,944
Over one year but within two years	11,822	74,737
Over two years but within three years	1,152	3,149
Over three years	4,441	22,445
	688,471	708,390

As at 31 December 2019, the amounts due to CNOOC group companies and associates included in the above trade payables amounted to RMB301,291,000 (2018: RMB302,599,000) and RMB68,000 (2018: RMB Nil) respectively.

37. Other payables and accruals

	2019 RMB'000	2018 RMB'000
Accruals	-	12,653
Accrued payroll	189,117	181,835
Other payables	229,443	364,602
Long-term liabilities due within one year in relation to CNOOC Hualu land use right	1,798	1,798
Interest payable	2,334	1,054
Dividends payable	13,445	13,445
Payable to government	21,103	21,848
Other tax payables	30,954	43,178
Port construction fee payable	158,773	164,655
Payables in relation to the construction and purchase of property, plant and equipment	229,652	38,600
	876,619	843,668

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

37. Other payables and accruals - Continued

The amounts due to the ultimate holding company, CNOOC group companies, associate, joint venture and Other Related Parties included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	2019 RMB'000	2018 RMB'000
Ultimate holding company	532	532
CNOOC group companies	25,948	37,359
Associates	1,237	-
Joint venture	55	-
Other Related Parties	14	8,227
	27,786	46,118

38. Leases

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policy applied subsequent to the date of initial application, 1 January 2019, as disclosed in Note 4(f)A.

Nature of leasing activities (in the capacity as lessee)

The group leases a number of properties in the jurisdictions from which it operates. The periodic rent is fixed over the lease term.

The Group also leases certain items of plant and machinery. Leases of plant and machinery comprise only fixed payments over the lease terms.

RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying asset was as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Ownership interests in leasehold land, carried at amortised cost	571,221	588,786
Other properties leased for own use, carried at depreciated cost	8,415	6,360
Plant and machinery, carried at depreciated cost	20,683	1,181,338

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

38. Leases - Continued

LEASE LIABILITIES

For the year ended 31 December 2019	Plant and machinery RMB'000	Land and buildings RMB'000	Total RMB'000
At 1 January 2019	**1,362,322**	**4,478**	**1,366,800**
Additions	**—**	**4,535**	**4,535**
Interest expense	**13,841**	**300**	**14,141**
Lease payments	**(1,355,839)**	**(2,920)**	**(1,358,759)**
At 31 December 2019	**20,324**	**6,393**	**26,717**

Future lease payments are due as follows:

	31 December 2019		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	**5,735**	**1,208**	**4,527**
After one but within two years	**4,556**	**1,037**	**3,519**
After two but within five years	**12,758**	**2,049**	**10,709**
More than 5 years	**8,658**	**696**	**7,962**
	25,972	**3,782**	**22,190**
	31,707	**4,990**	**26,717**

	1 January 2019		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	1,352,378	12,274	1,340,104
After one but within two years	4,568	1,030	3,538
After two but within five years	11,090	2,225	8,865
More than 5 years	15,433	1,140	14,293
	31,091	4,395	26,696
	1,383,469	16,669	1,366,800

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

38. Leases - Continued

The Group entered into sale and leaseback arrangements with CNOOC Leasing for certain manufacturing equipment which results in obligations under finance leases. Under the sale and leaseback contracts signed, the lease terms are three years and can be renewed prior to the end of the lease terms. Interest rates are round 2.66% per annum varying based on the benchmark interest rate of the People's Bank of China. The Group has option to purchase the equipment for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

	31 December 2018		
	Minumum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	1,347,312	11,181	1,336,131

Note: The Group has initially applied IFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. See Note 2(a) for further details about transition.

The present value of future lease payments are analysed as:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Current liabilities	**4,527**	1,340,104
Non-current liabilities	**22,190**	26,696
	26,717	1,366,800

	2019 RMB'000
Short term lease expense	**2,076**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

38. Leases - Continued

Operating leases - lessee

At 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases in respect of properties were payable as follows:

	2018 RMB'000
Within 1 year	1,844
After 1 year but within 5 years	2,690
Over 5 years	2,833
	7,367

Operating leases - lessor

The Group leases certain of its buildings under operating lease arrangements with leases negotiated for terms from one year to ten years to CNOOC group companies and third-party companies. As at 31 December 2018, the Group had total future minimum lease receivables from third-party companies and CNOOC New Energy (Hainan) Bio-energy & Chemical Co., Ltd., which is a subsidiary of CNOOC, under non-cancellable operating leases falling due as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	1,287	1,539
After 1 year but within 5 years	4,400	5,455
Over 5 years	-	1,952
	5,687	8,946

39. Disposal of a subsidiary in prior year

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

The disposal was completed on 26 February 2018, on which date control of Yichang Mining passed to the independent acquirers. The net disposal proceed of RMB271,965,000 exceeded the Company's share of net carrying amount of the relevant assets and liabilities.

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

39. Disposal of a subsidiary in prior year - Continued

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

	2018 RMB'000
Property, plant and equipment	67,577
Mining and exploration rights	329,120
Cash and cash equivalents	12,876
Prepayments, deposits and other receivables	633
Other payables and accruals	(229)
Income tax payable	(5)
	409,972
Non-controlling interests	(200,886)
Gain on disposal of a subsidiary	62,879
Total consideration	271,965
Satisfied by:	
Cash	271,965
Cash inflow arising from disposal of a subsidiary	
Cash consideration received	271,965
Cash and cash equivalent disposed	(12,876)
	259,089

40. Commitment and contingent liabilities

Capital commitments

In addition to the leases detailed in Note 38 above, the Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for acquisition of plant and machinery	114,464	51,094

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

41. Related party transactions

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

(1) Recurring

	2019 RMB'000	2018 RMB'000
(A) Included in revenue and other income		
(i) CNOOC group companies		
Sale of goods	363,873	441,897
Provision of packaging and assembling services	97,551	101,431
Provision of transportation services	134	186
Provision of logistics services	36,346	21,171
Provision of lease of property and land	6,646	31,269
(ii) Other Related Parties		
Sale of goods	411,605	405,081
Provision of transportation services	11,288	14,059
(iii) Associate		
Sale of goods	18,842	-
(iv) Joint venture		
Provision of packaging andassembling services	33,026	-
(B) Included in cost of sales and other expenses		
(i) CNOOC group companies		
Purchase of raw materials	2,786,544	2,427,098
Labour service	46,380	47,943
Constuction and installation services	26,116	21,734
Lease of offices	25,996	26,861
Logistics services	1,819	192
Network service	16,469	18,487
(ii) Other Related Parties		
Purchase of raw materials	49,122	18,622
(iii) Ultimate holding company		
Logistics services	-	10,004

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

41. Related party transactions - Continued

(1) Recurring - Continued

	2019 RMB'000	2018 RMB'000
(C) Included in finance income/costs		
(i) CNOOC Finance		
Finance income	**3,304**	3,974
Fees and charges	**1,154**	1,346
(ii) CNOOC Leasing		
Fees and charges	**7,638**	-
Interests on bank borrowings	**23,943**	-
Interest on lease liabilities	**14,141**	-
Loan received	**1,100,000**	-
Loan repaid	**31,000**	-
(D) Included in finance leaseback		
(i) CNOOC Leasing		
Fees and charges	**-**	16,350
Interest on finance leaseback	**-**	39,630

These transactions listed above were conducted in accordance with terms agreed among the Group, its associates, its joint venture CNOOC group companies and Other Related Parties.

Except for finance income from CNOOC Finance, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(2) Balances with related parties

Details for following balances are mainly set out in Notes 27, 29, 30, 31, 34, 36, 37 and 38. The balance with CNOOC Finance resulted from interest and loans. Others were mainly formed through routine trading transactions, reception of construction services, and other miscellaneous transactions with related parties.

	Amounts due from		Amounts due to	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Ultimate holding company	**14**	1,563	**12,424**	532
CNOOC group companies	**102,213**	56,629	**332,002**	339,958
Associates	**8,033**	8,492	**1,830**	8,227
Joint venture	**5,205**	-	**55**	-
CNOOC Leasing	**-**	-	**1,069,000**	1,336,131
Other Related Parties	**1,757**	1,472	**16,510**	21,690

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

41. Related party transactions - Continued

(2) Balances with related parties – Continued

In addition, as at 31 December 2019, the deposits placed by the Group with CNOOC Finance were amounted to RMB399,857,000 (2018: RMB399,402,000), as detailed in Note 31.

(3) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**10,472**	8,671
Post-employment benefits	**182**	75
Total compensation paid to key management personnel	**10,654**	8,746

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

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. Certain specific and major raw materials provided by SOE suppliers are from Western Natural Gas (the "**WNG**") and WNG mainly supplied natural gas to CNOOC Tianye. As of 31 December 2019, the Group made a total procurement of RMB360,236,000 from WNG (2018: RMB566,758,000). Methanol sold by the Company and CNOOC Kingboard Chemical Limited to the Southern branch of Sinopec Chemical Commercial Holding Company Limited constituted most of the sales to SOEs. For the year ended 31 December 2019, the sales amount reached RMB302,567,000 (2018: RMB240,893,000). Except for the above two SOEs, sales to and procurements from other SOEs are considered as specific but not significant transactions.

In addition, the Group has certain of its cash, pledged bank deposits and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2019, as summarised below:

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**764,554**	3,352,450
Pledged bank deposits	**4,129**	50,003
Time deposits	**5,000,000**	5,260,802
	5,768,683	8,663,255
Interest-bearing bank borrowings	**2,009,000**	785,000

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

42. Financial instruments

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

	2019		2018	
	Carrying amounts RMB'000	Fair value RMB'000	Carrying amounts RMB'000	Fair value RMB'000
Financial assets at FVTPL				
- Wealth management products	-	2,898,451	-	-
Financial assets at FVOCI				
- Unlisted equity investment	-	600	-	600
- Bills receivable	-	333,354	-	113,949
Financial assets at amortised cost				
- Trade receivables	32,608	-	41,357	-
- Contract assets	58,233	-	16,116	-
- Deposits and other receivables	181,045	-	116,061	-
- Pledged bank deposits	4,129	-	50,003	-
- Time deposits	5,000,000	-	5,260,802	-
- Cash and cash equivalents	824,096	-	3,400,039	-
Financial liabilities at amortised cost				
- Trade and bills payables	688,471	-	708,390	-
- Other payables and accruals	876,619	-	604,205	-
- Obligations under finance leases	-	-	1,336,131	-
- Lease liabilities	26,717	-	-	-
- Interest-bearing bank borrowings	2,009,000	-	785,000	-
- Other long-term liabilities	29,880	-	27,439	-

43. Fair value and fair value hierarchy

(a) Financial instruments not measured at fair value

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 fair values of trade receivables, financial assets included in deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables and other payables, approximate to their carrying amounts largely due to the short term maturities of these instruments.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

43. Fair value and fair value hierarchy - Continued

(a) Financial instruments not measured at fair value - Continued

The carrying amounts of the non-current portion of interest-bearing bank and other 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.

(b) Financial instruments measured at fair value

The valuation techniques used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

Information about level 2 fair value measurements

The fair value of wealth management products was calculated as the present value of the estimated future cash flows based on market interest rates of instruments with similar terms and risks.

Information about level 3 fair value measurements

The fair value of unlisted equity investment was determined based on transaction price and factors or events that have occurred after the acquisition date. Since there was no significant change in market condition or the performance and operation of the investment, the directors considered the fair value of the unlisted equity investment was approximately the transaction price.

The fair value of bills receivable was close to their carrying amounts given all bills receivable will mature within six months.

There were no changes in valuation techniques during the period.

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

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs;

Level 3: Unobservable inputs (i.e. not derived from market data).

	31 December 2019		
	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL			
- Wealth management products	2,898,451	-	2,898,451
Financial assets at FVOCI			
- Unlisted equity investment	-	600	600
- Bills receivable	-	333,354	333,354

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

43. Fair value and fair value hierarchy - Continued

(b) Financial instruments measured at fair value - Continued

	31 December 2018		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Financial assets at FVOCI			
- Unlisted equity investment	-	600	600
- Bills receivable	-	113,949	113,949

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

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

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

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

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

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

The management has set up a valuation team, which is headed by the Chief Financial Officer of the Company, to determine, subject to the directors' approval, the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group's valuation team performs the valuation or engages third party qualified valuers to perform the valuation considering the complexity and significance of the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation team's findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

44. Financial risk management objective and policies

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 4.

(i) Interest rate risk

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

As at 31 December 2019, the Group's interest-bearing bank borrowings and lease liabilities (2018: obligations under finance leases) bear variable interest rates amounted to RMB2,035,717,000 (2018: RMB2,121,131,000).

The interest rates and the terms of repayment of the Group's interest-bearing bank borrowings and lease liabilities (2018: obligations under finance leases) are disclosed in Notes 34 and 38 respectively.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would be decreased/increased by approximately RMB7,634,000 (2018: decreased/increased by RMB7,954,000).

(ii) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States dollar ("USD")	**121,474**	369,427	**-**	-
HKD	**11,409**	12,116	**-**	-
Euros ("EUR")	**-**	24	**-**	-

The Group has transactional currency exposures, which arise from sales or purchases in currencies other than the functional currency of the entities comprising the Group. Approximately 7% (2018: 10%) of the Group's sales were denominated in currencies other than functional currency of the entities comprising the Group.

The Group's monetary assets, loans and transactions are principally denominated in RMB, USD, HKD and EUR. The Group was exposed to foreign currency risk arising from the changes in the exchange rates of HKD, USD, and EUR against RMB.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

44. Financial risk management objective and policies - Continued

(ii) Foreign currency risk - Continued

Foreign currency sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in USD, HKD and EUR.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, HKD and EUR respectively. 5% (2018: 5%) are the sensitivity rates used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonable possible change in foreign exchange rates. A negative number below indicates an increase in loss (or decrease in profit) and decrease in equity where the RMB strengthen against USD, HKD and EUR. For a 5% (2018: 5%) weakening of the RMB against USD, HKD and EUR, there would be an equal and opposite impact on the loss/profit or equity.

	Impact of USD		Impact of HKD		Impact of EUR	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Sensitivity rate	**5%**	5%	**5%**	5%	**5%**	5%
Profit or loss	**(2,141)**	(18,471)	**(413)**	(606)	**-**	(1)
Equity	**(2,141)**	(18,471)	**(413)**	(606)	**-**	(1)

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

(iii) Credit risk

The carrying amounts of the Group's cash and cash equivalents, trade receivables, other receivables and other current assets except for prepayments and VAT recoverable, represent the Group's maximum exposure to credit risk in relation to its financial assets.

The majority of the Group's trade receivables are related to the sale of fertilisers and methanol. The sale of fertilisers is normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and only long-standing customers are granted with credit terms. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The ECLs rate for trade receivables and contract assets that are catergorised as not past due is assessed to be 0.1% (2018: 0.1%), while the ECLs rate for past due within one year is assessed to be 0.5% (2018: 0.5%). The ECLs rate is reviewed, and adjusted if appropriate, at the end of each reporting period. The ECLs rate remained the same during the year as the business and customer base of the Group remained stable and there were no significant fluctuations on the historical credit loss incurred. In addition, there is no significant change on the economic indicators based on the assessment of the forward-looking information. Based on evaluation on ECLs rate and the carrying amount of trade receivables and contract assets, the directors of the Company are of the opinion that the ECLs in respect of trading receivables and contract assets are considered as immaterial.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. Deposits in financial institutions are not exposed to credit risk as these financial institutions are with high credit rating. No other financial assets carry a significant exposure to credit risk.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

44. Financial risk management objective and policies - Continued

(iv) Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. As at 31 December 2019, the balance of the Group's interest-bearing bank borrowings was RMB2,009,000,000 (2018: RMB785,000,000).

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

	2019					
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 year but less than 5 years RMB'000**	**More than 5 years RMB'000**
Interest-bearing bank borrowings	**2,009,000**	**2,073,742**	**1,631,901**	**326,701**	**115,140**	**-**
Trade payables	**688,471**	**688,471**	**688,471**	**-**	**-**	**-**
Other payables and accruals	**876,619**	**876,619**	**876,619**	**-**	**-**	**-**
Lease liabilities	**26,717**	**31,707**	**5,735**	**4,556**	**12,758**	**8,658**
Other long-term liabilities	**29,880**	**78,100**	**-**	**1,798**	**7,190**	**69,112**
	3,630,687	**3,748,639**	**3,202,726**	**333,055**	**135,088**	**77,770**

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

In addition to the amounts shown in the above table as at 31 December 2019, the Group may also be required to settle the maximum exposure to loss arising from endorsed bills arrangements with full recourse as detailed in Note 28 in the next 6 months, amounting to RMB374,999,000 (2018: RMB278,726,000) in aggregate.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

44. Financial risk management objective and policies - Continued

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2019 and 2018.

The Group monitors capital using a gearing ratio, which is calculated as interest-bearing debts divided by net asset plus interest-bearing debts. The gearing ratios as at the end of the reporting years were as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing debts (Note)	2,035,717	2,121,131
Net assets	15,117,089	15,127,638
Net assets plus Interest-bearing debts	17,152,806	17,248,769
Gearing ratio	11.87%	12.30%

Note: Interest-bearing debts comprises interest-bearing bank borrowings and lease liabilities (2018: obligations under finance leases) as detailed in Notes 34 and 38 respectively.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

45. Particulars of principal subsidiaries of the company

(i) General information of subsidiaries

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

Name of subsidiaries	Place and date of incorporation and operation	Registered capital '000	Percentage of equity interest attributable to the Company		Principal activities
				%	
海洋石油富島有限公司 (transliterated as CNOOC Fudao Limited)	PRC 31 December 2001	RMB477,400	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
海南中海石油塑編有限公司 (transliterated as Hainan CNOOC Plastic Co., Ltd.)	PRC 28 April 2002	RMB12,716	Direct Indirect	100.00 -	Manufacture and sale of woven plastic bags
海南中海石油運輸服務有限公司 (transliterated as Hainan CNOOC Transportation Co., Ltd.)	PRC 22 October 2001	RMB6,250	Direct Indirect	- 73.11	Provision of transportation services
海南八所港務有限責任公司 (transliterated as Hainan Basuo Port Limited) ("**Hainan Basuo Port**")	PRC 25 April 2005	RMB514,034	Direct Indirect	73.11 -	Port operation
中海石油天野化工有限責任公司 (transliterated as CNOOC Tianye Chemical Limited) ("**CNOOC Tainye**")	PRC 18 December 2000	RMB2,272,856	Direct Indirect	92.27 -	Manufacture and sale of fertilisers and methanol
中海石油建滔化工有限公司 (transliterated as CNOOC Kingboard Chemical Limited) ("**CNOOC Kingboard**")	PRC 31 October 2003	RMB500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
海油富島(上海)化學有限公司 (transliterated as CNOOC Fudao (Shanghai) Chemical Limited)	PRC 7 January 2002	RMB27,000	Direct Indirect	- 100.00	Trading of fertilisers
八所中理外輪理貨有限公司 (transliterated as China Basuo Ocean Shipping Tally Co., Ltd.)	PRC 9 May 2008	RMB300	Direct Indirect	- 61.41	Provision of overseas shipping services
中海油華鹿山西煤炭化工有限公司 (transliterated as CNOOC Hualu ShanxiCoal Chemical Co., Ltd)	PRC 29 November 2005	RMB61,224	Direct Indirect	51.00 -	Preparatory work for a methanol and dimethyl ether project

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

45. Particulars of principal subsidiaries of the company - Continued

(i) General information of subsidiaries - Continued

Name of subsidiaries	Place and date of incorporation and operation	Registered capital	Percentage of equity interest attributable to the Company		Principal activities
		'000		%	
湖北大峪口化工有限責任公司 (transliterated as Hubei Dayukou Chemical Limited) ("**Hubei Dayukou**")	PRC 12 August 2005	RMB1,103,127	Direct Indirect	**79.98** -	Phosphate mining and processing, manufacture and sale of MAP and DAP fertilisers
廣西富島農業生產資料有限公司 (transliterated as Guangxi Fudao Agricultural Means of Production Limited)	PRC 11 January 2003	RMB20,000	Direct Indirect	- **51.00**	Trading of fertilisers and chemicals
中海石油華鶴煤化有限公司 (transliterated as CNOOC Huahe Coal Chemical Limited)	PRC 26 May 2006	RMB1,035,600	Direct Indirect	**100.00** -	Manufacture and sale of fertilisers
China BlueChemical (Hong Kong) Limited (中海化學(香港)有限公司)	Hong Kong 14 November 2013	HKD100	Direct Indirect	**100.00** -	Trading of fertilisers

(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 subsidiaries	Proportion of ownership interst and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2019	2018	**2019**	2018	**2019**	2018
			RMB'000	RMB'000	**RMB'000**	RMB'000
CNOOC Kingboard	**40.00%**	40.00%	**42,122**	160,082	**363,328**	483,293
Hainan Basuo Port	**26.89%**	26.89%	**16,257**	(15,225)	**196,924**	180,667
CNOOC Tianye	**7.73%**	7.73%	**(4,007)**	(350)	**36,950**	40,957
Hubei Dayukou	**20.02%**	20.02%	**(8,176)**	1,559	**209,187**	217,363

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

45. Particulars of principal subsidiaries of the company - Continued

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

CNOOC Kingboard	2019 RMB'000	2018 RMB'000
Current assets	857,044	1,128,082
Non-current assets	221,935	268,690
Current liabilities	(162,895)	(178,464)
Non-current liabilities	(7,764)	(10,075)
Net assets	908,320	1,208,233
Non-controlling interests	363,328	483,293
Revenue	1,104,455	1,421,978
Expenses	(999,150)	(1,021,774)
Profit and total comprehensive income	105,305	400,204
Profit and total comprehensive income attributable to:		
Owners of the Company	63,183	240,122
Non-controlling interests	42,122	160,082
Profit and total comprehensive income	105,305	400,204
Dividends paid to non-controlling interests	162,087	110,565
Net cash inflow from operating activities	177,613	373,972
Net cash outflow from investing activities	(297,684)	(24,409)
Net cash outflow from financing activities	(405,216)	(276,411)
Net cash (outflow)/inflow	(525,287)	73,152

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

45. Particulars of principal subsidiaries of the company - Continued

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

Hainan Basuo Port	2019 RMB'000	2018 RMB'000
Current assets	209,012	138,098
Non-current assets	963,406	1,022,149
Current liabilities	(334,800)	(382,926)
Non-current liabilities	(21,674)	(105,447)
Net assets	815,944	671,874
Non-controlling interests	196,924	180,667
Revenue	316,639	286,003
Expenses	(256,183)	(342,623)
Profit/(loss) and total comprehensive income	60,456	(56,620)
Profit/(loss) and total comprehensive income attributable to:		
Owners of the Company	44,199	(41,395)
Non-controlling interests	16,257	(15,225)
Profit/(loss) and total comprehensive income	60,456	(56,620)
Dividends paid to non-controlling interests	-	13,445
Net cash inflow/(outflow) from operating activities	22,799	(2,567)
Net cash outflow from investing activities	(69,169)	(17,823)
Net cash outflow from financing activities	-	(18,823)
Net cash outflow	(46,370)	(39,213)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

45. Particulars of principal subsidiaries of the company - Continued

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

CNOOC Tianye	**2019** **RMB'000**	2018 RMB'000
Current assets	**284,374**	288,410
Non-current assets	**1,112,277**	1,180,256
Current liabilities	**(838,911)**	(838,073)
Non-current liabilities	**(79,731)**	(100,753)
Net assets	**478,009**	529,840
Non-controlling interests	**36,950**	40,957
Revenue	**1,946,974**	1,660,706
Expenses	**(1,998,805)**	(1,665,230)
Loss and total comprehensive income	**(51,831)**	(4,524)
Loss and total comprehensive income attributable to:		
Owners of the Company	**(47,824)**	(4,174)
Non-controlling interests	**(4,007)**	(350)
Loss and total comprehensive income	**(51,831)**	(4,524)
Dividends paid to non-controlling interests	**-**	-
Net cash inflow from operating activities	**57,898**	69,671
Net cash outflow from investing activities	**(24,543)**	(4,918)
Net cash outflow from financing activities	**(37,677)**	(65,946)
Net cash outflow	**(4,322)**	(1,193)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

45. Particulars of principal subsidiaries of the company - Continued

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

Hubei Dayukou	2019 RMB'000	2018 RMB'000
Current assets	725,026	780,992
Non-current assets	1,442,176	1,633,835
Current liabilities	(1,115,358)	(1,290,726)
Non-current liabilities	(6,954)	(38,375)
Net assets	1,044,890	1,085,726
Non-controlling interests	209,187	217,363
Revenue	2,043,070	2,254,703
Expenses	(2,083,907)	(2,246,917)
(Loss)/profit and total comprehensive income	(40,837)	7,786
(Loss)/profit and total comprehensive income attributable to:		
Owners of the Company	(32,661)	6,227
Non-controlling interests	(8,176)	1,559
(Loss)/profit and total comprehensive income	(40,837)	7,786
Dividends paid to non-controlling interests	-	-
Net cash inflow/(outflow) from operating activities	172,852	(74,417)
Net cash outflow from investing activities	(32,747)	(36,421)
Net cash (outflow)/inflow from financing activities	(141,388)	103,272
Effect of foreign exchange rate changes	53	1,722
Net cash outflow	(1,230)	(5,844)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

46. Statement of financial position and reserves of the company

	2019 RMB'000	2018 RMB'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	965,848	1,036,618
Investment properties	49,287	9,167
Prepaid lease payments	8,301	49,247
Intangible assets	193	539
Investment in subsidiaries	6,667,751	5,367,751
Investment in joint ventures	228,779	228,779
Investment in an associate	196,859	196,859
Deferred tax assets	170,676	186,637
Other long-term prepayment	502	-
	8,288,196	7,075,597
CURRENT ASSETS		
Inventories	172,952	217,241
Trade receivables	94,395	160,073
Prepayments, deposits and other receivables	306,188	217,203
Loans receivable	1,197,226	1,546,921
Financial assets at FVTPL	2,694,659	-
Time deposits with original maturity over three months	2,000,000	1,635,340
Cash and cash equivalents	666,979	2,068,632
	7,132,399	5,845,410
TOTAL ASSETS	15,420,595	12,921,007
EQUITY		
CAPITAL AND RESERVES		
Issued capital	4,610,000	4,610,000
Reserves	9,023,789	7,002,289
Proposed dividends	350,360	691,500
TOTAL EQUITY	13,984,149	12,303,789
LIABILITIES		
NON-CURRENT LIABILITIES		
Deferred revenue	2,768	2,768
Other long-term liabilities	13,149	13,481
	15,917	16,249

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

46. Statement of financial position and reserves of the company - Continued

	2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES		
Trade payables	202,273	248,133
Contract liabilities	13,455	16,290
Other payables and accruals	1,193,173	239,821
Income tax payable	11,628	96,725
	1,420,529	600,969
TOTAL LIABILITIES	1,436,446	617,218
TOTAL EQUITY AND LIABILITIES	15,420,595	12,921,007

Movement in Company's reserves

The Company's movement in reserves and proposed dividends for the years ended 31 December 2019 and 2018 were as follows:

	Note	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total equity RMB'000
At 1 January 2018		1,366,392	1,069,259	163	4,110,923	322,700	6,869,437
Total comprehensive income for the year		-	-	-	1,147,052	-	1,147,052
Appropriation and utilization of safety fund, net		-	-	7,323	(7,323)	-	-
Transfer from retained profits		-	113,959	-	(113,959)	-	-
2018 proposed final dividends	15	-	-	-	(691,500)	691,500	-
2017 final dividends declared		-	-	-	-	(322,700)	(322,700)
At 31 December 2018 and 1 January 2019		1,366,392*	1,183,218*	7,486*	4,445,193*	691,500	7,693,789
Total comprehensive income for the year		-	-	-	2,371,860	-	2,371,860
Appropriation and utilization of safety fund, net		-	-	(4,669)	4,669	-	-
Transfer from retained profits		-	234,604	-	(234,604)	-	-
2019 proposed final dividends	15	-	-	-	(350,360)	350,360	-
2018 final dividends declared		-	-	-	-	(691,500)	(691,500)
At 31 December 2019		1,366,392*	1,417,822*	2,817*	6,236,758*	350,360	9,374,149

* These reserve accounts comprise the Company's reserves of RMB9,023,789,000 (2018: RMB7,002,289,000) in the Company's statement of financial position.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

47. Reconciliation of liabilities arising from financing activities

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

	Interest-bearing bank borrowings RMB'000	Obligations under finance leases RMB'000	Lease liabilities RMB'000	Interest payable RMB'000	Dividends payable RMB'000
At 1 January 2018	810,000	1,396,118	-	1,148	18,823
Changes from cash flow:					
Dividend paid	-	-	-	-	(452,095)
Bank borrowings raised	696,500	-	-	-	-
Repayment of bank Borrowings	(721,500)	-	-	-	-
Capital element of obligations under finance leases	-	(59,987)	-	-	-
Interest paid	-	(39,630)	-	(48,539)	-
Transaction charge paid	-	(22,991)	-	-	-
Other changes:					
Dividend declared to non-controlling interests	-	-	-	-	124,017
2017 final dividends declared	-	-	-	-	322,700
Finance costs (Note 10)	-	56,190	-	48,445	-
VAT payable	-	6,431	-	-	-
At 31 December 2018	785,000	1,336,131	-	1,054	13,445
At 31 December 2018 as originally presented	**785,000**	**1,336,131**	**-**	**1,054**	**13,445**
Initial application of IFRS16 (Note 2(a))	**-**	**(1,336,131)**	**1,366,800**	**-**	**-**
Restated balances at 1 January 2019	**785,000**	**-**	**1,366,800**	**1,054**	**13,445**
Changes from cash flow:					
Dividend paid	**-**	**-**	**-**	**-**	**(853,587)**
Bank borrowings raised	**1,950,000**	**-**	**-**	**-**	**-**
Repayment of bank Borrowings	**(726,000)**	**-**	**-**	**-**	**-**
Interest paid	**-**	**-**	**-**	**(87,720)**	**-**
Payment of lease liabilities	**-**	**-**	**(1,358,759)**	**-**	**-**
Other changes:					
Dividend declared to non-controlling interests	**-**	**-**	**-**	**-**	**162,087**
2018 final dividend declared	**-**	**-**	**-**	**-**	**691,500**
Finance costs (Note 10)	**-**	**-**	**14,141**	**89,000**	**-**
New leases (Note 2(a))	**-**	**-**	**4,535**	**-**	**-**
At 31 December 2019	**2,009,000**	**-**	**26,717**	**2,334**	**13,445**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2019

48. Events after the reporting year

Since the outbreak of the new coronavirus (COVID-19) epidemic, various continuous prevention and control measures have been implemented in China, including the extension of the Chinese Lunar New Year holiday and restrictions on return to work. The production bases of the Group in China include a subsidiary located in Hubei Province. The local governmental authorities have postponed the resumption date to March 5, 2020. Although the production facilities of such subsidiary have been fully resumed since March 9, the temporary suspension of production before the resumption and shortage of production capacities have a short-term impact on the overall production level of the Group. With the cancellation of relevant epidemic prevention measures, the production and sales of the Group's base companies in China have gradually returned to normal scale.

49. Approval of consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

Glossary

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

Company Information

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