ANNUAL REPORT 2020

HKSE CODE：3983

中海石油化學股份有限公司
China BlueChemical Ltd.

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

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

CONTENTS

Financial Highlights

Selected consolidated income statement data

For the year ended 31 December, RMB'million

Financial Highlights	2016	2017	2018	2019	2020
Revenue	8,503.8	9,799.7	11,259.6	10,858.4	**10,417.5**
Cost of sales	(8,204.3)	(8,114.6)	(8,501.3)	(8,937.1)	**(8,825.8)**
Gross profit	299.5	1,685.1	2,758.3	1,921.4	**1,591.7**
Other income and other gains and losses	268.2	293.7	434.7	253.2	**180.3**
Selling and distribution costs	(344.5)	(385.7)	(418.5)	(440.9)	**(441.1)**
Administrative expenses	(450.1)	(453.0)	(455.6)	(489.1)	**(432.6)**
Other expenses	(15.5)	(13.5)	(161.6)	(30.3)	**(28.4)**
Finance income	8.0	10.7	11.2	231.3	**272.6**
Finance costs	(162.1)	(121.4)	(104.6)	(103.1)	**(76.0)**
Exchange (losses)/gains, net	8.5	(48.2)	13.3	(0.6)	**(13.2)**
Share of losses of joint ventures	(1.5)	(36.8)	(0.2)	(3.1)	**(0.4)**
Share of gains/(losses) of associates	(0.2)	1.5	1.2	(3.2)	**0.8**
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	(329.6)	490.1	2,140.2	1,379.1	**1,053.6**
Income tax (expenses)/benefits	92.9	(382.6)	(611.9)	(624.1)	**(274.5)**
Profit/(loss) for the year	(236.7)	107.5	1,528.3	755.0	**779.2**
Profit/(loss) for the year attributable to equity holders of the parent	(215.5)	50.2	1,378.9	703.2	**745.5**
Basic Earnings/(loss) per share attributable to ordinary owners of the Company (RMB)	(0.05)	0.01	0.3	0.15	**0.16**

Selected consolidated statement of financial position data

As at 31 December, RMB'million

Financial Highlights	2016	2017	2018	2019	2020
Assets					
Non-current assets	11,591.0	9,836.0	9,207.8	8,534.6	**8,062.3**
Current assets	8,075.7	9,413.0	10,741.4	10,885.0	**12,685.5**
Total assets	19,666.7	19,249.0	19,949.2	19,419.6	**20,747.8**
Equity and liabilities					
Total equity	14,313.9	14,247.9	15,127.6	15,117.1	**15,628.1**
Non-current liabilities	2,598.1	2,523.3	1,089.4	666.0	**216.9**
Current liabilities	2,754.7	2,477.8	3,732.2	3,636.5	**4,902.8**
Total equity and liabilities	19,666.7	19,249.0	19,949.2	19,419.6	**20,747.8**

Operational Highlights

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

		For the year ended 31 December					
		Production volume (tonnes)			Utilisation rate (%)		
		2020	2019	Change %	**2020**	2019	Change
Chemical fertilisers							
Urea	Fudao Phase I	**513,106**	575,947	(10.9)	**98.7**	110.8	(12.1)
	Fudao Phase II	**903,261**	846,967	6.6	**112.9**	105.9	7.0
	CNOOC Tianye	**557,344**	496,327	12.3	**107.2**	95.4	11.8
	CNOOC Huahe	**646,948**	641,230	0.9	**124.4**	123.3	1.1
	Group total	**2,620,659**	2,560,472	2.4	**111.0**	108.5	2.5
Phosphate fertilisers and compound fertilisers	DYK MAP	**56,830**	57,461	(1.1)	**37.9**	38.3	(0.4)
	DYK DAP Phase I (Note 1)	**306,001**	259,502	17.9	**87.4**	74.1	13.3
	DYK DAP Phase II	**552,186**	551,695	0.1	**110.4**	110.3	0.1
	Group total	**915,017**	868,658	5.3	**91.5**	86.9	4.6
Chemical products							
Methanol	Hainan Phase I	**602,842**	601,796	0.2	**100.5**	100.3	0.2
	Hainan Phase II	**849,460**	814,362	4.3	**106.2**	101.8	4.4
	CNOOC Tianye	**109,901**	145,396	(24.4)	**55.0**	72.7	(17.7)
	Group total	**1,562,203**	1,561,554	0.0	**97.6**	97.6	0.0
POM	CNOOC Tianye (Note 2)	**37,594**	28,942	29.9	**94.0**	96.5	(2.5)
	Group total	**37,594**	28,942	29.9	**94.0**	96.5	(2.5)

Note 1: In 2020, DYK DAP Phase I Plant produced 39,624 tonnes of DAP and 266,377 tonnes of compound fertilisers, respectively, amounting to 306,001 tonnes in total. 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

Note 2: Line C of CNOOC Tianye POM Plant has resumed since the end of June 2019. Its utilisation rate 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 2020	For the year ended 31 December 2019	Change %
Chemical fertilisers				
Urea	Fudao Phase I	**473,328**	556,064	(14.9)
	Fudao Phase II	**886,938**	894,728	(0.9)
	CNOOC Tianye	**560,965**	501,899	11.8
	CNOOC Huahe	**645,594**	648,059	(0.4)
	Group total	**2,566,825**	2,600,751	(1.3)
Phosphate fertilisers and compound fertilisers	DYK MAP	**72,131**	49,144	46.8
	DYK DAP Phase I	**289,716**	268,805	7.8
	DYK DAP Phase II	**621,575**	558,062	11.4
	Group total	**983,422**	876,011	12.3
Chemical products				
Methanol	Hainan Phase I	**603,900**	611,972	(1.3)
	Hainan Phase II	**851,534**	799,075	6.6
	CNOOC Tianye	**84,694**	118,451	(28.5)
	Group total	**1,540,128**	1,529,498	0.7
POM	CNOOC Tianye	**37,858**	28,832	31.3
	Group total	**37,858**	28,832	31.3

Chairman's Statement

Wang Weimin / Chairman

Dear shareholders,

Thank you to all shareholders and members of the Board for their trust in me. I am honoured to be elected as the chairman of the Company in May 2020. Facing the difficult task of corporate transformation at the onset of the 14th Five-Year Plan, I, together with my fellow directors, will continue to endeavour our best efforts to lead the Company in moving towards deeper reform and innovation and surmounting difficulties, in order to write a new chapter for the Company's high-quality development and make contribution to reshape a new corporate development pattern and achieve sustainable and robust growth.

In retrospect of 2020, having considered both the domestic and international situations and made coordinated efforts to push forward pandemic prevention and control work as well as economic and social development, China became the only major economy to achieve positive economic growth against the backdrop of the COVID-19 pandemic. The domestic fertilisers market fluctuated in a rising trend with the prices of methanol and polyformaldehyde (POM) bottoming out. To withstand the dual challenges caused by pandemic prevention and control and low oil prices, the Company seriously analysed the business landscape, actively promoted resumption of work and production, continuously strengthened the management of production and operation, and took full advantage of integrated marketing of products. We therefore made a positive progress in the execution of key projects and achieved remarkable results in cost reduction and efficiency enhancement. During the reporting period, we recorded a net profit attributable to owners of the Company of RMB745 million. In view of the Company's sound financial position and to reward shareholders, the Board has recommended the payment of a final dividend for 2020 in the amount of RMB0.08 per share (tax inclusive), representing a payout ratio of 50%.

In 2020, the Board made further efforts to enhance the standard of corporate governance, refine the articles of association of the Company and expand the size and composition of the Board, so as to better accommodate the realistic operation of the Company. In addition, the Board continued to increase the efficiency of decision-making as evidenced by the prompt approval of the investment in acrylonitrile project and the successful approval by independent shareholders in respect of the proposal for 3-year connected transactions. To sustain a strengthened risk prevention and control, the Board further improved the internal control and risk management systems of the Company, rationalised the internal management system and decision-making procedures in a proactive manner, and strengthened the mechanism to protect shareholders' interests. To ensure the sustainable high-quality development of the Company, the Board looked into strategic planning for the 14th Five-Year Plan and initiated discussions specific to scientific and technological innovation tasks. Information disclosures were made in a compliant and timely manner to maintain smooth communication with the mass investors and research institutions in the capital market. Our fellow directors performed their duties with diligence and responsibility, in particular of our non-executive directors who made plenty of advice and recommendations conducive to the development of the Company.

Going forward, the rising international grain prices will stimulate the growth of fertilisers demand. Domestically, the stricter environmental policy and the continuous optimisation of product structure in the fertilizers industry will accelerate the elimination of outdated production capacity of urea and increase the concentration of the phosphate fertilisers industry, which will correspondingly enlarge the room for growth of the new-type fertilisers market. With the recovery of China's macro-economy, in particular of the methanol downstream industry, the demand for methanol products will maintain growth momentum. Moreover, the new type of urbanisation and the consumption upgrading will drive an increasing demand for new chemical materials. Under the industrial policy in Hainan Free Trade Port, the Company is well-positioned to develop logistic trade business at the port.

During the 14th Five-Year Plan period, the Company will closely follow the development plans of China and CNOOC, to actively step up in starting a new undertaking, vigorously promote the optimisation and upgrading of the fertilisers industry, expand the natural gas chemical industry, transform itself into a player in the new chemical material industry, and develop the business of trade logistics services. While continuing to enhance the standard of refined production management and build marketing capacity, the Company will speed up the construction of acrylonitrile project and tap into the new chemical materials and logistic trade sectors. The Company will strive to develop itself as a trusted quality fertilisers provider among farmers and a satisfactory high-end chemical producer among customers, with an aim to generate desirable returns for shareholders.

Finally, on behalf of the Board, I would like to express our gratitude to all shareholders for their full trust and support to the Company over the past year. I hope all of you will keep paying close attention to the development of the Company in 2021. I would also like to appreciate our management team and all staff members for their dedication and hard work to the operation and development of the Company over the past year.

Wang Weimin
Chairman

Dear shareholders,

Looking back at 2020, the domestic fertilisers market fluctuated in a rising trend with the prices of methanol and polyformaldehyde (POM) bottoming out. To weather the challenges of COVID-19 pandemic and low oil prices, the Company's management team and staff members at all levels, under the leadership of the Board, united and made concerted efforts to proactively strengthen the management of production and operation, implement cost reduction and efficiency enhancement measures and take advantage of integrated marketing of products. The Company therefore managed to maintain the stability of production and operation and achieve positive progress in the reform and development of the key tasks.

Hou Xiaofeng / CEO & President

CEO's Report

Review of 2020

In 2020, the Company adopted a proactive approach to address the impact of COVID-19 pandemic outbreak and challenges of low oil prices. With the continuing efforts in optimising the management of production and operation, the Company delivered the best performance of all time in terms of the operation period for the main plants and set a new record high in urea production volume once again. Bearing in mind the concept that "all costs can be reduced", the Company strictly implemented cost reduction and efficiency enhancement in all aspects. By deeply understanding the business patterns and market needs, the Company further pursued marketing reform, coordinated the allocation of resources and improved the logic of pricing, in order to reap benefits from the market. Product structure was further optimised in an effort to promote the implementation of new projects. In 2020, the Company realised a revenue of RMB10,417 million and a gross profit of RMB1,592 million, with profit attributable to owners of the Company of RMB745 million recorded, representing an increase of 6% over 2019. In terms of profitability, the Company maintained in the leading position within the industry.

In respect of production management, the Company's main production plants achieved the best overall operation levels in 20 years since the inception of the Company. As at 31 December 2020, Hainan Phase II methanol plant and CNOOC Tianye synthetic ammonia plant broke their respective record highs in the longest operation period by operating for 437 consecutive days and 360 consecutive days, respectively. Further, Hainan Phase I methanol plant and Fudao Phase II urea plant achieved a long operation period of over 600 days, which broke the national record of the longest operation period for methanol and synthetic ammonia plants with natural gas as raw material. As a result, when comparing the production volume of 2019 versus 2020, urea increased by 61 thousand tonnes to 2.621 million tonnes; phosphate and compound fertilisers increased by 46 thousand tonnes to 915 thousand tonnes, with another new record high in compound fertilisers reaching 266 thousand tonnes; methanol remained flat at 1.562 million tonnes; and POM increased by 9 thousand tonnes to 38 thousand tonnes.

In respect of sales management, the Company fully exploited its strengths in product planning by boosting export trade and increasing the proportion of direct sales. The Company stepped up in the construction of e-commerce and logistics platforms for trading self-produced products online, and introduced parametres such as China urea price index to carry out price fixing in a more scientific and accurate manner, striving to fully achieve price realisation. Besides, the Company further optimised its product mix to solidify its brand name as a "creator of value-added fertilisers" and increase the contribution of value-added products to sales. Therefore, sales volume of compound fertilisers reached 262 thousand tonnes. The Company also took full advantage of its brand name, geographical location and export logistics capacity to actively expand international markets. This year, the Company exported 249 thousand tonnes of urea and 114 thousand tonnes of DAP.

The Company continued to further implement cost reduction and efficiency enhancement. In 2020, the Company saved energy equivalent to 20,648 tonnes of standard coal. In particular, CNOOC Fudao consumed much lesser natural gas that reduced costs amounting approximately RMB120 million. DYK Chemical achieved a reduction in logistics cost of over RMB33 million. CNOOC Huahe identified a better source of supply of coal and accordingly reduced its comprehensive energy consumption per unit product of synthetic ammonia by 2.6% year-on-year. Moreover, the Company enhanced its budget management by exercising stringent management and control over inventory and procurement and curbing costs and expenses.

While maintaining stable production capacity of fertilisers, the Company strived to expand its production of chemicals with an aim to establish presence in the new chemical materials sector. In July 2020, the Company's 51%-controlled acrylonitrile project officially commenced construction. The progress and schedule of the project met expected targets during the year.

CNOOC Huahe urea plant

The Company actively involved in poverty alleviation. Following the support of lifting people in Hezuo city and Xiahe county of Gannan Tibetan autonomous prefecture out of poverty, we continued the construction works under our poverty alleviation project to promote and support regional economic development, enhance living quality in ethnic minority areas and make contribution to the global cause of poverty reduction.

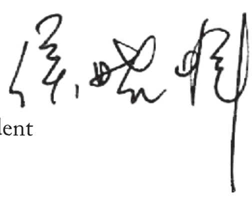
The Company has been consistently upholding a philosophy of green and sustainable development over the years. It was the ninth consecutive year that the Company has been awarded the "Benchmark Enterprise of Leading Energy Efficiency of the Year" in the synthetic ammonia and methanol industry by China Petroleum and Chemical Industry Federation. In addition, the Company was honoured as a "Leading Water Efficiency Enterprise" and an "advanced energy conservation and emission reduction entity" by China Nitrogen Fertilizer Industry Association, and a "Leading Energy Efficiency Enterprise" by the Ministry of Industry and Information Technology (MIIT) of the PRC for our ammonia and methanol plants.

Outlook for 2021

With the availability of vaccines and the gradual control over the COVID-19 pandemic, domestic and international economic activities will continue to recover and grain prices will go up. This would help increase the demand for fertilisers. We remain cautiously optimistic about the fertilisers market and believe that market competition and stricter environmental standards will further promote integration of the fertilisers industry in China. The domestic methanol-to-olefins industry will maintain a higher operation rate and the demand in the traditional downstream methanol industry will return. In view of the pick-up of crude oil prices, the market expects the methanol prices to resume rational in general, with a further recovery in the price median. The prices of POM are expected to sustain a rebound.

In 2021, the Company will further strengthen and enhance our HSE (heath, safety and environment) and refine production management, in an effort to achieve safe and stable operation of all production plants. The Company will continue to reinforce the basic management and strive to enhance the standard of digital production and operation management. We will intensify our collaboration with top-notch domestic and international institutes to achieve complementary advantages. We will also take proactive approach towards adapting to the new and upgraded demand for fertiliser consumption under the consumption upgrading of agricultural products and the agricultural modernisation in China, so as to facilitate an accelerated development of organic fertilisers, water soluble fertilisers and other businesses. The reform of the Company's marketing system will be further deepened by creating new sales models through digital means with focus on profit realisation. All-out efforts will be made to advance the construction of the acrylonitrile project and prepare its commencement of production. We will further strengthen our cost reduction, quality improvement and efficiency enhancement initiatives and exercise strict control over costs and expenses. Riding on the opportunities arising from the construction of Hainan Free Trade Port and Oriental Industrial Park, we will push forward the development of the petrochemical wharf project. In order to promote low-carbon economy, we will speed up our study on technology of reusing natural gas resources with high content of CO_2 and its industrialisation. We will intensify our study and increase our firmness about the feasibility of promoting the Company's high-quality development through developing green, low-carbon and refined new chemical materials.

In 2021, the management team of the Company together with all staff members will, under the guidance of the Board, endeavour ourselves to achieve optimal business structure, further enhance operational efficiency, effectively respond to market changes, and vigorously explore new growth drivers, with the aim of generating desirable returns for shareholders.



Hou Xiaofeng
Chief Executive Officer (CEO), President

Management Discussion and Analysis

Site inspection

CNOOC Fudao plant

Sector Review

Chemical fertiliser industry

In 2020, the global economy suffered amid the COVID-19 pandemic. All countries attached greater importance to grain safety, which led to an upward trend in international grain prices. The PRC government proposed that ensuring grain safety is always the top priority for governing the national administration. Therefore, it is imperative to stand firm on the commitment to grain safety and safeguard the minimum area of arable land of 1.8 billion mu. Stability is the utmost objective of grain production, especially in policies, area and output. In addition, subsidies to grain farmers shall be kept stable and enhanced while further improving the policy on minimum grain purchase prices. According to data from the National Bureau of Statistics of China, the national total grain output in 2020 was 669.49 million tonnes, representing an increase of 0.9% as compared to 2019.

In 2020, China's chemical fertilisers market rallied from low levels and fluctuated in a rising trend during the year, and the fertiliser prices surged to the year-high in the fourth quarter.

(I) Urea

According to industry statistics, the domestic production volume of urea amounted to approximately 54.64 million tonnes (in kind) in 2020, which represented an increase by approximately 1.64 million tonnes over last year and the annual daily average output reached 149.7 thousand tonnes, with an average operation rate of approximately 68.78%. Meanwhile, the statistics from General Administration of Customs of the PRC ("GACC") showed that China exported a total of approximately 5.45 million tonnes of urea in 2020, representing an increase of approximately 10.2% over 2019.

In 2020, the urea market fluctuated in a wide range. Specifically, the market edged up at the beginning of first quarter but then reversed to tumble. The prices fluctuated in a downward trend and continued to slide through the second quarter reaching the bottom of RMB1,550 per tonne. Driven by the back-to-back tenders from India, urea prices experienced a significant advance since the third quarter. As the purchase tenders from India slowed down, the market experienced a decline in export volume in the fourth quarter. However, the domestic purchases for building inventory during off-seasons and gradual restoration in industrial demand provided new market support. The market continued its trajectory of steady and relatively strong growth, with prices rising to RMB1,860 per tonne.

(II) Phosphate fertilisers

According to industry statistics, the annual output of ammonium phosphate was approximately 26.58 million tonnes (in kind) in 2020, representing a decrease of approximately 7.5% over 2019. Meanwhile, the statistics from GACC showed that the export volume was 5.73 million tonnes in 2020, representing a decrease of 11.5% from 2019.

The sluggish performance of the phosphate fertilisers market in the late-2019 continued at the beginning of 2020 in light of the inventory accumulation of companies and price bottom-out. As a result of the COVID-19 pandemic, a majority of phosphate fertiliser producers in Hubei region suspended production and the logistics in Yunnan-Guizhou region suffered. The market was therefore in tight supply around the Chinese Spring Festival. Coupled with the growing demand during the spring farming, phosphate fertiliser prices remained on the rise. In particular, the price of DAP rose to approximately RMB2,500 per tonne. Although the market entered into the off-season in the second and third quarters when the domestic demand was weak, exports remained positive which supported the phosphate fertilisers market to grow steadily. In the fourth quarter, driven by the domestic purchase demand for winter storage, the phosphate fertilisers market remained relatively resilient. The price of DAP hit the year-high of RMB2,750 per tonne, which represented an increase by approximately RMB300 to RMB400 per tonne during the year.

CNOOC Tianye methanol plant

Chemical industry

The chemical market in 2020 operated in two phases. In the first half of the year, the chemical industry experienced an extreme price volatility. Due to the COVID-19 pandemic, the prices of all bulk chemicals fell sharply. In the second half of the year, the prices of bulk chemicals generally went up in line with the recovery of the chemical industry. In addition, a vast number of refining-chemical integration projects commenced production successively, which caused a rapid growth in the supply of certain chemical products and, in turn, a profit downturn or shifting along the industry chain.

In terms of the prices of chemical products in 2020, due to the containment of the COVID-19 pandemic, the market prices of bulk commodities saw a gradual pick-up and resumed to grow.

(I) Methanol

According to industry statistics, the cumulative production volume of methanol was approximately 63.57 million tonnes of methanol in 2020, representing an increase of approximately 8.5% over 2019. China's import volume of methanol hit a record high once again in 2020. The annual import volume for the year increased by over 2.1 million tonnes or 19.4% compared with last year to approximately 13.01 million tonnes.

Undermined by the impacts of low oil prices, the COVID-19 pandemic and an influx of imported methanol, the overall methanol market in China was depressed and industry players faced a difficult business environment. In 2020, the methanol market operated in two phases. In the first half of the year, due to the COVID-19 pandemic, the market was suffered from high inventory levels at ports and severe imbalance between demand and supply. Under such circumstances, market prices were in unilateral downtrend, with prices in port markets plunged to a record low at approximately RMB1,380 per tonne in June. In the second half of the year, thanks to the effective control over COVID-19 pandemic in China, companies resumed work and production. As such, the contradiction between demand and supply was relieved. In the middle of the year, market prices began to bottom out from the trough and reached to the level around RMB2,550 per tonne at the end of the year while the market generally demonstrated a restorative growth trend.

CNOOC Tianye POM plant

(II) POM

According to industry statistics, China's output of POM stood at 291 thousand tonnes in 2020, representing a year-on-year increase of 16%. The import volume of POM amounted to 309 thousand tonnes, representing a year-on-year decrease of 3%.

In 2020, the annual average price of POM in China was RMB11,925 per tonne, representing a year-on-year decrease of 5%. Owing to the COVID-19 pandemic and delay in work resumption of downstream companies, the price showed a declining trend from January to April and reached the lowest level of the year at RMB10,600 per tonne in April. Under the situation where the pandemic was under control and the downstream companies gradually resumed production and work, the price started to ratchet up in May and recorded the year-high of RMB14,578 per tonne in December. As a comparison with 2019, the price from January to August remained below the price levels of 2019 and the price has outperformed that in 2019 since September.

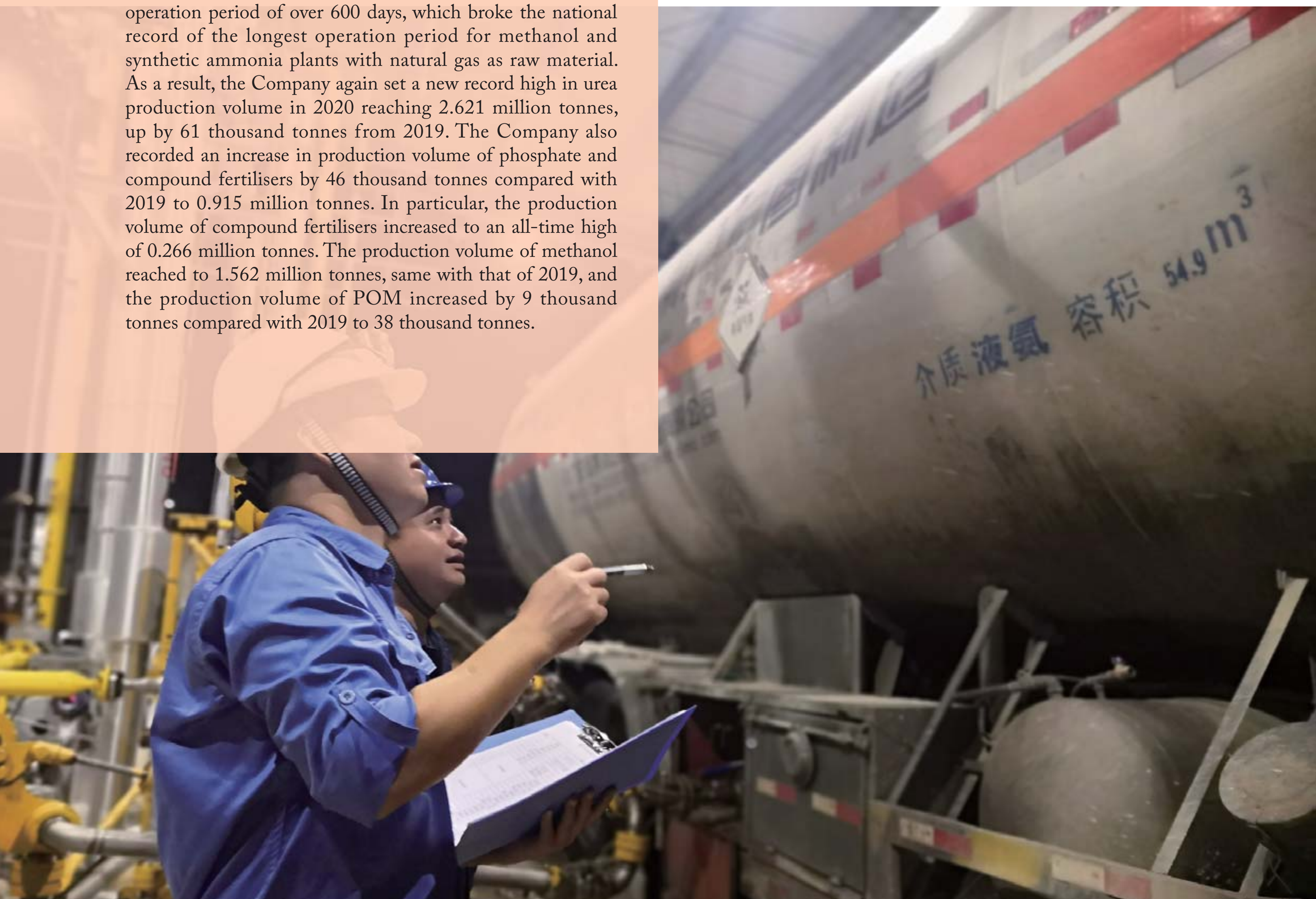
Production control

Business Review

Production management

In 2020, the Company continued to strengthen the management of production and operation. The Company's major production facilities achieved the best overall operation performance in the 20 years since the inception of the Company. As at 31 December 2020, both Hainan Phase II methanol plant and CNOOC Tianye synthetic ammonia plant broke their respective record highs in the longest operation period by operating for 437 consecutive days and 360 consecutive days, respectively. Further, Hainan Phase I methanol plant and Fudao Phase II urea plant achieved a long operation period of over 600 days, which broke the national record of the longest operation period for methanol and synthetic ammonia plants with natural gas as raw material. As a result, the Company again set a new record high in urea production volume in 2020 reaching 2.621 million tonnes, up by 61 thousand tonnes from 2019. The Company also recorded an increase in production volume of phosphate and compound fertilisers by 46 thousand tonnes compared with 2019 to 0.915 million tonnes. In particular, the production volume of compound fertilisers increased to an all-time high of 0.266 million tonnes. The production volume of methanol reached to 1.562 million tonnes, same with that of 2019, and the production volume of POM increased by 9 thousand tonnes compared with 2019 to 38 thousand tonnes.

Safety inspection of ammonia tank truck



Urea packaging production line

Details of production of the Group's plants in 2020 are set out as follows:

	For the year ended 31 December			
	2020		2019	
	Production *(tonnes)*	Utilisation rate *(%)*	Production *(tonnes)*	Utilisation rate *(%)*
Chemical fertilisers				
Urea				
Fudao Phase I	**513,106**	**98.7**	575,947	110.8
Fudao Phase II	**903,261**	**112.9**	846,967	105.9
CNOOC Tianye	**557,344**	**107.2**	496,327	95.4
CNOOC Huahe	**646,948**	**124.4**	641,230	123.3
Group total	**2,620,659**	**111.0**	2,560,472	108.5
Phosphate Fertilisers and Compound Fertilisers				
DYK MAP	**56,830**	**37.9**	57,461	38.3
DYK DAP Phase I (Note 1)	**306,001**	**87.4**	259,502	74.1
DYK DAP Phase II	**552,186**	**110.4**	551,695	110.3
Group total	**915,017**	**91.5**	868,658	86.9
Chemical products				
Methanol				
Hainan Phase I	**602,842**	**100.5**	601,796	100.3
Hainan Phase II	**849,460**	**106.2**	814,362	101.8
CNOOC Tianye	**109,901**	**55.0**	145,396	72.7
Group total	**1,562,203**	**97.6**	1,561,554	97.6
POM				
CNOOC Tianye (Note 2)	**37,594**	**94.0**	28,942	96.5
Group total	**37,594**	**94.0**	28,942	96.5

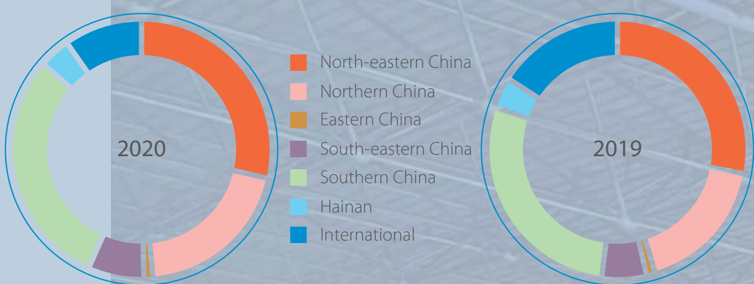
Note 1: In 2020, DYK DAP Phase I Plant produced 39,624 tonnes of DAP and 266,377 tonnes of compound fertilisers, respectively, amounting to 306,001 tonnes in total. In 2019, DYK DAP Phase I Plant produced 7,004 tonnes of DAP and 252,498 tonnes of compound fertilisers, respectively, amounting to 259,502 tonnes in total.

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

Sales management

In view of the lowering bulk product prices resulting from the COVID-19 pandemic and low oil prices, the Company took active steps to address the challenges. The Company fully exploited its strengths in product planning by enhancing export trade and increasing the proportion of direct sales. The Company stepped up in the construction of e-commerce and logistics platforms for trading self-produced products online, and introduced parameters such as China urea price index to carry out price fixing in a more scientific and accurate manner. Besides, the Company further optimised its product mix to solidify its brand name as a "creator of value-added fertilisers" and increase the contribution of value-added products to sales. In 2020, in terms of sales volume of the self-produced products, urea accounted for 2.567 million tonnes, representing a year-on-year decrease of 1.3%; methanol accounted for 1.54 million tonnes, representing a year-on-year decrease of 0.7%; phosphate fertilisers and compound fertilisers accounted for 0.983 million tonnes, representing a year-on-year increase of 12.3%, in which sales volume of compound fertilisers hit a year-on-year record high of 0.262 million tonnes; POM accounted for 38 thousand tonnes, representing a year-on-year increase of 31.0%. During the year, the Company exported a total of 0.249 million tonnes of urea, 0.114 million tonnes of DAP and 8 thousand tonnes of methanol.

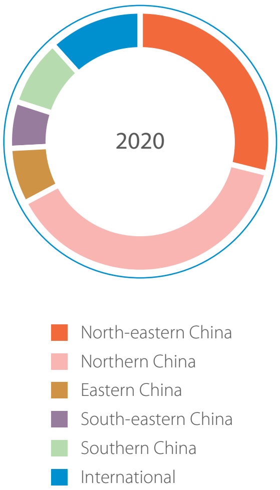
Epidemic prevention and control to ensure spring ploughing

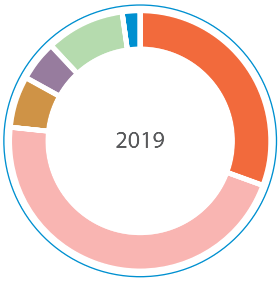


Urea

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			
	2020		2019	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**739,195**	**28.8**	734,245	28.2
Northern China	**514,335**	**20.0**	449,510	17.3
Eastern China	**26,573**	**1.0**	25,607	1.0
South-eastern China	**179,574**	**7.0**	148,851	5.7
Southern China	**763,201**	**29.8**	735,451	28.3
Hainan	**95,219**	**3.7**	98,027	3.8
International	**248,728**	**9.7**	409,060	15.7
Total	**2,566,825**	**100.0**	2,600,751	100.0





Phosphate fertilisers and compound fertilisers

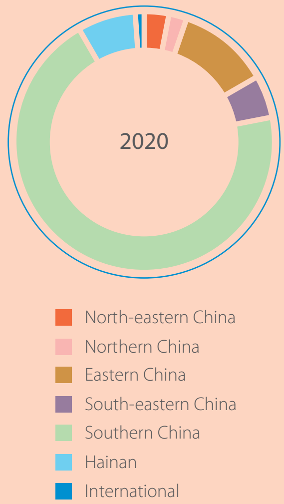
The following table sets out the Group's phosphate fertiliser and compound fertilizer sales volumes by final sales destinations of products during the preceding two financial years:

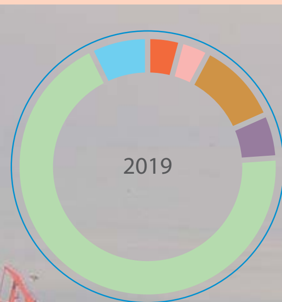
	For the year ended 31 December			
	2020		2019	
	Volume	Percentage	Volume	Percentage
Sales region	*(tonnes)*	*(%)*	*(tonnes)*	*(%)*
North-eastern China	**285,178**	**29.0**	268,533	30.7
Northern China	**376,969**	**38.3**	403,159	46.0
Eastern China	**69,499**	**7.1**	57,164	6.5
South-eastern China	**56,571**	**5.7**	44,694	5.1
Southern China	**81,326**	**8.3**	84,503	9.6
International	**113,879**	**11.6**	17,958	2.1
Total	**983,422**	**100.0**	876,011	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			
	2020		2019	
	Volume	Percentage	Volume	Percentage
Sales region	*(tonnes)*	*(%)*	*(tonnes)*	*(%)*
North-eastern China	**48,921**	**3.2**	67,100	4.4
Northern China	**35,773**	**2.3**	51,377	3.4
Eastern China	**178,217**	**11.5**	162,173	10.6
South-eastern China	**79,750**	**5.2**	85,093	5.5
Southern China	**1,077,683**	**70.0**	1,053,349	68.9
Hainan	**111,819**	**7.3**	110,406	7.2
International	**7,965**	**0.5**	0	0
Total	**1,540,128**	**100.0**	1,529,498	100.0





BB fertilisers

In 2020, the Group produced a total of 45,363 tonnes of BB fertilisers and achieved a sales volume of 44,648 tonnes, among which 13,050 tonnes were exported.

Sea-land logistics services

In 2020, Basuo Port in Hainan completed a volume of throughput of 11.71 million tonnes.

Work zone of Basuo port

DYK Chemical ore dressing workshop

Financial Review

Revenue

During the reporting period, the Group's revenue was RMB10,417.5 million, representing a decrease of RMB440.9 million, or 4.1%, from that of RMB10,858.4 million in the same period of 2019. This was primarily attributable to the different year-on-year decreases in the selling prices of methanol, urea and phosphate and compound fertilisers of the Group.

During the reporting period, the Group realised an external revenue from urea of RMB4,055.1 million, representing a decrease of RMB368.9 million, or 8.3%, from that of RMB4,424.0 million in the same period of 2019. This was primarily attributable to (1) a decrease of 33,925 tonnes in the sales volume of urea, which resulted in a decrease in revenue of RMB57.7 million; and (2) a decrease of RMB121.2 per tonne in the selling price of urea, which resulted in a decrease in revenue of RMB311.2 million.

During the reporting period, the Group realised an external revenue from phosphate and compound fertilisers of RMB2,105.0 million, representing an increase of RMB59.9 million, or 2.9%, from that of RMB2,045.1 million in the same period of 2019. This was primarily attributable to (1) a decrease of RMB194.1 per tonne in the selling price of phosphate and compound fertilisers, which resulted in a decrease in revenue of RMB190.9 million; and (2) an increase of 107,411 tonnes in the sales volume of phosphate and compound fertilisers, which resulted in an increase in revenue of RMB250.8 million and offset the above decrease.

During the reporting period, the Group realised an external revenue from methanol of RMB2,331.6 million, representing a decrease of RMB557.1 million, or 19.3%, from that of RMB2,888.7 million in the same period of 2019. This was primarily attributable to (1) a decrease of RMB374.8 per tonne in the selling price of methanol, which resulted in a decrease in revenue of RMB577.2 million; and (2) an increase of 10,630 tonnes in the sales volume of methanol, which resulted in an increase in revenue of RMB20.1 million and partially offset the above decrease.

During the reporting period, the Group realised an external revenue from other segments (primarily comprising port operations and provision of transportation services; trading in fertilisers and chemicals; and production and sales of POM, BB fertilisers and liquid ammonia) of RMB1,925.8 million, representing an increase of RMB425.2 million, or 28.3%, from that of RMB1,500.6 million in the same period of 2019. This was primarily attributable to (1) an increase of 8,653 tonnes in the production volume of POM this year as compared to 2019, which resulted in an increase in revenue of RMB67.3 million; (2) the increase in trading volume of the marketing company and Guangxi Fudao in line with the gradual improvement of the marketing platform, which resulted in an increase in revenue of RMB287.8 million from the trading business this year as compared to last year; (3) the throughput of Basuo Port, which resulted in an increase in revenue of RMB22.7 million; (4) a decrease of RMB7.0 million in the revenue from BB fertilisers which was mainly caused by the impacts of lower sales volume and prices; and (5) the sales of liquid ammonia, formaldehyde, carbon dioxide and woven plastic bags, which resulted in an increase in revenue of RMB54.4 million.

Cost of sales

During the reporting period, the Group's cost of sales was RMB8,825.8 million, representing a decrease of RMB111.3 million, or 1.2%, from that of RMB8,937.1 million in 2019.

During the reporting period, the Group's cost of sales for urea was RMB3,134.8 million, representing a decrease of RMB286.3 million, or 8.4%, from that of RMB3,421.1 million in 2019. This was primarily attributable to (1) a year-on-year decrease of 33,925 tonnes in the sales volume this year, which resulted in a decrease in cost of RMB41.4 million; (2) the increase in the production volume this year, mainly because of the long operation period of the production plants while the upstream production plants were suspended operation for overhaul last year; and also other factors such as the implementation of cost reduction and efficiency enhancement measures during the year, which resulted in a year-on-year decrease of RMB244.9 million in the cost of sales.

During the reporting period, the Group's cost of sales for phosphate and compound fertilisers was RMB1,833.2 million, representing a decrease of RMB4.0 million, or 0.2%, from that of RMB1,837.2 million in 2019. This was primarily attributable to (1) the decrease in prices of raw materials used for producing phosphate and compound fertilisers such as synthetic ammonia and phosphoric acid, which resulted in a year-on-year decrease of RMB204.2 million in the cost of sales; and (2) an increase of 107,411 tonnes in the sales volume of phosphate and compound fertilisers, which resulted in an increase of RMB200.2 million in the cost of sales.

During the reporting period, the Group's cost of sales for methanol was RMB2,119.6 million, representing a decrease of RMB178.9 million, or 7.8%, from that of RMB2,298.5 million in 2019. This was primarily attributable to (1) the increase in production volume due to the stable operation of the production plants for long operation periods during the year, as well as the slight reduction in natural gas prices, which resulted in a decrease of RMB193.5 million in the cost of sales; and (2) an increase of 10,630 tonnes in the sales volume of methanol, which resulted in an increase of RMB14.6 million in the cost of sales and partially offset the above decrease.

During the reporting period, the Group's cost of sales for other segments was RMB1,738.2 million, representing an increase of RMB357.9 million, or 25.9%, from that of RMB1,380.3 million in 2019. This was primarily attributable to (1) an increase of 9,027 tonnes in the sales volume of POM this year and the combined effect of cost reduction and other factors, which resulted in an increase of RMB31.8 million in the cost of sales; (2) an increase of RMB280.0 million in the cost of the trading business; and (3) a year-on-year increase of RMB46.1 million in the cost of sales for the services rendered by Basuo Labour Service, BB fertilisers and liquid ammonia.

Gross profit

During the reporting period, the Group's gross profit was RMB1,591.7 million, representing a decrease of RMB329.7 million, or 17.2%, from that of RMB1,921.4 million in 2019. This was primarily attributable to (1) the significant decrease in the selling price of methanol in 2020, which resulted in a decrease of RMB378.2 million in the gross profit from methanol; (2) the significant decrease in the price of urea in 2020, which resulted in a decrease of RMB82.6 million in the gross profit from urea; (3) an increase of RMB63.8 million in the gross profit from phosphate and compound fertilisers due to the increase in sales volume and the year-on-year decrease in cost; (4) a year-on-year increase of RMB37.9 million in the gross profit from Basuo Port due to the increase in throughput and the year-on-year decrease in cost; (5) a year-on-year increase of RMB35.5 million in gross profit from POM due to the increase in sales this year and the year-on-year decrease in costs and expenses; and (6) an increase of RMB6.1 million in the gross profit from other segments.

Other income

During the reporting period, the Group's other income was RMB125.8 million, representing a decrease of RMB74.8 million, or 37.3%, from that of RMB200.6 million in 2019. This was primarily attributable to (1) the receipt of subsidies of RMB49.9 million for "Three Supplies and One Property" (三供一業) last year; (2) a year-on-year decrease of RMB19.7 million in the receipts of other government grants, funding for technology research and gain on disposal of assets; and (3) a year-on-year decrease of RMB8.6 million in the profit from other segments.

Other gains and losses

During the reporting period, the Group's other gains and losses was RMB54.3 million, representing an increase of RMB1.7 million, or 3.2%, from RMB52.6 million in 2019. This was primarily attributable to (1) a year-on-year increase of RMB11.3 million in the interests from wealth management products; and (2) a year-on-year decrease of RMB9.6 million in the gain on disposal of fixed assets, which partially offset the above increase.

Selling and distribution expenses

During the reporting period, the Group's selling and distribution expenses amounted to RMB441.1 million, representing an increase of RMB0.2 million from that of RMB440.9 million in 2019. This was primarily attributable to (1) a year-on-year increase of RMB6.6 million in packaging, port surcharge and other direct selling expenses due to the overall increase in sales volume during the year; and (2) a year-on-year decrease of RMB6.4 million in sales agent fees.

Administrative expenses

During the reporting period, the Group's administrative expenses amounted to RMB432.6 million, representing a decrease of RMB56.5 million, or 11.6%, from that of RMB489.1 million in 2019. This was primarily attributable to (1) a decrease of RMB1.4 million in staff costs; (2) a year-on-year decrease of RMB11.5 million in office expenses, travelling expenses, meeting expenses and consultation fees as a result of the implementation of cost reduction and efficiency enhancement measures; (3) a year-on-year decrease of RMB3.2 million in amortisation charge due to the expiry of amortisation period of certain long-term assets; (4) a year-on-year decrease of RMB25.9 million in expenditures for technology research; and (5) a year-on-year decrease of RMB14.6 million in repair costs and taxes.

Other expenses

During the reporting period, the Group's other expenses amounted to RMB28.4 million, representing a decrease of RMB1.9 million, or 6.2%, from that of RMB30.3 million in 2019. This was primarily attributable to a decrease of RMB1.4 million in bank handling fees and interest expenses on discounting bills.

Finance income and finance costs

During the reporting period, the Group's finance income amounted to RMB272.6 million, representing an increase of RMB41.3 million, or 17.9%, from that of RMB231.3 million in 2019. This was primarily attributable to the addition of large-denomination certificate of deposits and fixed deposits with principal amount of RMB2,400.0 million by the Group in 2020, which resulted in an increase of RMB48.8 million in finance income.

During the reporting period, the Group's finance costs were RMB76.0 million, representing a decrease of RMB27.1 million, or 26.3%, from that of RMB103.1 million in 2019. This was primarily attributable to the scaling down of loans for fixed assets and finance leases, which resulted in a decrease in finance costs.

Net exchange (losses)/gains

During the reporting period, the Group recorded a net exchange loss of RMB13.2 million, as compared to a net exchange loss of RMB0.6 million in 2019, representing a difference of RMB12.6 million. This was primarily attributable to the exchange loss incurred by the Group's export business.

Share of net profit/loss of associates and joint ventures

During the reporting period, the Group's share of profit of associates and joint ventures was RMB0.4 million, representing an increase of RMB6.7 million as compared to the share of loss of associates and joint ventures of RMB6.3 million in 2019. This was primarily attributable to (1) a year-on-year increase of RMB3.0 million in the share of profit of CBC (Canada) Holding Corp. recognised during the year; (2) an increase of RMB2.8 million in the share of profit of United Wealthfert Co., Ltd. (聯合惠農農資(北京)有限公司) recognised during the year; (3) the recognition of share of profit of Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. (山西華鹿陽坡泉煤礦有限公司) of RMB1.2 million this year according to its latest statements.

Plant overhaul

Income tax expenses

During the reporting period, the Group's income tax expenses was RMB274.5 million, representing a decrease of RMB349.6 million from that of RMB624.1 million in 2019. 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) the decrease in reversal of deferred income tax expenses provided by subordinate companies such as CNOOC Huahe, DYK Chemical and CNOOC Tianye in prior years.

Net profit for the year

During the reporting period, the Group's net profit was RMB779.2 million, representing an increase of RMB24.2 million as compared to that of RMB755.0 million in 2019.

Dividends

The board of directors of the Company (the "Board") recommended the payment of a final dividends for 2020 in the amount of RMB368.8 million, or RMB0.08 per share. The proposed final dividends for 2020 will be subject to the approval of the shareholders of the Company at the 2020 annual general meeting.

Capital expenditure

During the reporting period, the Group's total capital expenditure for the year amounted to RMB437.4 million, including RMB1.5 million for preliminary project research, RMB131.8 million for mid- and downstream and their related projects, RMB2.6 million for base infrastructure projects, RMB155.9 million for purchase of equipment and upgrade and improvement projects, RMB79.1 million for energy saving and emission reduction projects, RMB9.3 million for information technology projects, RMB2.7 million for purchase of electronic equipment, RMB52.2 million for technology research projects, and RMB2.3 million for charitable projects.

Major projects mainly included (1) the acrylonitrile project, for which the Company has paid up the contribution to the joint venture in the amount of RMB121.3 million; (2) the stripper (302C) upgrade and improvement project for Fudao Phase II urea plant in the amount of RMB28.5 million; (3) the conversion pipeline and lower gas collection pipeline replacement project for Hainan Phase I methanol plant in the amount of RMB20.1 million.

Pledge of assets

During the reporting period, the Group pledged property, plant and equipment with value of RMB901.2 million as collateral to secure its interest-bearing bank borrowings.

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 2020 (calculated as interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities) was 11.2%, representing a decrease of 0.7% compared to 11.9% as at 31 December 2019, which was primarily attributable to the increase in the Company's capital by RMB511.0 million in the year and the decrease in its lease liabilities, obligations under finance leases and interest- bearing bank borrowings by RMB58.0 million.

Cash and cash equivalents

At the beginning of 2020, the Group had cash and cash equivalents of RMB824.1 million. In 2020, the net cash inflow from operating activities was RMB1,263.2 million, the net cash inflow from investing activities was RMB1,111.1 million, the net cash outflow from financing activities was RMB415.9 million, and the decrease from the effect of foreign exchange rate changes on cash and cash equivalents was RMB17.1 million. As at 31 December 2020, the Group's cash and cash equivalents were RMB2,765.5 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 2020, the Group had 4,719 employees. The aggregate of employees' wages and allowances for 2020 was approximately RMB714.6 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 2020, the Company strictly implemented its annual training plan during the reporting period and recorded a total of 89,033 enrolments with a total of 339,300 training hours. The Company also organised 6,681 courses on safety training (on-site safety education and three-level safety training including contractors), Internet safety training and external training with a total of 98,219 enrolments and 461,599 training hours.

Market risk

The major market risks exposed to the Group arise from changes in selling prices of the main products and in costs of raw materials (mainly natural gas, coal, phosphate ore, liquid ammonium and sulphur), fuels (mainly natural gas and coal) and power.

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 interest rate risk exposed to the Group mainly arises from the Group's short-term and long-term debt obligations which are subject to floating interest rates.

Foreign exchange risk

The Group's revenue is primarily denominated in RMB, secondarily in United States dollar (USD). The Group's purchases of equipment and materials are primarily denominated in RMB, secondarily in USD. During the reporting period, the RMB to USD exchange rate ranged between 6.5236 and 7.1316. Fluctuations in RMB to USD exchange rate have impacts on the Company's import of equipment and raw materials, export of products as well as the financing activities in USD.

As at 31 December 2020, the balance of the Group's deposits in USD was US$4.3 million.

Inflation and currency risk

According to data of National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.5% during the reporting period, which did not have any significant impact on the Group's operating results for the year.

Liquidity risk

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

As at 31 December 2020, based on the carrying values of borrowings as shown in the financial statements, the Group's borrowings in the amount of RMB1,063.1 million and financial leases with a principal in the amount of RMB877.9 million would reach maturity within one year. The Group has sufficient capital and is not exposed to liquidity risk.

Subsequent events

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

Contingent liabilities

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

Material litigation and arbitration

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

Material acquisitions and disposals of subsidiaries and associates of the Company

In respect of the transfer of the 51% equity interest and the creditor's right of RMB61.47502275 million 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 49% equity interests in Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. (山西華鹿陽坡泉煤礦有限公司) through listing-for-sales, in June 2020, the Company entered into two equity transaction agreements (the "Equity Transaction Agreements") with Hequ Taiyang Coal Industry Co., Ltd. (河曲縣泰陽煤業有限公司) ("Taiyang Coal"), a qualified interested transferee as for the transfer conditions through the listing-for-sales. In January 2021, the equity transaction certificate was issued by China Beijing Equity Exchange in respect of the above transfer through listing-for-sales, and Taiyang Coal has made the payment of all the consideration under the Equity Transaction Agreements and the liquidated damages for Taiyang Coal's default payment of consideration.

Hainan Phase II methanol plant

Sector Outlook

Looking forward to 2021, China is set to continue to regain its economic growth and a gradual recovery of the global economy is on the horizon. The world's steadily increasing demand for grains will progressively promote a greater demand for fertilisers of the agricultural industry. As the COVID-19 pandemic are on the trajectory of gradual containment, it is expected to see a further restoration of market demand and sales prices for Company's products. The domestic fertilisers market will remain cautiously optimistic and the intensifying market competition and stricter environmental standards will further promote domestic fertilisers market integration. As China's methanol-to-olefins industry will maintain a higher operation rate and the demand in the traditional downstream methanol industry will resume, the market expects the methanol prices to resume rational in general, with a further recovery in the price median. The prices of POM are expected to fluctuate around the levels of the end of 2020.

Our Key Tasks in 2021

1. To further strengthen and enhance our HSE and refined production management amid the impacts and uncertainties of the COVID-19 pandemic, in an effort to achieve safe and stable operation of all production facilities;
2. To further implement cost reduction, quality improvement and efficiency enhancement, and carry out various measures to lower the procurement cost of raw materials and exercise strict control over expenses and outgoings;
3. To make all-out efforts to promote the construction of acrylonitrile projects and prepare their commencement of production;
4. To actively promote the implementation of Company's action plan for achieving carbon emissions peak and carbon neutrality;
5. To take proactive approach towards adapting to the new and upgraded consumption needs in the domestic fertilisers market and expedite the development of organic fertilisers business;
6. To further deepen the reform of our marketing system by fully focusing on profit realisation and creating new sales models through digital means;
7. To seize the opportunities arising from the construction of Hainan Free Trade Port and push forward the development of the petrochemical wharf project;
8. To promote the study on the technology of reusing natural gas resources with high content of CO_2 and its industrialisation; and
9. To increase efforts in exploring opportunities for corporate development and accelerate the study on key projects.

Environmental, Social and Governance Report

Environment

Economic gains aside, the Company prioritises ecology protection in formulating its investment strategy. Hence, the Company regards the making of "green chemical enterprise" as its ultimate goal. The Company closely attends to the environmental protection requirements of its stakeholders such that various measures were taken to conserve energy and reduce emissions, with the compliance management on environmental protection consolidated. The Company will apply new business model of green development with mutual win approach, by focusing on both production and operation as well as ecological environment protection. In 2020, as the Company continued to press ahead with its green and low-carbon developmental strategy, it took the lead in the market, as reflected by its advantageous energy efficiency indicator. The Company's ammonia and methanol production plants was honoured as the "Leading Energy Efficiency Enterprise" by Ministry of Industry and Information Technology. For nine years in a row, the Company was awarded the "Benchmark Enterprise of Leading Energy Efficiency" by China Petroleum and Chemical Industry Federation and "Leading Water Efficiency Enterprise" by China Nitrogen Fertilizer Industry Association.

Hainan Phase I methanol plant

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 2020, the Company's total greenhouse gas emissions were 6,742,200 tonnes. Among these, 6,739,100 tonnes (statistical figure not verified by any third party) of CO_2 were emitted, with an emission density of 0.8 (aggregate of all products).702.49 tonnes of SO_2, 1,377.52 tonnes of NO_X, 159.86 tonnes of COD and 9.51 tonnes of NH_3-N were emitted.

Management of exhaust gas and reduction of greenhouse gases

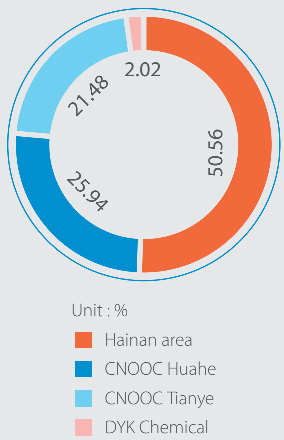
The Company strictly complies with applicable laws and regulations including Atmospheric Pollution Prevention and Control Law of the PRC, Integrated Emission Standard of Air Pollutants as well as Emission Standards of Air Pollutants for Thermal Power Plants. As such, all our production plants have met the SO_2 and NO_X exhaust gas emission requirements set out by the government. Since the Company primarily focuses on major environmental protection projects, including the flue gas control on coal-fired furnace, this significantly helps reduce atmospheric pollutant emissions. In 2020, the Company's Fudao (Phase I) combustion turbine renovation project was completed to the effect that NO_X exhaust gas emission from auxiliary furnaces aligned with the recent national standards. CNOOC Tianye completed the POM sewage upgrade and renovation projects, as well as the drainage upgrade and renovation project.

The Company is deeply engaged with initiative for reducing greenhouse gas emission and the emission management strategy. The historical data verification on carbon emission was underway. From 2017 onwards, DYK Chemical took the lead to participate in carbon trading. As of 2020, an aggregate of 677,292 tonnes of carbon emission quota was granted, with contracted emission transacted amounted to 613,404 tonnes in aggregate, four years in a row carbon emission contract met. In 2020, CNOOC Fudao has initially concluded with a Cold Energy Utilization Company on sales arrangement in relation to a joint development project of carbon dioxide. Therefore, it is expected dry ice export will reduce carbon dioxide (CO_2) emission, while the "carbo-neutral" objective actively implemented. In 2020, production and sales of liquid carbon dioxide amounted to 6,321.2 tonnes, thereby, cutting down on greenhouse gases emission. As the Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Chemical Production Enterprises (Trial) stipulated, the Company's carbon emission in 2020 amounted to 6,739,100 tonnes in aggregate (not verified by any third party). Owing to the fact each plant has run smoothly over a long cycle, this certainly has added up the emission output, among which, 3,407,300 tonnes attributable to Hainan area, accounting for 50.56% of the total, followed by CNOOC Tianye 21.48%, DYK Chemical 2.02% and CNOOC Huahe 25.94%. Details are set out in the table below.

	Carbon emission amount	
Entity	10,000 tonnes	Percentage
Hainan area	340.73	50.56%
CNOOC Tianye	144.76	21.48%
DYK Chemical	13.58	2.02%
CNOOC Huahe	174.84	25.94%
Total	673.91	100.00%

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

Percentage of carbon emission of the Company in 2020



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 2020, the Company forged ahead to improve the recycle efficiency, as well as to reduce wastewater discharge. CNOOC Fudao engaged SUEZ NWS Environmental Management Hainan Company, a professional environmental protection company, by concluding the "Sewage Treatment Service Agreement" with the later. Pursuant to which, the parties will be responsible for an overall operation and maintenance of the sewage treatment plant, as well as the undertaking the CNOOC Fudao's sewage upgrade and renovation project. Wastewater produced in DYK Chemical was recycled and reused, and thus zero discharge achieved. Tailings Pool wastewater treatment plant was expanded, with wastewater treatment capacity increased to 1,450 tonnes per hour, which, in turn, reduced the use of fresh water in each plant. In 2020, the Company discharged an aggregate of COD and NH_3-N amounted to 159.86 tonnes and 9.51 tonnes, respectively.

Disposal of solid waste

The Company attaches great importance to the generation and disposal of hazardous and non-hazardous wastes and complies strictly with the requirements under Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes, Standard for Pollution Control on Hazardous Waste Storage, among others. The piling and storage of tailings from phosphate ores, phosphogypsum and coal ashes were in conformity to the requirements of environmental safety of the government. Meanwhile, solid waste was duly recycled and reused, while research works on applying phosphogypsum as input to produce building materials were undertaken. Hazardous solid waste was centrally collected, recycled and disposed by qualified bodies. In 2020, the Company produced waste amounted to 475,435.35 tonnes in aggregate, among which hazardous waste accounted for approximately 63,124.21 tonnes, while non-hazardous waste approximately 412,311.14 tonnes. The Company disposed 7,000 tonnes of solid waste by means of resource reuse scheme (phosphogypsum slag yard for dam building) and 0 tonne of solid waste by piling and reclamation. The Company commissioned qualified units with national environmental protection accreditations to handle 63,124.21 tonnes of hazardous waste in accordance with professional standard. Thus, safe treatment and disposal standard reached 100%.

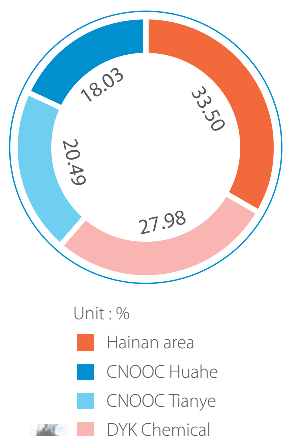
Resource use

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

In 2020, the Company consumed an aggregate of 60,935,700 woven bags, approximated to 10,225.73 tonnes, of which, Hainan area consumed 20,415,000 woven bags, accounting for 33.50%, followed by CNOOC Tianye 20.49%, DYK Chemical 27.98% and CNOOC Huahe 18.03%. See the table below for details.

Company	Woven bags	
	10,000 pieces	Percentage
Hainan area	2,041.50	33.50%
CNOOC Tianye	1,248.47	20.49%
DYK Chemical	1,705.19	27.98%
CNOOC Huahe	1,098.41	18.03%
Total	6,093.57	100.00%

Percentage of Woven bags consumption of the Company in 2020



Laying the impermeable membrane of mining pit

Energy use

The energy used by the Company mainly comprises natural gas, coal and electricity, among others. In 2020, the Company's comprehensive energy consumption increased to 4,306,725.45 tonnes of standard coal. Among these, natural gas consumption amounted to 3,902.7092 million Nm^3, accounting for 72.33% of our total energy consumption. Coal consumption was 1,446,020.23 tonnes, representing 25.14% of our total energy consumption. Electricity and others accounted for 2.53% of our total energy consumption.

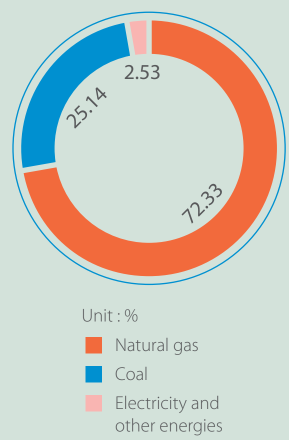
Type of energy	Unit	Actual consumption	Standard coal equivalent (Tonne of standard coal)
Cleaned coal	Tonne	952,991.55	774,210.34
General bituminous coal	Tonne	493,028.68	308,537.35
Natural gas	$10{,}000Nm^3$	390,270.92	3,115,220.53
Diesel	Tonne	1,466.06	2,136.19
Gasoline	Tonne	29.87	43.95
Liquefied petroleum gas	Tonne	196.61	337.05
Electric power	10,000kWh	67,098.52	82,464.08
Heat	million KJ	697,242.57	23,775.97
Total	Tonne of standard coal		4,306,725.45

Energy conservation

The Company vigorously promotes the use of advanced energy-saving technology, technique and equipment and so on through technological upgrades. In 2020, the Company undertook 3 projects on energy-saving technical upgrade and 6 projects on contract energy management, among which, CNOOC Fudao completed the combustion turbine replacement and flue gas denitrification renovation project during the Fudao Phase I renovation period, medium pressure steam conserved amounted to 9,000 tonnes and standard coal equivalent of 1,061 tonnes within the year, and the replacement of ammonia synthesis catalyst and low-temperature shift catalyst completed. Thus, daily output increase of ammonia amounted to 27 tonnes, with total annual increase amounted to 8,000 tonnes; economic benefit amounted to RMB7,800,000. The boiler feed water pre-heater (08-E002) and auxiliary boiler gas economizer and other heat exchanger renovation works in Fudao Phase I were completed, with the steam output increased by 7 tonnes per hour, and annual economic benefit amounted to RMB10,000,000. The project on circulating pump powered by low-pressure steam turbine in CNOOC Huahe was completed and operation commenced from 22 April 2020, with an annual energy conserved amounted to 9,150,000 KW. Comprehensive energy consumption of ammonia products in CNOOC Huahe amounted to 1,591kgce, down by 2.6% from the same period in 2019, and comprehensive energy consumption of ammonia production passing the consumption threshold of 1,680kgce.

CNOOC Huahe Renovation Project of Circulating Water Pump supported with Steam and Electric turbine

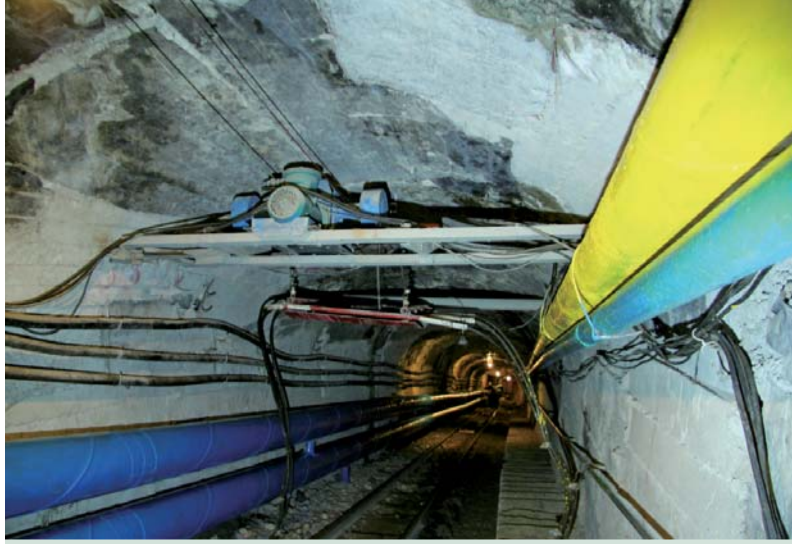
Percentage of energy consumption of the Company



Company main products comprehensive energy consumption

Products	Unit product comprehensive energy consumption (tce/t)	Energy consumption quota (tce/t)
Urea	0.1509	0.1800
Methanol	1.1432	1.5600

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



Shaft catcher

Water resource conservation

The Company advocates water conservation and takes a proactive approach in adopting water-saving measures and implementing various technological upgrades. CNOOC Fudao intiated the circulating water pump's optimization and energy-saving renovation project. CNOOC Fudao Phase II started the desalination and reverse osmosis recovery project; CNOOC Tianye adopted contracted energy management mode measured up with professional energy-saving and advanced technological standard. By selecting high-efficiency circulating water pumps and the replacement into high-efficiency electric engine, CNOOC Tianye intends to enhance the operation efficiency of circulating water pumps. In 2020, the Company consumed 35,780,690 tonnes of fresh 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 (10,000 tonne)	740.5164	76.4869	2,761.0657	3,578.0690

Company main products water consumption

Products	Unit product water consumption (t/t)	Water intake quota (t/t)
Urea	2.87	3.00
Methanol	4.31	/

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. DYK Chemical proceeded with the green product (compound fertilizer) certification in November 2020. The Company's compound fertilizer products were evaluated with reference to four areas of their respective impacts, namely, resource, energy, environment and quality; on-site assessment was passed, while the certification is still pending till sample test results was qualified. Meanwhile, DYK Chemical joined the "Technical Specification for Green Design Product Evaluation on monoammonium Phosphate and diammonium Phosphate" compliation work on industry-standard.

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.

Overlook the Wangji mine

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, the Mine Safety Law of the PRC and the Regulation on Land Reclamation. We complied with the guiding principle, “governance and recovery", during our mining opeartion. By promptly attending to control and restoration of geological environment for mine areas, the Company strives to maintain a synchronised development for resource exploitation and ecological environment protection, and thus to achieve green, highly efficient and sustainable future. In 2020, DYK Chemical’s Phosphate Mine and Wangji Phosphate Mine were selected into the provincial list of green mines.

Compound fertilizers of our Company was elected as the 2020 green product of the petroleum and chemical industry

On 12 November 2020, the China Petroleum and Chemical Industry Federation announced the 2020 list of green products in the petroleum and chemical industry. The project underscored the initiative to follow through with the national green development strategy that would facilitate advanced exemplar enterprise in green production in the petroleum and chemical industry, accelerate the migration into green production system in the industry, as well as laying the groundwork towards green development in petrochemical industry. On voluntary application basis, DYK Chemical opted to go through formal examination, credit inquiry, expert evaluation, among other assessment procedures, so that its compound fertilizer 19-19-19 could be certified as green product.

Based on the overall directive of green development, DYK Chemical readily incorporates green element into its product design as the production progresses, including raw material control, production technology, efficiency of fertiliser, service quality and others. The Company applies high-performance tubular reactor technology on account of its fast chemical reaction, time delay of phosphorus elements for degradation, increased activity level of nutrient elements; the Company also makes adequate use of chemical heat reaction due to long drying period, low temperature, and thus to effectively avoid the decomposition and degradation of nutrient elements when exposed to high temperature. The reverse and forward flotation process for coal minding that still led in the industry further reduced the adding of ore’s metal elements into the products, while excellent formulation management helped control the pH and chloride content of the product; advanced low-temperature granulation process safeguarded the biuret content of urea-based compound fertilizer. Hence, various technologies are applied to ensure our products are environmentally friendly and ecological. Our products are identified with low ammonium polyphosphate, high nutrients, reduced degradation of polymeric phosphorus; gradual hydrolysis can be absorbed by plants, plus long-term dissolution performance; since soil saturation in chelated iron, calcium, magnesium and other trace element is prevented, this facilitates absorption and use by crops, and increases fertiliser efficiency. Since 2018, all the Company’s products passed the eco-friendly fertiliser certification. In October 2020, our Company was selected as the first batch of pilot projects for quality agricultural inputs (fertilisers) in the national environmental protection and ecology sector. The procedure that led to the green products (compound fertilizers) certification took place in November 2020. The Company’s compound fertilisers were assessed with reference to four areas of impact, namely, resource, energy, environment and quality. At present, on-site assessment was passed, while the certification still pending till sample test results was qualified. Meanwhile, the Compnay joined the "Technical Specification for Green Design Product Evaluation on monoammonium Phosphate and diammonium Phosphate", compliation work on industry-standard.

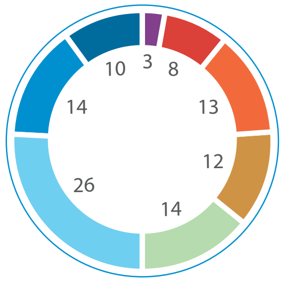
DYK Chemical package line

Society

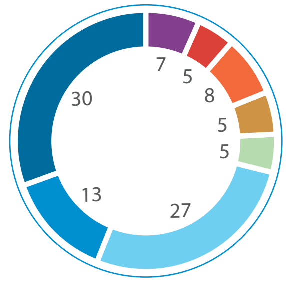
Employment and labour practices

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 2020, 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.

The percentage of employee distribution by age



The percentage of employee turnover by age



Unit : %

- Below 25
- Age 26-30
- Age 31-35
- Age 36-40
- Age 41-45
- Age 46-50
- Age 51-54
- Age 55-59

Plant maintenance

Codes on employment and labour

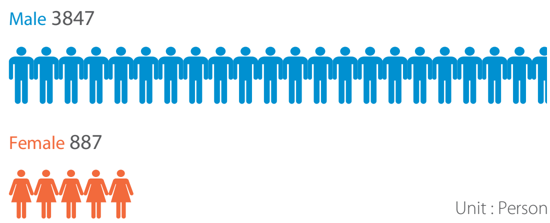
In compliance with the Labour Law, Labour Contract Law, Social Insurance Law, Women's Rights and Interests Protection Law and Provisions on Prohibition of Child Labour of the PRC, the Company formulated administrative measures such as Administrative Measures on Employment, Administrative Measures on 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, anti-discrimination, fair treatment and prevention on child labor using or force labor.

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 seriously complied with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, contantly abided by the work directives of "Prevention First; Prevention and Control". Hence, the Company set to enhance the training session on occupational hazard prevention and control; increase occupational safety and health awareness among all staff members; exercise active control on the elements leading to occupational hazards; by either controlling or terminating occupational diseases, the Company intended to improve the management performance on prevention and control of occupational hazards; the Company regarded enhanced working environment and strengthed employees' occupational health as the key tasks; impressive results achieved in various areas, including the promotion of occupational disease prevention and control, the formulation of training management system, the assignment of protective facilities and dust prevention measures, occupational disease prevention and control, and thus help to create a safe and healthy working environment for all employees of the company. In 2020, employees exposed to occupational disease hazards totaled 690, with a physical examination rate of 100%. No suspected case of occupational diseases and occupational diseases was found in occupational physical examination.

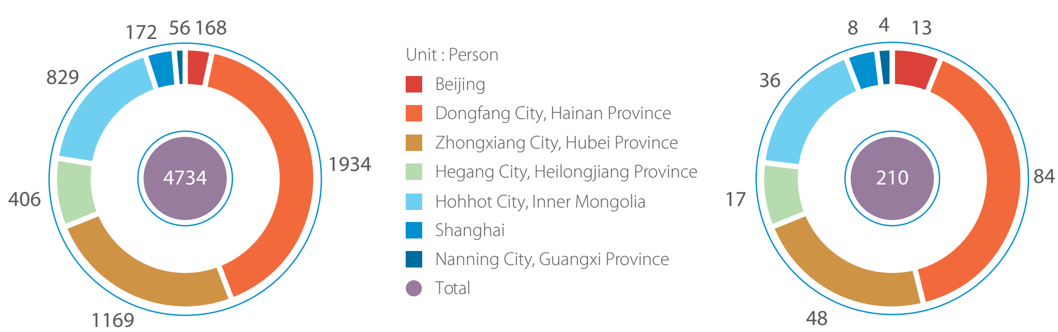
Employee distribution by gender



Employee turnover by gender

Employee distribution by geographical region

Employee turnover by geographical region



Note: The statistical measurement is based on direct employment, which include those employees signed labor contracts directly with the Company.

The Company actively implemented the prevention and control measure of COVID-19 epidemic. An anti-epidemic prevention and control leading group and special group were engaged to closely follow the epidemic policy and latest update. Thus, a standardised management and control system based on institution, policy, plan, resources, and place was established. By exercising project-based control during key period, holiday, and renovation period, as well as applying grid arrangement on local confirmed cases, the Company incorporated both standardised prevention and control measure, as well as localised emergency measure in its control policy. This year, 47 documents on epidemic prevention and control circulated; 85 meeting minutes recorded; 26 leading group meetings convened, 13 documents issued, 6 incident reports recorded and 60 instructional notice on epidemic.

The Company is highly concerned with production safety and abided by the core value, "Safety First, Environmental Protection Ranked Top, People-oriented, and Adequate Equipment". The Company continues to enhance various protective facilities to minimise the number of work-related accidents or work-related injuries. In 2020, the Company actively initiated special project three-year action plan on production safety, as well as to exercise the two-pronged control, namely safety risk classification control and hidden danger investigation and control. The Company intends to prioritise safety risk over hidden danger and hidden danger over accident; closely monitor major hazards; continue to provide safety training; strengthen the safety management among contractors and constantly improve operation management; through a well-defined position-specific safety responsibilities, the Company aims to see production safety and responsibility practice is in place. In 2020, no dangerous chemical leakage accident, fire and explosion accident, environmental pollution accident and other liability accident with direct losses amounted to more than RMB1 million was recorded. Occupational Safety and Health Administration (OSHA) recorded accident rate is 0.06.

Development and training

The Company highly regards employee development and training. In 2020, the Company actively implemented “3 plus 1” talent recruitment strategy in group companies. Against the backdrop of epidemic, the Company carefully initiated the annual training plan, which further enhanced the selection, training, assessment and incentive system, as well as to press forward with the three-troupe core talent reserve building. During the year, the overall training hours completed amounted to 339,300, total number of attendees 89,033 and average training hours per attendee 71 hours (safety related training excluded).

The Company formulates a comprehensive operation manual that caters to the needs of newly recruited members to technical supervisors. Operational sequence therein is applicable to junior workers, middle workers, and senior workers, technicians and senior technicians (team leaders included), while the technical sequence begins from assistant engineers to technical supervisors; required capability and attribute as well as compulsory training programme and categories are clearly defined in every stage. Based on in-depth research, the framework design is duly completed with standardized application. As such, a variety of courses and programmes are readily available for the frontline workers.

We were honoured with outstanding results in various professional skills contests in the industry. At the 12th National Petroleum and Chemical Industry Vocational skills Competition of the year, our chemical analytic team was honoured the first prize (group), while two of our member groups received the third prize (group). Xu Xiaojie was awarded gold prize (individual), while Wu Qingyuan won silver prize (individual). Both earned the title of “Industrial Technical Expert”. Device and Equipment Repair Team won 3 second prize (goup) and 1 third prize (group). Yin Wenyong and Yu Shaofeng won sliver prize (individual) and earned the title “Industrial Technical Expert”.

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 Company's procurement sharing center is responsible for the development and maintenance of the supplier database, which includes entry assessment of suppliers, annual assessment and appraisal, as well as optimizing management of suppliers' database. Designated executive from the procurement sharing center will be assigned to each subsidiary so as to undertake work related to suppliers' referral, preliminary review and appraisal, among others. In 2020, a total of 457 new suppliers were added to our supplier database (with 266 tentative suppliers included).

A set of qualification standards has been imposed by the Company for potential suppliers in order to manage suppliers under the principle of 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.

The Company actively participates in initiative to formulate industrial standard. Based on technological innovation as a growth driver, aided with enhanced system building, the Company is poised to develop new technology, undertake research and application of new device and facilities, as well as enhanced product quality control. In 2020, the passing rate of the Company's quality check on urea and methanol products maintained 100%, with product premium rates for aforesaid products recorded 99.81% and 100%, respectively. No material litigation and complaint in relation to products and service quality was recorded.

Anti-corruption

Prevention and control of corruption has become the key element in the Company's risk management segment. To root out corruption, prevention is even more important than penalty. We, therefore, persist to prioritise on prevention, as well as to press forward with the construction of anti-corruption risk prevention and control mechanism. 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 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.

In 2020, to contribute to poverty alleviation initiative, the Company stepped up efforts in the area of industry, consumption, education, employment and property alleviation. Three tentative poverty alleviation cadres in Hezuo city in Gansu Province, Xiahe County and Wuzhishan City New Village in Hainan Province were enlisted to work with CNOOC to carry forth poverty alleviation projects, including civilized ecological villages and tourism benchmark villages, all ventures amounted to more than RMB30 million. The work clothes and shoes were centrally sourced from one of the factories in Gannan, Gansu Province, previously aided by CNOOC poverty alleviation, with accrued purchase amount reached RMB7.68 million in 2020. As the total acquired poverty alleviation products from Gansu Province and Hainan Province by members of the Company amounted to RMB2.72 million, this accounted for 190% of sales target set by early of the year, an increase of 58%, year on year. The Company further encouraged CNOOC's members to spend on poverty alleviation products and travel on voluntary basis in the poverty-striken areas. Staff members from the Company, joined by Hezuo City senior secondary poverty-striken students, commenced "One-to-One Caring Support "event for two consecutive years since 2019. Employees donated fund on their own initiative to sponsor senior secondary school students; 170 students in total were aided, with donation amounted to RMB170,000. As tuition fee were waived, students would continue with their academic pursuit. 26 target university graduates and 25 migrant workers from poverty-striken area were recruited, all served to assist the destitute families.

CNOOC Fudao gave target assistance to Xinningpo Village, Dongfang City, Hainan Province and hence, RMB850,000 was committed to support 800 m road hardening project to facilitate agricultural production, which significant helped the daily transportation of agricultural products, chemical fertilisers and other resources, as well as the daily travelling of villagers. This initiative also intended to stimulate the economic activities in the destitute villages in vicinity. Besides, CNOOC Fudao actively forged ahead with poverty alleviation initiative. The Company encouraged its existing members to volunteer in poverty alleviation event as well as to spend on poverty alleviation products. The Company exercised its agriculture-related competitive edge, as well as to help rural areas with agrochemical science and technology services; the project "knowledge to countryside" commenced, whereby, technicians were assigned to give training on electric welding skills; daily supplies and necessities including sofas, tea tables, beds and other items were depatched to help needy households.

CNOOC Huahe always regards localisation and serving the economic development in local economy as the requirements for corporate development. Based on the CNOOC voluntary serving mentality, CNOOC Huahe implements corporate social responsibility, and continues to improve its volunteer service system; "Blue Power", the brand for youth volunteer service, is widely recognized and approved across various sectors in the country.

In Basuo Port in Hainan Province, "One-to-One"assistance was handed to 22 households dragged by proverty in Siwen Village, Basuo Town. During the year, a sum of RMB100,000 was committed for home visit during traditional festival including the Lunar New Year and the Mid-Autumn Festival. Various consumables including pesticides and chemical fertilizers were distributed to help proverty-stricken households, depending on their specific needs.

In 2020, 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 2020, 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 has complied with all code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, except for the deviation 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. In compliance with the requirements of the Listing Rules, the Company formulated, announced and sought approval from independent Shareholders the agreements and the proposed caps of connected transactions for 2021-2023, which guaranteed the smooth development of the Company's principal businesses for the next three years and safeguarded the interests of minority Shareholders. 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 two extraordinary general meetings. At these meetings, 24 proposals in relation to, among other things, amendments to the articles of association of the Company, appointment of Directors and Supervisors, agreements and proposed caps of continuing connected transactions for 2021-2023, the 2019 annual financial report of the Company, the report of Directors, the report of the Supervisory Committee, profit distribution plan, the 2020 budget proposal and grant of general mandate to the Board to repurchase H Shares, were considered and passed. Mr. Wang Weimin, Mr. Guo Xinjun, Ms. Karen Lee Kit Ying, Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun, being Directors, attended the above general meetings and all of them attained an attendance rate of 100%. Mr. Hou Xiaofeng, being a then Director, attended the second extraordinary general meeting and attained an attendance rate of 100% during the reporting period. Due to other business engagements, Mr. Meng Jun was unable to attend the second extraordinary general meeting and he attained an attendance rate of 80% during the reporting period. Since the appointment of Mr. Liu Zhenyu as a Director on December 29, the Company has not held any general meeting.

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 2020, the Board consisted of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. There was no relationship (including financial, business, family or other material or relevant relationship(s)) among the members of the Board. Biographical details of the Directors are set out on pages 43 to 44 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 provide an effective internal check and balance mechanism but also cater to the needs of the Company's operation and development. When determining the Board composition, the Company considers the diversity of the Board members in many respects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The Company has formulated a Board diversity policy, which sets out the approach adopted by the Board to achieve diversity. All appointments of Directors are made by the Board after taking into consideration objective criteria such as their qualifications and experiences, and their compliance with the Board diversity policy. The ultimate decision shall be based on the professional strengths and the possible contributions to the Board of the candidates. In terms of the above factors (in particular of gender, professional background and skills), the Board is characterised by significant diversity.

As at 31 December 2020, the members of the Board were as follows:

Board member	Position(s)	Date of appointment
Wang Weimin	Chairman and executive Director	31 May 2018
Hou Xiaofeng	Executive Director, CEO and President	26 August 2020
Guo Xinjun	Non-executive Director	31 May 2018
Liu Zhenyu	Non-executive Director	29 December 2020
Karen Lee Kit Ying	Independent non-executive Director	31 May 2018
Eddie Lee Kwan Hung	Independent non-executive Director	31 May 2018
Yu Changchun	Independent non-executive Director	31 May 2018

Each of the Directors has entered into a service contract with the Company. Among them, Mr. Wang Weimin, Mr. Guo Xinjun, Ms. Karen Lee Kit Ying, Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun, all being Directors, were appointed for a term of office of three years, commencing from the date on which their appointments were approved at the 2017 annual general meeting of the Company (i.e. 31 May 2018), or until the election of a new session of Directors at the 2020 annual general meeting of the Company. Mr. Hou Xiaofeng, being a Director, was appointed for a term of office commencing from the date on which his appointment was approved at the first extraordinary general meeting in 2020, until the appointment of a new session of Directors is approved by the Shareholders at the 2020 annual general meeting of the Company. Mr. Liu Zhenyu, being a Director, was appointed for a term of office commencing from the date on which his appointment was approved at the second extraordinary general meeting in 2020, until the appointment of a new session of Directors is approved by the Shareholders at the 2020 annual general meeting of the Company. However, if a new Director is not elected in time prior to the expiration of the term of office of existing Directors, the existing Director shall, pursuant to the laws and regulations and the Articles, continue to perform his / her duties as a Director prior to the election at the general meeting held by the Company in the year when their terms of office expire. Directors may be re-elected and reappointed upon expiration 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, each of the independent non-executive Directors has submitted to the Company an annual confirmation of his/her independence. The Board has assessed the independence of each independent non-executive Director and considered that all independent non-executive Directors met the independence requirements of the Listing Rules. One of the independent non-executive Directors fully met the requirements set out in Rule 3.10 (2) of the Listing Rules, i.e., having appropriate professional qualifications or appropriate accounting or related financial management expertise. The number of the independent non-executive Directors, their independence and qualifications were 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 the Shareholders and the Company at Board meetings.

Information on Board meetings

During the reporting period, the Board held seven physical meetings and, according to the actual work needs, held one interim meeting by way of written resolution in lieu of holding an on-site meeting. Attendance of the Board members at the physical Board meetings during the year ended 31 December 2020 was as follows:

Director	Number of meetings attended/held	Attendance rate (%)
Wang Weimin	7/7	100
Hou Xiaofeng (Note 1)	3/3	100
Guo Xinjun	5/7	71
Liu Zhenyu (Note 2)	1/1	100
Karen Lee Kit Ying	7/7	100
Eddie Lee Kwan Hung	7/7	100
Yu Changchun	7/7	100
Meng Jun (Note 3)	5/6	83

Note 1: Mr. Hou Xiaofeng was appointed as an executive Director on 26 August 2020. Three Board meetings were held during the period from 26 August 2020 to 31 December 2020.

Note 2: Mr. Liu Zhenyu was appointed as a non-executive Director on 29 December 2020. One Board meeting was held during the period from 29 December 2020 to 31 December 2020.

Note 3: As Mr. Meng Jun has reached retirement age, he ceased to be a non-executive Director on 29 December 2020. Six Board meetings were held during the period from 1 January 2020 to 29 December 2020. Mr. Meng Jun attended five of the meetings in person. Due to other business engagements, he entrusted Mr. Guo Xinjun to attend one of the meetings and vote thereat on his behalf.

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 fulfilled their fiduciary duties 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 interested Directors must abstain from voting on the resolution concerned, and shall not vote on behalf of other Directors so as to effectively protect the interests of all Shareholders.

Training for Directors

As stipulated in code provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills so as to ensure that they continue to contribute to the Board in a well-informed and relevant manner.

During the reporting period, all Directors participated in a number of training sessions in various forms. In particular, all the then Directors (namely Mr. Wang Weimin, Mr. Meng Jun, Mr. Guo Xinjun, Ms. Karen Lee Kit Ying, Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun) attended the on-site training organised by the Company on 28 May 2020 to learn about the latest trend of the laws and regulations in 2020 and other related topics. In addition, the Company circulated written materials to all Directors by mail on 2 December 2020, which included four sets of learning materials concerning the review of information in annual report of issuers by the Hong Kong Stock Exchange and other matters. The Directors completed the training by reading through these materials. Mr. Hou Xiaofeng and Mr. Liu Zhenyu, being the newly appointed Directors, received relevant training related to duties of directors.

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 the provisions of the laws and regulations 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, made amendments to the Articles, enhanced the risk management and internal control of the Company, and further enhanced the corporate governance policies and practices.

3 Committees of the Board

The Board has four committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Review Committee. Each of the committees has written terms of reference as 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 are published on the websites of the Hong Kong Stock Exchange and the Company, respectively. Each committee has adequate resources to perform its duties. The committees shall report regularly and provide recommendations to the Board to assist the Board in making decisions.

Audit Committee

The Audit Committee currently consists of five members, including Ms. Karen Lee Kit Ying, Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun as independent non-executive Directors, and Mr. Guo Xinjun and Mr. Liu Zhenyu as non-executive Directors, with Ms. Karen Lee Kit Ying being the chairperson. The chairperson of the Audit Committee has the qualifications required 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 plans, review the effectiveness of the risk management procedures and internal control procedures of the Company to ensure the operational efficiency of the Company's business and achievement of the Company's corporate objectives and strategies, review the independence and objectivity of the external auditors of the Company and the validity of audit procedures, and review 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 five meetings during the reporting period and the work it performed is summarised as follows:

- Reviewed the 2019 consolidated financial statements and the 2020 interim condensed consolidated financial statements and results, with focus on the compliance with accounting standards, the Listing Rules and other regulations, and made recommendations and advice to the Board;
- Reviewed the 2021 operating and financial budgets of the Company, and made recommendations and advice to the Board;
- Reviewed the independence of the external auditor and made recommendations to the Board on the appointment of the external auditor, and considered and approved the terms of engagement of the external auditor and the audit fees for 2020;
- 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 2020 and approved the internal audit plan for 2021 of the Company, and reviewed the effectiveness of the risk management and internal control systems and the internal audit function of the Company.

Attendance of the members of the Audit Committee at the committee meetings during the reporting period was as follows:

Audit Committee member	Number of meetings attended/held	Attendance rate (%)
Karen Lee Kit Ying (Chairperson)	5/5	100
Eddie Lee Kwan Hung	5/5	100
Yu Changchun	5/5	100
Guo Xinjun	5/5	100
Liu Zhenyu (Note 1)	1/1	100
Meng Jun (Note 2)	3/4	75

Note 1: Mr. Liu Zhenyu was appointed as a member of the Audit Committee on 29 December 2020. One meeting of the Audit Committee was held during the period from 29 December 2020 to 31 December 2020.

Note 2: Mr. Meng Jun ceased to be a member of the Audit Committee on 29 December 2020. Four meetings of the Audit Committee were held during the period from 1 January 2020 to 29 December 2020. Mr. Meng Jun attended three of the meetings in person. Due to other business engagements, he entrusted Mr. Guo Xinjun to attend one of the meetings and vote thereat on his behalf.

Remuneration Committee

The Remuneration Committee currently consists of three members, including Mr. Eddie Lee Kwan Hung and Ms. Karen Lee Kit Ying as independent non-executive Directors, and Mr. Liu Zhenyu as a non-executive Director, with Mr. Eddie Lee Kwan Hung being the chairman. The chairman of the Remuneration Committee has the qualifications required 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 packages of executive Directors, 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.

Remuneration policy

- The remuneration package policy for the executive Directors is designed to peg the executive Directors' 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 remunerations of non-executive Directors and independent non-executive Directors, which are subject to approval at the Company's general meetings, are determined mainly based on the complexity of the matters to be handled by them and their responsibilities. Pursuant to the service contracts entered into by the Company with non-executive Directors and with independent non-executive Directors, the expenses incurred by non-executive Directors and independent non-executive Directors in the performance of their duties (including attending meetings of the Company) 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 2020 are set out in Note 12 to the consolidated financial statements.

During the reporting period, three meetings of the Remuneration Committee were held at which remunerations of the newly appointed executive Directors and Supervisors were determined, and recommendations were made to the Board on the remuneration of the newly appointed non-executive Director.

Attendance of the members of the Remuneration Committee at the committee meetings during the reporting period was as follows:

Remuneration Committee member	Number of meetings attended/held	Attendance rate (%)
Eddie Lee Kwan Hung (Chairman)	3/3	100
Karen Lee Kit Ying	3/3	100
Liu Zhenyu (Note 1)	1/1	100
Meng Jun (Note 2)	1/2	50

Note 1: Mr. Liu Zhenyu was appointed as a member of the Remuneration Committee of the Company on 29 December 2020. One meeting of the Remuneration Committee of the Company was held during the period from 29 December 2020 to 31 December 2020.

Note 2: Mr. Meng Jun ceased to be a member of the Remuneration Committee of the Company on 29 December 2020. Two meetings of the Remuneration Committee of the Company were held during the period from 1 January 2020 to 29 December 2020. Mr. Meng Jun attended one of the meetings in person. Due to other business engagements, he entrusted Mr. Guo Xinjun to attend one of the meetings and vote thereat on his behalf.

Nomination Committee

The Nomination Committee currently consists of three members, including Mr. Wang Weimin (the Chairman and executive Director) and Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun (as independent non-executive Directors), with Mr. Wang Weimin being the chairman. The chairman of the Nomination Committee has the qualifications required under Rule A.5.1 of the Corporate Governance Code.

The Nomination Committee is primarily responsible for assessing and reviewing the structure, size and composition (including skills, knowledge and experience) of the Board, making recommendations to the Board in respect of the appointment, re-appointment and succession of Directors and senior management of the Company and relevant personnel to be appointed pursuant to the requirements of the Listing Rules. Specifically, the criteria adopted 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 directorship 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, cultural and educational background, whether the required independence criteria is satisfied, willingness and ability to devote sufficient time to discharge duties as a Director and a member of committees of 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 to select candidates for directorship are available on the website of the Company. Specifically, upon receiving the proposal to appoint a new Director or the nomination from Shareholders, the Nomination Committee shall evaluate the candidate's eligibility to serve as a Director based on the above criteria in combination with his/her personal profile. If multiple candidates are involved, the Nomination Committee shall prioritise them according to the Company's needs and candidates' respective qualifications. In the case of the re-appointment of a Director at the general meeting, the Nomination Committee shall review the overall contribution and services of the Directors whose terms of office have expired to the Company, their participation and performance within the Board, and whether such Director still meets the above criteria. The Nomination Committee makes recommendations to the Board on the appointment of suitable candidates for directorship, which shall ultimately be determined by the general meeting of the Company.

During the reporting period, the Nomination Committee held three physical meetings and, according to the actual work needs, held one interim meeting by way of written resolution in lieu of holding a physical meeting. In accordance with the aforesaid nomination policies and procedures, the committee made recommendations on the candidates for election as new Directors and senior management of the Company, and reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and its special committees in 2020. The Board has formulated and passed the above director nomination policy and diversity policy. All appointments of Directors are made by the Board after taking into consideration objective criteria such as their qualifications and experiences, and their compliance with the Board diversity policy. The ultimate decision shall be based on the professional strengths and the possible contributions to the Board of the candidates. In terms of the above factors (in particular of gender, professional background and skills), the Board is characterised by significant diversity.

Attendance of the members of the Nomination Committee at the physical committee meetings during the reporting period was as follows:

Nomination Committee member	Number of meetings attended/held	Attendance rate (%)
Wang Weimin (Chairman)	3/3	100
Eddie Lee Kwan Hung	3/3	100
Yu Changchun	3/3	100

Investment Review Committee

The Investment Review Committee currently consists of five members, including Mr. Yu Changchun, Ms. Karen Lee Kit Ying and Mr. Eddie Lee Kwan Hung as independent non-executive Directors, and Mr. Guo Xinjun and Mr. Liu Zhenyu as non-executive Directors, with Mr. Yu Changchun being 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 on the decision-making.

During the reporting period, the Investment Review Committee held two meetings, at which they reviewed the investment projects of the Company, and reported the review comments to the Board.

Attendance of the members of the Investment Review Committee at the committee meetings during the reporting period was as follows:

Investment Review Committee member	Number of meetings attended/held	Attendance rate (%)
Yu Changchun (Chairman)	2/2	100
Karen Lee Kit Ying	2/2	100
Eddie Lee Kwan Hung	2/2	100
Guo Xinjun	1/2	50
Liu Zhenyu (Note 1)	0/0	--
Meng Jun (Note 2)	2/2	100

Note 1: Mr. Liu Zhenyu was appointed as a member of the Investment Review Committee on 29 December 2020. No meeting of the Investment Review Committee was held during the period from 29 December 2020 to 31 December 2020.

Note 2: Mr. Meng Jun ceased to be a member of the Investment Review Committee on 29 December 2020. Two meetings of the Investment Review Committee were held during the period from 1 January 2020 to 29 December 2020. Mr. Meng Jun attended the two meetings in person.

4 Supervisory Committee

The Supervisory Committee is accountable to the general meeting and exercises the following functions and powers in accordance with the law:

- To review the financial matters of the Company;
- To supervise the behaviour of Directors and senior management of the Company in the fulfillment of their duties and to put forward proposals on removal of those who have violated the laws, administrative regulations and the Articles;
- To demand Directors, President and other senior management to rectify any improper behaviour that would be detrimental to the interest of the Company;
- To verify financial reports, business reports, profit distribution proposals and other financial information that are to be submitted by the Board to general meetings, 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 convening of extraordinary general meetings, and to convene and preside over general meetings when the Board fails to fulfil its duty under the Articles to do so;
- To put forward proposals at general meetings;
- To initiate legal actions against Directors, the President and other senior management in accordance with the Company Law; and
- To exercise other functions stipulated in the Articles.

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

For details of the work performed by the Supervisory Committee, please refer to the Report of the Supervisory Committee on page 61 to 62 of this annual report.

5 Senior management

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

Together with other senior management members, the chief executive officer/president of the Company organises and carries out operational and managerial activities of the Company in accordance with the laws and regulations, the Articles and the authority delegated to him/her by the Board, and exercise the following major functions and powers:

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

The senior management of the Company implements 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 furnishes 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 the 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 stock price trend, analyst reports from investment banks and media news on a regular basis to keep the Directors and Supervisors abreast of the developments in the capital market relating to the Company. The management also issues a daily stock quote report to keep the Directors and Supervisors timely informed of share price movements 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 etc.. These committees fully ensure that the production and operation, decision-making and risk management of the Company are conducted in a scientific and prudent way .

The remuneration range of the members of senior management of the Company for the year ended 31 December 2020 is set out in Note 13 to the consolidated financial statements.

6 Securities Transactions by Directors and Supervisors

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 its code of conduct regarding securities transactions by Directors and Supervisors. Having made specific enquiry of the Directors and Supervisors, all Directors and Supervisors confirmed that during the accounting period covered by this annual report, they have strictly complied with the required standards set out in the Model Code.

The Board will examine the corporate governance and operations of the Company from time to time so as to meet the relevant requirements of the Listing Rules and to safeguard Shareholders' interests.

7 Chairman and President

On 24 December 2019, Mr. Xia Qinglong resigned from the positions of the chairman of the Board and an executive Director, and Mr. Wang Weimin, an executive Director, was appointed by the Board to perform the duties and responsibilities of the chairman of the Board until the effective date of the appointment of the new chairman of the Board. In view of Mr. Wang Weimin's experience, personal profile and his roles in the Company, the Board considers that it has no unfavorable impact on the business prospects and operational efficiency of the Company that Mr. Wang Weimin, in addition to acting as the CEO and president of the Company, acts as the chairman of the Board. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) there is sufficient check and balance in the Board as the decision to be made by the Board requires approval by at least a majority of the Directors and our Board has three independent non-executive Directors out of the six Directors, which is in compliance with the Listing Rules; (ii) Mr. Wang Weimin and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they act for the benefit and in the best interest of the Company and make decisions for the Company accordingly; (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company; and (iv) the overall strategic and other key business, financial, and operational policies of the Company are made collectively after thorough discussion at both Board and senior management levels.

On 28 May 2020, Mr. Wang Weimin was appointed as the Chairman and resigned from his positions of the chief executive officer of the Company and the President. On 12 August 2020, Mr. Hou Xiaofeng was appointed as the chief executive officer of the Company and the President. Currently, the Company meets the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

8 Company Secretary

During the reporting period, Ms. Wu Xiaoxia served as the Company Secretary, the chief financial officer and the vice president of the Company. She is familiar with the day-to-day affairs of the Company. Ms. Ng Sau Mei has resigned from her position of a joint company secretary with effect from 23 October 2020 due to other work commitment. All Directors are entitled to obtain the advice and services from the Company Secretary to ensure the Board procedures and all applicable laws, rules and regulations are complied with.

Having made enquiry by the Board, each of Ms. Wu Xiaoxia and Ms. Ng Sau Mei confirmed that she met all the requirements stipulated in the Listing Rules regarding qualification, experience and training during their respective terms of office.

9 Communication 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 “Investor Relations” on its website at www.chinabluechem.com.cn, where Shareholders may access relevant information.

Pursuant to the rules and requirements of regulatory authorities, the Company is proactive in maintaining a good relationship with investors, making proper information disclosure and maintaining ongoing communications with Shareholders. In particular, the Company, among other things, organises annual results roadshows, participates in investors’ forum organised by investment banks, invites investors/ analysts to visit our plants, and holds face-to-face interviews or teleconferences with investors.

During the reporting period, the Company made amendments to some provisions of the Articles to change the registered address of the Company, update the legal names of the promoters of the Company, and adjust the number of Board members. The amendments are conducive to enhancing corporate governance and in the interests of the Company and its Shareholders as a whole. For details, please see the circular dated 12 July 2020 and the Articles dated 26 August 2020 published by the Company.

10 Risk management and internal control

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

The Company has developed an internal control system and a comprehensive risk management system as well as internal systems such as comprehensive risk management measures. The Company has set up 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 risk management monthly reports, discusses and determines measures to cope with such major risks, and requires the subsidiaries to implement them for rectification. During the reporting period, with goals of streamlining and optimising and improving efficiency, the Company revised its business authority manual (業務權限手冊)and simplified the procedures for approval and filing. It adjusted supply-chain, scientific research and management, and other systems and regimes, sorted out the responsibilities in the management of all aspects of the procurement business and drew up a list of responsibilities in the approval process of the procurement business. While coordinating prevention and mitigation of major business risks, the Company continued to refine its monthly reporting mechanism by reporting to the Board and management of the Company the key control risks. The internal audit department of the Company plays an important role in supporting the Board, the management and the risk management and internal control systems. During the year, the Board reviewed the risk management and internal control systems of the Company, including financial, operational and compliance control. The Audit Committee of the Board was briefed twice on the risk management and internal control systems of the Company, and held discussions in this regard. The Company considers that its risk management and internal control systems are effective and adequate.

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 a dividend policy, further information of which is set out in the "Report of Directors" section of this annual report.

The Board concurs with the management's confirmation that for the year ended 31 December 2020, (1) the risk management and internal control systems of the Company were effective and adequate; (2)the Company has adopted necessary control mechanisms to monitor and correct non-compliances; and (3) the Company has complied with the requirements of the Corporate Governance Code in respect of risk management and internal control systems.

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 2020, 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 63 to 65 of this annual report.

12 2020 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 25 March 2021, the Company and CNOOC held the 2020 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.


❶

❷

❸

❹

Directors, Supervisors and Senior Management

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 to August 2020. 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 and the chairman thereof in August 2020. He was appointed as the chief executive officer and president of the Company from March 2018 to May 2020, an executive Director in May 2018, and the Chairman in May 2020. He was appointed as a director of Western Resources Corp. (西部資源公司) in May 2020, and the chairman of CBC (Canada) Holding Corp. (中海化學(加拿大)控股公司) in August 2020.

②Mr. **Hou Xiaofeng**, born in 1976, graduated from Hefei University of Technology with a bachelor's degree in computer and applications in July 1997. In December 2007, he obtained a master's degree in finance from Capital University of Economics and Business. He was qualified as a senior engineer. From July 1997 to September 2001, he worked successively as a software engineer and network manager in information management department of CNOOC. From September 2001 to March 2015, he served successively as the information technology director, chief technology officer and chief engineer of CNOOC's information management department, and during this period, he worked concurrently as a member of CNOOC's ERP project preparation team and manager of the technology team from June 2004 to November 2009. From March 2015 to March 2018, he held the positions of chief engineer of information department of CNOOC and that of CNOOC Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code: 883 and whose American depository receipts are listed on the New York Stock Exchange with code: CEO and the Toronto Stock Exchange with code: CNU) as well as a team leader of CNOOC's "Internet+" joint work group,responsible for e-commerce, big data and network security, etc. From March 2018 to May 2020, he served as a member of CCP Standing Committee and Deputy Governor of Gannan Tibetan Autonomous Prefecture in Gansu Province, responsible for industry and informatization, agriculture and rural development, animal husbandry and veterinary medicine, supply and sale, and agricultural machinery, etc. He was also appointed as an executive Director, the chief executive officer and president of the Company in August 2020. He was appointed as the chairman of Hubei Dayukou Chemical Co., Ltd., a director of CBC (Canada) Holding Corp., and a director of CNOOC Kingboard Chemical Limited in August 2020.

⑤ ⑥ ⑦

Non-executive Directors

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.

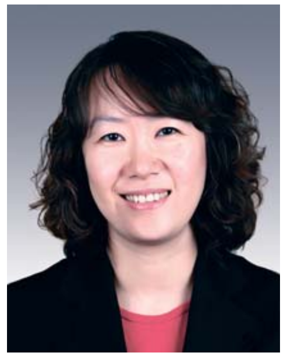
④Mr. **Liu Zhenyu**, born in 1976, graduated from Tianjin Institute of Finance and Economics majoring in accounting in July 1998 and obtained his MBA degree from China European International Business School in October 2013. Mr. Liu served as an accountant of the finance department of China Offshore Oil Northern Drilling Company from July 1998 to December 2001, an accountant of the finance department of China Oilfield Services Limited and successively an accounting director of Indonesia office from January 2002 to December 2004, successively an accounting director, financial accounting manager and accounting manager of the finance department of China Oilfield Services Limited from December 2004 to January 2010, a general manager of the finance department of China Oilfield Services Limited from January 2010 to October 2016, and has served as a deputy general manager of the financial assets department of China National Offshore Oil Corporation since October 2016. He was appointed as a non-executive Director of the company in December 2020.

Independent non-executive Directors

⑤Ms. **Lee Kit Ying**, born in 1948, obtained a bachelor's degree from City of London Polytechnic, U.K. (now known as London Metropolitan University) in 1979 majoring in accountancy and a master's degree from City University of Hong Kong in 1998 majoring in Financial Engineering. Ms. Lee is a senior fellow of the Institute of Chartered Accountants in England and Wales. She previously held a number of senior positions in Hong Kong Futures Exchange, the Hong Kong Stock Exchange and Hong Kong Exchanges and Clearing Limited. Ms. Lee has over 20 years' experience in derivative products and the operation, supervision and risk management of securities markets. Currently, Ms. Lee is the chairman of Virtus Foundation Limited. She was appointed as an independent non-executive Director of the Company in June 2012. Currently, Ms. Lee is also an independent non-executive director of Century Global Commodities Corporation (世紀環球商品有限公司) (listed on Toronto Stock Exchange, Canada) and an independent non-executive director of Gemilang International Limited (彭順國際有限公司) (listed on the main board of the Hong Kong Stock Exchange, stock code: 06163).

⑥Mr. **Lee Kwan Hung**, born in 1965, received his Law (LL.B (Honours)) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr. Lee was a senior manager of the Listing Division of the Hong Kong Stock Exchange between December 1992 and April 1994; a partner of Philip KH Wong, Kennedy YH Wong Co. between April 1994 and March 2000; a partner and chief representative of Beijing office in Woo Kwan Lee & Lo between April 2001 and February 2011; a consultant in Cheung & Choy solicitor & notaries between November 2011 and June 2014. Mr. Lee was appointed as an independent non-executive Director of the Company in June 2012; and is a consultant in Howse Williams Bowers from July 2014; Mr. Lee served as an independent non-executive director of Futong Technology Development Holdings Limited, Asia Cassava Resources Holdings Limited and Landsea Green Group Co., Ltd. (all 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, 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.

⑦Mr. **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



⑧ ⑨ ⑩

Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1993, and a doctor's degree of physical chemistry from the OSSO State Key Lab (OSSO國家重點實驗室) of Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1997 and obtained the assistant professor title afterward. From April 1997 to December 2002, Mr. Yu Changchun worked as a teacher in the Chemical Industry Institute of China University of Petroleum (Beijing). He was a visiting scholar in University of British Columbia, Canada from January 2003 to January 2004; From February 2004 to February 2012, he worked as a secretary to Academic Committee of China National Petroleum Corporation Catalyst Key Lab of China University of Petroleum (Beijing) and a teacher of the School of Chemical Engineering of China University of Petroleum (Beijing). He is a member of the Committee for Affairs of New Energy Research Center in China University of Petroleum (Beijing) and a teacher of this institute from March 2012 to December 2018. He is a teacher of College of New Energy and Materials in China University of Petroleum (Beijing) since January 2019. Mr. Yu Changchun's main research areas include conversion and utilisation of natural gas, catalytic conversion of light hydrocarbons, Fislcher-Tropsch synthesis, methanol and DME to chemicals, and substitute natural gas synthesis. He was appointed as an independent non-executive Director of the company in May 2016.

Supervisors

⑧Mr. **Liu Jianyao**, born in 1965, graduated from the Department of Management Engineering of East China Petroleum Institute (now known as China University of Petroleum (East China)) with a bachelor's degree majoring in industrial management engineering in 1987, and subsequently qualified as a senior accountant. From July 1987 to October 1990, he worked as officer of Project Management Division in the Production and Technology Department of China Offshore Oil Exploration Project Planning Company. From October 1990 to May 2002, he worked in Finance Department of China National Offshore Oil Corporation successively as officer of Accounting and Auditing for Oilfield, head of Taxation Department and head of Pricing and Taxation Department, during which he served as manager of Finance Department of China Ocean Oilfields Services (Hong Kong) Limited and head of Finance Department of CNOOC (Hong Kong) Insurance Limited from May 2000 to May 2002). From May 2002 to October 2004, he worked as a manager of Settlement Department of CNOOC Finance Corporation Limited. From October 2004 to July 2007, he worked as general manager of Finance Department of CNOOC Oil Base Group Ltd. From July 2007 to August 2009, he was general manager of Finance Department of CNOOC Energy Technology & Services Limited. From August 2009 to August 2014, he was chief financial officer of CNOOC Western Strait Ningde Industrial Zone Development Co., Ltd. From August 2014 to June 2017, he worked as the chairman of the Dispatched Supervisory Committee of CNOOC. From May 2016 to October 2017, he worked as the supervisor representing the shareholders of the Company and the chairman of the Supervisory Committee of the Company. From June 2017 to March 2020, he worked as head of Discipline Inspection Team of CNOOC Party Group in CNOOC Finance Co., Ltd. He has been full-time dispatched supervisor of CNOOC since March 2020. He was appointed as a supervisor representing the shareholders of the Company and the chairman of the Supervisory Committee of the Company in May 2020.

⑨Mr. **Li Xiaoyu**, born in 1958, graduated from Shandong University, Department of Chemistry with a bachelor's degree of science majoring in Organic Chemistry in 1981. He graduated from the Major of Polymers Materials of the Department of Polymers of Beijing Institute of Chemical Technology (now known as Beijing University of Chemical Technology, (BUCT)) with a master's degree of engineering in 1985. He graduated from the Major of Materials Science of the Department of Materials Science of BUCT with a doctoral degree (on-the-job) of engineering and title of professor in 1998. From May 1985 to June 1987, he was a teaching assistant in the Department of Applied Chemistry of BUCT; from July 1987 to June 1994, he was a lecturer in the Department of Applied Chemistry and Department of Polymers of BUCT; from July 1994 to June 1998, he was an associate professor of the Department of Polymers of BUCT; from July 1997 to June 1999, he was an deputy dean of the College of Materials Science of BUCT; since July 1998, he has been the professor and Ph. D. candidate supervisor of the College of Materials Science of BUCT; from July 1999 to January 2003, he served as the director of Science and Technology Department in BUCT. In May 2015 he was appointed as an independent Supervisor of the Company.

⑩Ms. **Liu Lijie**, born in 1970, graduated from China Finance Institute (now known as School of Banking and Finance, University of International Business and Economics) in 1993 with a bachelor's degree majoring in International Finance, and was later awarded the title of senior accountant and she is a certified public accountant in China. Ms. Liu worked with the Finance Department of China National Chemical Construction Corporation ("CNCCC") from August 1993 to February 2003. She was the head of the import and export accounting division of the Finance Department of CNCCC from March 2003 to June 2006; deputy manager of the Finance Department of

⑪

⑫

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, January 2018 and January 2021, 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)

Senior management

⑪Mr. **Miao Qian**, born in 1963, graduated from Fuzhou University majoring in 1983 magering in civil construction with a bachelor's degree and obtained a master's degree in management engineering from China University of Petroleum (Beijing) in 2007. He was subsequently qualified as a senior engineer. He served successively as deputy head of the engineering management division of CNOOC Nanhai West Corporation, head of the engineering management division of CNOOC Nanhai West Real Estate Company and manager of CNOOC Nanhai West Jianyuan Company from August 1983 to May 2002. He served successively as assistant to the general manager of the CNOOC Chemical Limited, manager of the methanol project cost control department as well as deputy general manager and general manager of the methanol project from May 2002 to October 2005,. He served as deputy general manager of the CNOOC Chemical Limited from October 2005 to April 2006. He served as vice president of the Company from April 2006 to September 2014. He was appointed as chairman/executive director of Hegang Huahe Coal Chemical Ltd. (was subsequently renamed as CNOOC Huahe Coal Chemical Co., Ltd.) from September 2010 to September 2014,. He served as the deputy general manager of the preparation team for the Ordos coal-based gas project from September 2014 to January 2015. He served as the deputy general manager of CNOOC Inner Mongolia Energy Investment Company Limited (中海油內蒙古能源投資有限責任公司) and CNOOC Ordos Energy Chemical Company Limited (中海油鄂爾多斯能源化工有限責任公司) from January 2015 to May 2017. He was appointed as vice president of the Company in June 2017, the chairman of the supervisor committee of CNOOC Kingboard Chemical Limited in July 2017, and the chairman of CNOOC Tianye Chemical Limited in March 2018.

⑫Mr. **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.



⑬ ⑭ ⑮

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. She has acted as the sole Company Secretary since October 2020.

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.

⑮Mr. **Yao Ye**, born in 1965, graduated from the Department of chemistry of Henan Normal University in July 1986, majoring in chemical engineering, and graduated from the Party School of Hainan provincial Party committee in October 2003, majoring in economic management, with a postgraduate degree. He is a senior engineer. From August 1986 to June 1995, he served as team leader and engineer of synthesis workshop of Henan Zhongyuan Chemical fertilizer plant. He successively served as technical group leader, deputy director, director of ammonia production department, and deputy general manager of Hainan Fudao Chemical Industry Corporation from June 1995 to July 2001.He successively served as deputy manager of production preparation project team, general manager of production management department II of CNOOC Chemical limited, and technical experts of the working group on the acquisition of Tianye company from July 2001 to May 2006. He was the deputy general manager of Inner Mongolia Tianye Chemical (Group) Co., Ltd. from May 2006 to October 2007. He was the Chief Process Technology Officer, general manager of production department, Chief Safety Officer and general manager of safety and environmental protection department of the company from October 2007 to January 2013. He was appointed as an assistant to President of the company from January 2013. He served as the general manager of CNOOC Kingboard Chemical Limited from September 2016 to September 2019. He was appointed as general manager and secretary of the Party Committee of CNOOC Fudao limited from September 2016. He was appointed as Vice President of the company from March 2021.

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 2020.

Principal activities

The Company and its subsidiaries (the "Group") and associates are principally engaged in the development, production 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 2020 and the financial position of the Company and the Group as at that date are set out on pages 66 to 73 of the consolidated financial statements for the year ended 31 December 2020.

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 63 to 65, respectively. Particulars of the important events affecting the Company that have occurred since the end of the financial year of 2020 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 32; 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 32, 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 RMB368.8 million for the year of 2020, in aggregate RMB 0.08per 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 2020 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 2020, 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 2020 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 2020.

Equity-linked agreements

No equity-linked agreements were entered into by the Group during the year ended 31 December 2020.

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 2020.

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 2020, the reserves available for distribution of the Company was RMB9,303.96 million.

Charitable donations

During the year, the Group made charitable donations of RMB2.37 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's top five customers accounted for 16.59% of the total sales of the year and sales to the largest customer included therein amounted to 6.13% of the total sales of the year. Purchases from the Group's top five suppliers accounted for 48.01% of the total purchases for the year and purchases from the largest supplier accounted for 35.42% 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 2020 were:

Executive Director:	
Wang Weimin	Appointed on 31 May 2018
Hou Xiaofeng	Appointed on 26 August 2020
Non-executive Directors:	
Guo Xinjun	Re-appointed on 31 May 2018
Liu Zhenyu	Appointed on 29 December 2020
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:	
Liu Jianyao	Appointed on 28 May 2020
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. Meng Jun ceased to be an non-executive Director of the Company with effect on 29 December 2020 because he has reached the retirement age .

Mr. Tang Quanrong ceased to be a Supervisor of the Company with effect on 28 May 2020 due to other work commitments.

Ms. Liu Lijie was re-elected as the supervisor representing the employees of the Company om 25 January 2021.

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 43 to 47 of this annual report.

Service contracts of Directors and Supervisors

At the annual general meeting 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.

At the annual general meeting of the Company held on 28 May 2020, Mr. Liu Jianyao was appointed as a Supervisor of the Company. He entered into a service contract with the Company and shall hold office from the date of approval of his appointment at the annual general meeting until a new session of Supervisors are approved at the annual general meeting for 2020 by the Shareholders, upon which he is eligible for re-election.

Mr. Hou Xiaofeng was appointed as an executive Director of the Company at the extraordinary general meeting held on 26 August 2020 by the Company. He entered into a service contract with the Company and shall hold office from the date of approval of his appointment at the extraordinary general meeting until a new session of Directors are approved at the annual general meeting for 2020 by the Shareholders, upon which he is eligible for re-election.

Mr. Liu Zhenyu was appointed as a non-executive Director of the Company at the extraordinary general meeting held on 29 December 2020 by the Company. He entered into a service contract with the Company and shall hold office from the date of approval of his appointment at the extraordinary general meeting until a new session of Directors are approved at the annual general meeting for 2020 by the Shareholders, upon which he is eligible for re-election.

Ms. Liu Lijie was elected as the supervisor representing the employees at the employee representative meeting of the Company held on 25 January 2021. She entered into a service contract with the Company and her term of office shall be three years and last until a new Supervisor Representing the Employees of the Supervisory Committee is elected at the employee representative meeting of the Company in the year during which her term of appointment concludes, upon which she is eligible for re-election.

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 2020 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 2020, 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 268,000 H shares of the Company.

Interests of substantial shareholders

As at 31 December 2020, 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	227,782,000(L)	H Shares	12.86(L)	4.94(L)
Hermes Investment Funds PLC	Beneficial owner	143,333,345(L)	H Shares	8.09(L)	3.11(L)
The Capital Group Companies, Inc. (Note 2)	Interests in controlled corporation	106,674,000(L)	H Shares	6.02(L)	2.31(L)
Edgbaston Investment Partners LLP	Investment manager	106,376,000(L)	H Shares	6.01(L)	2.31(L)

Notes: The letter (L) denotes long position.

(1) Mr. Guo Xinjun, a non-executive Director, is the deputy general manager of the strategy and planning department of CNOOC; and Mr.Liu Zhenyu, a non-executive Director, is also the deputy general manager of the finance and assets department of CNOOC.

(2) The Capital Group Companies, Inc. indirectly holds these shares through its controlled corporation, namely Capital Research and Management Company.

Save as disclosed above, to the best knowledge of any of the Directors and chief executive of the Company, as at 31 December 2020, 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

Connected transaction

On 19 August 2020, CNOOC Fudao Limited ("CNOOC Fudao"), a wholly-owned subsidiary of the Company, and CNOOC Orient Petrochemical Co., Ltd. ("Orient Petrochemical") entered into the joint venture and shareholders' agreement (the "JV Agreement") in relation to establishment and operation of the joint venture company with the Chinese name of 中海油(海南)富島化工有限公司 and the tentative English name of CNOOC (Hainan) Fudao Chemical Ltd. (the "JV"). Pursuant to the JV Agreement, the JV shall engage in production, manufacturing and sales of acrylonitrile products and methyl methacrylate products subject to the commercial registration. The registered capital of the JV is in the amount of RMB300,000,000. The contributions of CNOOC Fudao and Orient Petrochemical to the registered capital of the JV are RMB153,000,000 and RMB147,000,000, respectively.

As CNOOC is the controlling Shareholder, and Orient Petrochemical is a wholly-owned subsidiary of CNOOC, CNOOC is therefore a connected person of the Company and Orient Petrochemical is an associate of CNOOC and a connected person of the Company under Rule 14A.07 of the Listing Rules. As a result, the JV Agreement and the transaction thereunder, the establishment of the JV with Orient Petrochemical, constitute the connected transaction of the Company. For details of the connected transaction, please refer to the Company's announcement dated 19 August 2020.

Continuing connected transactions

Details of the continuing connected transactions of the Group which required reporting and annual review in 2020 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 ("Kingboard") and its associates

The Company holds 60% of the equity interests in CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") while 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 Kingboard as its substantial shareholder. Pursuant to Rule 14A.07 of the Listing Rules, Kingboard and its associates (including the parent company of 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 2020, the annual expenses paid by the Group for the properties leasing and management services from CNOOC Group were RMB23,894,000.

On 23 October 2020, the Company entered into the properties leasing agreement with CNOOC (the "2020 Properties Leasing Agreement") on substantially the same terms and conditions of the Properties Leasing Agreement, pursuant to which: (1) CNOOC Group may provide properties leasing services and relevant property management services to the Group (if needed); and (2) the Group may provide properties leasing services and relevant property management services (if needed) to CNOOC Group. The term of the 2020 Properties Leasing Agreement commenced on 1 January 2021 and will expire on 31 December 2023. For details of the 2020 Properties Leasing Agreement, please refer to the Company's announcement dated 23 October 2020.

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 has been and 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 has been and will bepriced 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 2020, the aggregate costs of the Group on purchases of natural gas from CNOOC China Limited amounted to RMB2,489,018,000.

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 2020 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB608,925,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB489,862,000.

On 23 October 2020, the Company entered into the comprehensive services and product sales agreement with CNOOC (the "2020 Comprehensive Services and Product Sales Agreement") on substantially the same terms and conditions of the Comprehensive Services and Product Sales Agreement, pursuant to which: (1) the Group has agreed to provide services and supplies to CNOOC Group; (2) CNOOC Group has agreed to provide services and supplies to the Group; and (3) the Group has agreed to sell products (urea, phosphate fertiliser, methanol, potash, Polyoxymethylene, ammonia, compound fertiliser, acrylonitrile, etc.) to CNOOC Group and CNOOC Group has agreed to sell products (potash, medicament and natural gas etc.) to the Group. The term of the 2020 Comprehensive Services and Product Sales Agreement commenced on 1 January 2021 and will expire on 31 December 2023. For details of the 2020 Comprehensive Services and Product Sales Agreement, please refer to the Company's announcement dated 23 October 2020 and circular dated 13 November 2020.

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 2020, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB399,498,000.

On 23 October 2020, the Company entered into the financial services agreement with CNOOC Finance (the "2020 Financial Services Agreement") on substantially the same terms and conditions of the Financial Services Agreement, pursuant to which CNOOC Finance will provide to the Group a range of financial services that the Group may require. The term of the 2020 Financial Services Agreement commenced on 1 January 2021 and will expire on 31 December 2023. For details of the 2020 Financial Services Agreement, please refer to the Company's announcement dated 23 October 2020 and circular dated 13 November 2020.

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 2020, 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 RMB1,120,170,000.

On 23 October 2020, the Company entered into the finance lease agreement with CNOOC Leasing (the "2020 Finance

Lease Agreement") on substantially the same terms and conditions of the Finance Lease Agreement, pursuant to which: (1) CNOOC Leasing agrees to provide finance lease services to the Group when the Group so requires; and (2) 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 2020 Finance Lease Agreement commenced on 1 January 2021 and will expire on 31 December 2023. For details of the 2020 Finance Lease Agreement, please refer to the Company's announcement dated 23 October 2020 and circular dated 13 November 2020.

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 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 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.

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 Kingboard and its associates

   Before entering into specific service provision agreements with 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 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 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 2020, the aggregate revenue of the Group from Kingboard and its associates for sales of products and provision of related services amounted to RMB208,781,000.

   On 23 October 2020, the Company entered into the product sales and purchase and related services framework agreement with Kingboard (the "2020

Kingboard Product Sales and Services Agreement") on substantially the same terms and conditions of the Kingboard Product Sales and Services Agreement, 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 Kingboard and its associates. The term of the 2020 Kingboard Product Sales and Services Agreement commenced on 1 January 2021 and will expire on 31 December 2023. For details of the 2020 Kingboard Product Sales and Services Agreement, please refer to the Company's announcement dated 23 October 2020.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2020 are set out below:

	Annual cap amount for 2020 (RMB'000)	Actual transaction amounts for 2020 (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	23,894
(2) Purchases of natural gas by the Group from CNOOC China Limited under the Natural Gas Sale and Purchase Agreements	2,967,467	2,489,018
(3) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by CNOOC Group to the Group (Note 1)	691,638	608,925
(b) Provision of services, supplies and sales of products by the Group to CNOOC Group	2,065,922	489,862
(4) Deposits placed in CNOOC Finance by the Group under the Financial Services Agreement (Note 2)	400,000	399,498
(5) Provision of finance lease services by CNOOC to the Group under the Finance Lease Agreement	1,579,000	1,120,170
B. Continuing connected transactions with Kingboard and its associates		
Sales of products and provision of services by the Group to Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	474,508	208,781

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 2020 has been revised from RMB390,796,000 to RMB691,638,000.

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 2020 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 2020, 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 32.

Audit Committee

The 2020 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 2020 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 as set out in Appendix 14 to the Listing Rules, except the followings.

On 24 December 2019, Mr. Xia Qinglong resigned from the positions of the chairman of the Board and an executive Director, and Mr. Wang Weimin, an executive Director, was appointed by the Board to perform the duties and responsibilities of the chairman of the Board until the effective date of the appointment of the new chairman of the Board. In view of Mr. Wang Weimin's experience, personal profile and his roles in the Company, the Board considers that it has no unfavorable impact on the business prospects and operational efficiency of the Company that Mr. Wang Weimin, in addition to acting as the CEO and president of the Company, acts as the chairman of the Board. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company.

On 28 May 2020, Mr. Wang Weimin was appointed as the chairman of the Board and resigned as CEO and president of the Company. On 12 August 2020, Mr. Hou Xiaofeng was appointed as CEO and president of the Company. Currently, the Company complied with all code provisions of the Corporate Governance Code. For details, please refer to the Corporate Governance Report of 2020.

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 28 May 2020, BDO Limited and BDO China Shu Lun Pan CPAs were appointed as the overseas and domestic auditors of the Company respectively on the 2019 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 2020 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
Chairman
Wang Weimin

Beijing the PRC, 25 March 2021

Report of the Supervisory Committee

In 2020, all members of the Supervisory Committee of the Company conscientiously performed their supervisory duties pursuant to the Company Law, the Articles, the Rules of Procedures for Meetings of the Supervisory Committee and the Listing Rules. The Supervisory Committee conducted inspection on a regular basis to ensure the compliance of the Company's operation and business operations, attended all of the Company's general meetings and Board meetings, supervised the acts of the Directors and senior management of the Company in the performance of their duties, and visited the Company's major production bases for site investigation and inspection when necessary. During the year, the Supervisory Committee adequately performed its supervisory functions to the effect that all shareholders' interests were effectively safeguarded.

1 Meetings of the Supervisory Committee

In 2020, the Supervisory Committee of the Company held three physical meetings. These meetings were all convened in compliance with requirements of relevant laws and regulations and the Articles. Specifically:

(1) On 26 March 2020, the Supervisory Committee held the first meeting for 2020 in Beijing, at which the committee considered and approved the Report of the Supervisory Committee of the Company for 2019, reviewed the annual financial report of the Company for 2019, and discussed the main tasks of the Supervisory Committee for 2020.

(2) On 28 May 2020, the Supervisory Committee held the second meeting for 2020 in Beijing, at which the committee elected the chairman of the Supervisory Committee.

(3) On 26 August 2020, the Supervisory Committee held the third meeting for 2020 in Beijing, at which the committee reviewed the interim financial report of the Company for 2020, and discussed the prioritised tasks for the second half of 2020.

2 Principal inspection and supervision work carried out by the Supervisory Committee in 2020

(1) Members of the Supervisory Committee carried out supervision and inspection on the financial position of the Company and on matters such as the implementation of the Company's internal control system, by ways including regularly checking the financial reports and financial budgets of the Company and reviewing 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 two extraordinary general meetings. Mr. Li Xiaoyu, the independent Supervisor of the Company, acted as the scrutineer for the vote-taking at the annual general meeting, class meetings and the extraordinary general meeting held on December 29. Ms. Liu Lijie, the employees' representative Supervisor, acted as the scrutineer for the vote-taking at the extraordinary general meeting held on August 26.

(3) Members of the Supervisory Committee attended seven Board meetings, at which the committee exercised effective supervision over the legality and compliance of the procedures of Board meetings for considering and approving matters and the implementation of resolutions of general meetings by the Board.

(4) Key members of the Supervisory Committee communicated with management of the Company from time to time to understand the business operations, development plan and all significant decisions and important events of the Company.

(5) In 2020, members of the Supervisory Committee visited the marketing company to investigate and inspect the production and operation and the problems existed in management, and made requests in connection therewith.

3 Independent opinions issued by the Supervisory Committee on relevant matters

(1) Operation and management of the Company

During the reporting period, the Company made great efforts to address the impacts of the COVID-19 pandemic and low oil prices by further improving the management of production and operation, exercising comprehensive and stringent measures to reduce cost and enhance efficiency, deepening marketing reform, coordinating the allocation of resources, further optimising product structure and actively promoting the implementation of new projects. The Company made timely, accurate and complete information disclosures. The procedures for all decision-makings at the general meetings and Board meetings of the Company were legal and compliant. The Directors and senior management of the Company faithfully discharged their duties under the Articles and conscientiously implemented the resolutions passed at the general meetings and the Board meetings without jeopardising the Company's interests or violating the laws and regulations.

(2) Financial position of the Company

Members of the Supervisory Committee conducted supervision and inspection of the Company's financial management system and financial conditions and reviewed the 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 the relevant laws and regulations governing financial and economic matters and fiscal system, the financial management system has been sound and effective, the accounting treatments have been applied with consistency, and the Company's financial reports represent an objective and fair view of the financial position and operating results of the Company.

The Supervisory Committee reviewed the unqualified opinion audit report in respect of the financial position and operating results of the Company for 2020 issued by BDO China Shu Lun Pan CPAs and BDO Limited in accordance with the PRC and international accounting standards, respectively, and had no objection to the report.

(3) Connected transactions

The Supervisory Committee reviewed the connected transactions of the Company and its subsidiaries with their connected persons 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.

The Supervisory Committee also reviewed the Company's proposed continuing connected transactions and their caps for 2021 to 2023, and concurred with the letter of advice from the independent financial adviser of the Company.

(4) Implementation of resolutions of the general meetings

The Supervisory Committee had no objection to the reports and motions tabled by the Board at the general meetings for consideration during the reporting period, and is of the view that the Board has conscientiously implemented the resolutions approved at the general meetings.

In 2021, the Supervisory Committee will continue comply with the requirements under the Company Law, the Articles, the Rules of Procedures for Meetings of the Supervisory Committee and the Listing Rules, to conscientiously perform their supervisory duties, independently exercise their powers and functions, closely monitor the Company's day-to-day operations and significant initiatives in the course of business development, continue to conduct investigation and research, and supervise the acts of the Directors and senior management of the Company in the performance of their duties, with aims of promoting the Company's regulated operation and healthy development and faithfully protecting the interests of all shareholders and the Company.

By order of the Supervisory Committee
Liu Jianyao
Chairman of the Supervisory Committee

Beijing, the PRC, 25 March 2021

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

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

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

香港干諾道中111號
永安中心25樓

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of China BlueChemical Ltd. (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 66 to 147 which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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, actions taken to eliminate threals and safeguards applied.

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, 25 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	10,417,493	10,858,435
Cost of sales		(8,825,812)	(8,937,079)
Gross profit		1,591,681	1,921,356
Other income	7	125,825	200,603
Other gains and losses, net	8	54,256	52,588
Selling and distribution costs		(441,079)	(440,918)
Administrative expenses		(432,558)	(489,120)
Other expenses		(28,367)	(30,267)
Finance income	9	272,632	231,286
Finance costs	10	(75,987)	(103,141)
Change in fair value of financial assets at fair value through profit or loss		-	48,451
Impairment loss	20	-	(4,813)
Exchange losses, net		(13,207)	(598)
Share of losses of joint ventures	22	(405)	(3,120)
Share of profits/(losses) of associates	23	824	(3,224)
Profit before income tax	11	1,053,615	1,379,083
Income tax expenses	14	(274,458)	(624,095)
Profit for the year		779,157	754,988
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		(1,703)	625
Share of other comprehensive income of joint ventures	22	(3,964)	3,758
Share of other comprehensive income of associates	23	(145)	53
		(5,812)	4,436
Total comprehensive income for the year		773,345	759,424

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

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Profit attributable to:			
Owners of the Company		**745,485**	703,217
Non-controlling interests		**33,672**	51,771
		779,157	754,988
Total comprehensive income attributable to:			
Owners of the Company		**739,673**	707,653
Non-controlling interests		**33,672**	51,771
		773,345	759,424
Earnings per share attributable to owners of the Company			
– Basic for the year (RMB per share)	16	**0.16**	0.15

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	6,532,764	6,752,340
Mining rights	18	131,862	133,744
Prepaid lease payments	19	546,770	571,221
Investment properties	20	93,500	99,445
Intangible assets	21	27,427	28,574
Investment in joint ventures	22	223,550	227,919
Investment in associates	23	35,019	216,587
Financial asset at fair value through other comprehensive income	24	600	600
Deferred tax assets	25	470,816	504,140
		8,062,308	8,534,570
CURRENT ASSETS			
Inventories	26	1,001,505	1,110,767
Trade receivables	27	25,082	32,608
Bills receivable	28	610,794	333,354
Contract assets	29	13,157	58,233
Prepayments, deposits and other receivables	30	426,519	337,246
Financial assets at fair value through profit or loss	24	-	2,898,451
VAT recoverable		234,980	286,118
Pledged bank deposits	31	7,350	4,129
Time deposits with original maturity over three months	31	7,400,000	5,000,000
Cash and cash equivalents	31	2,765,441	824,096
		12,484,828	10,885,002
A disposal group and a non-current asset classified as held for sale	39	200,632	-
		12,685,460	10,885,002
TOTAL ASSETS		20,747,768	19,419,572
EQUITY			
CAPITAL AND RESERVES			
Issued capital	32	4,610,000	4,610,000
Reserves		9,720,962	9,350,089
Proposed dividends	15	368,800	350,360
Equity attributable to owners of the Company		14,699,762	14,310,449
Non-controlling interests		928,375	806,640
TOTAL EQUITY		15,628,137	15,117,089

Consolidated Statement of Financial Position - Continued

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Benefits liability	33	**31,274**	42,455
Interest-bearing bank borrowings	34	**10,000**	422,000
Lease liabilities	38	**21,636**	22,190
Deferred tax liabilities	25	**14,456**	19,382
Deferred revenue	35	**123,474**	130,126
Other long term liabilities		**16,080**	29,880
		216,920	666,033
CURRENT LIABILITIES			
Interest-bearing bank borrowings	34	**1,940,971**	1,587,000
Trade payables	36	**740,413**	688,471
Contract liabilities	29	**677,766**	442,869
Other payables and accruals	37	**1,456,746**	876,619
Lease liabilities	38	**5,126**	4,527
Income tax payable		**79,174**	36,964
		4,900,196	3,636,450
Liabilities associated with a disposal group classified as held for sale	39	**2,515**	-
		4,902,711	3,636,450
TOTAL LIABILITIES		**5,119,631**	4,302,483
TOTAL EQUITY AND LIABILITIES		**20,747,768**	19,419,572
TOTAL CURRENT ASSETS		**7,782,749**	7,248,552
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,845,057**	15,783,122
NET ASSETS		**15,628,137**	15,117,089

On behalf of the Board

Wang Weimin
Director

Lee Kit Ying
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	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 2020	**4,610,000**	**1,109,316**	**1,420,561**	**51,041**
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Appropriation and utilisation of safety fund, net	-	-	-	**20,713**
2020 proposed dividends (Note 15)	-	-	-	-
2019 final dividends declared	-	-	-	-
Transfer from retained earnings	-	-	**28,737**	-
Dividends paid to non–controlling interests	-	-	-	-
Arising on establishment of a subsidiary (Note 45(i)(iii))	-	-	-	-
Balance at 31 December 2020	**4,610,000**	**1,109,316**	**1,449,298**	**71,754**
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

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
6,763,796	**350,360**	**5,375**	**14,310,449**	**806,640**	**15,117,089**
745,485	**-**	**-**	**745,485**	**33,672**	**779,157**
-	**-**	**(5,812)**	**(5,812)**	**-**	**(5,812)**
745,485	**-**	**(5,812)**	**739,673**	**33,672**	**773,345**
(20,713)	**-**	**-**	**-**	**-**	**-**
(368,800)	**368,800**	**-**	**-**	**-**	**-**
-	**(350,360)**	**-**	**(350,360)**	**-**	**(350,360)**
(28,737)	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(58,937)**	**(58,937)**
-	**-**	**-**	**-**	**147,000**	**147,000**
7,091,031	**368,800**	**(437)**	**14,699,762**	**928,375**	**15,628,137**
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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**1,053,615**	1,379,083
Adjustment for:			
Other gains or losses, net	8	**(54,256)**	(52,588)
Finance income	9	**(272,632)**	(231,286)
Finance costs	10	**75,987**	103,141
Share of losses of joint ventures	22	**405**	3,120
Share of (profits)/losses of associates	23	**(824)**	3,224
Impairment loss	20	**-**	4,813
Depreciation and amortisation	11	**648,251**	703,030
Release of government grants	35	**(29,784)**	(104,250)
Change in fair value of financial assets at fair value through profit or loss		**-**	(48,451)
Reversal of write-down of inventories		**(1,596)**	(15)
Operating profit before working capital changes		**1,419,166**	1,759,821
Decrease in inventories		**110,810**	175,570
Net increase in trade receivables, bills receivable, contract assets, prepayments, deposits and other receivables		**(176,689)**	(240,362)
Net increase/(decrease) in trade payables, contract liabilities, other payables and accruals and other long-term liabilities		**71,502**	(47,639)
Decrease in benefits liability		**(11,181)**	(9,582)
Cash generated from operations		**1,413,608**	1,637,808
Income tax paid		**(150,403)**	(495,219)
Net cash flows generated from operating activities		**1,263,205**	1,142,589

Consolidated Statement of Cash Flows - Continued

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
INVESTING ACTIVITIES			
Interest received		144,484	150,695
Dividend received		500	-
Deposit received	39	719,066	-
Purchases of property, plant and equipment		(372,850)	(359,532)
Proceeds from disposal of property, plant and equipment		43,805	522
Purchases of intangible assets		(2,413)	(2,847)
Purchased of financial assets at fair value through profit or loss		(3,300,000)	(5,483,000)
Disposal of financial assets at fair value through profit or loss		6,255,411	2,678,641
Government grants received	35	23,132	65,049
Placement of time deposits with original maturity over three months		(2,400,000)	-
Withdrawal of time deposits with original maturity over three months		-	260,802
Net cash flow generated from/(used in) investing activities		1,111,135	(2,689,670)
FINANCING ACTIVITIES			
Bank borrowings raised		1,917,275	1,950,000
Repayment of bank borrowings		(1,977,275)	(726,000)
(Increase)/decrease in pledged bank deposits		(3,221)	45,874
Interest paid		(74,974)	(87,720)
Dividends paid		(350,360)	(691,500)
Dividends paid to non-controlling interests		(58,937)	(162,087)
Consideration from non-controlling interest	45(i)(iii)	147,000	-
Payment of lease liabilities		(5,829)	(1,358,759)
Other finance charges		(9,540)	-
Net cash flows used in financing activities		(415,861)	(1,030,192)
Net increase/(decrease) in bank balances and cash		1,958,479	(2,577,273)
Cash and cash equivalents at 1 January		824,096	3,400,039
Effect of foreign exchange rate changes		(17,130)	1,330
Cash and cash equivalents at 31 December		2,765,445	824,096
Represented by:			
Cash and cash equivalents in the consolidated statement of financial position	31	2,765,441	824,096
Bank balance and cash under a disposal group classified as held for sale	39	4	-
		2,765,445	824,096

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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.3, Park Third Road, Basuo Town, 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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Amendments to IFRS 3	Definition of Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting (Revised)	

The Group also elected to adopt the following amendment early:

Amendments to IFRS 16	COVID-19 – Related Rent Concessions

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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

(a) Adoption of new or revised IFRSs – Continued

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.

Conceptual Framework for Financial Reporting (Revised)

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- Increasing the prominence of stewardship in the objective of financial reporting, which is to provide information that is useful in making resource allocation decisions.
- Reinstating prudence, defined as the exercise of caution when making judgements under conditions of uncertainty, as a component of neutrality.
- Defining a reporting entity, which might be a legal entity or a portion of a legal entity.
- Revising the definition of an asset as a present economic resource controlled by the entity as a result of past events.
- Revising the definition of a liability as a present obligation of the entity to transfer an economic resource as a result of past events.
- Removing the probability threshold for recognition, and adding guidance on derecognition.
- Adding guidance on the information provided by different measurement bases, and explaining factors to consider when selecting a measurement basis.
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where the relevance or faithful representation of the financial statements would be enhanced.

The Board did not make any changes that address challenges in classifying instruments with characteristics both liability and equity. That will be addressed through the IASB's standard-setting project on that topic. Other amendments to the Framework might be needed at the conclusion of that project.

Amendments to IFRS 16 - COVID-19 – Related Rent Concessions

IFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in IFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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

(a) Adoption of new or revised IFRSs – Continued

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of IFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Company remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Company is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

None of the above new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period.

(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 9, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Annual Improvements to IFRS 2018-2020 cycle	Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, IFRS 9, Financial Instruments, IFRS 16, Lease, IAS 41, Agriculture[2]
Amendments to IAS 16	Property, plant and Equipment: Proceed before Intended Use[2]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[4]
IFRS 17	Insurance Contracts[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]

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

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

4 Effective for annual periods beginning on or after 1 January 2023

5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

2. Adoption of IFRSs – Continued

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

Amendments to IFRS 9, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Annual Improvements to IFRS Standards 2018 – 2020

The annual improvements amends a number of standards, including:

- IFRS 1, First-time Adoption of International Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
- IFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.
- IFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- IAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

2. Adoption of IFRSs – Continued

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

Amendments to IAS 16 - Property, plant and equipment: Proceed before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to IFRS 3 - Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC-Int 21 Levies, the acquirer applies IFRIC-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

IFRS 17 - Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Group do not anticipate that the application of this standard in the future will have an impact on the financial statements.

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

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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 2020

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 functional 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 2020

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 2020

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.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

4. Significant accounting policies – Continued

(c) Property, plant and equipment – Continued

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) Leasing

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.

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 IAS 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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

4. Significant accounting policies – Continued

(f) Leasing – Continued

(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.

(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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

4. Significant accounting policies – Continued

(h) Financial Instruments – Continued

(i) Financial assets – Continued

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

Debt instruments

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

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

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 2020

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 2020

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 2020

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 2020

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 2020

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 2020

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 2020

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 2020

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.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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

(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 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 2020 is disclosed in Note 17.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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, 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 2020

6. Operating segment information – Continued

Operating segments

	Urea RMB'000	Methanol RMB'000	Phosphor us and compound fertiliser RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2020						
Segment revenue:						
Sales to external customer	4,055,126	2,331,577	2,105,007	1,925,783	-	10,417,493
Inter-segment sales	-	-	-	323,290	(323,290)	-
Total	4,055,126	2,331,577	2,105,007	2,249,073	(323,290)	10,417,493
Segment profit/(loss) before income tax	676,981	133,898	104,050	(71,060)	-	843,869
Interest and unallocated income						326,888
Corporate and other unallocated expenses						(104,354)
Exchange losses, net						(13,207)
Share of losses of joint ventures						(405)
Share of profits of associates						824
Profit before income tax						1,053,615
As at 31 December 2020						
Total segment assets	6,652,644	2,397,277	1,939,763	9,636,072	(808,605)	19,817,151
Unallocated						930,617
Total assets						20,747,768
Total segment liabilities	2,168,336	369,956	1,094,525	2,247,174	(808,605)	5,071,386
Unallocated						48,245
Total liabilities						5,119,631
Other segment information						
Depreciation and amortisation	302,286	163,499	131,807	50,659	-	648,251
Capital expenditure*	261,373	117,934	38,219	36,913	-	454,439

* 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 2020

6. Operating segment information – Continued

Operating segments – Continued

	Urea RMB'000	Methanol RMB'000	Phosphorus and compound fertiliser RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2019						
Segment revenue:						
Sales to external ustomer	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 2020

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

	2020 RMB'000	2019 RMB'000
Sales to external customers		
– PRC	9,762,177	10,208,733
– Others	655,316	649,702
	10,417,493	10,858,435

(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 2020 and 2019.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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:

	2020 RMB'000	2019 RMB'000
Revenue		
Sale of goods, recognsied at a point in time*	10,018,754	10,482,423
Render of services, recognised overtime*	398,739	376,012
	10,417,493	10,858,435
Other income		
Income from sale of other materials, recognised at a point in time*	29,611	43,022
Income from render of other services, recognised overtime*	8,508	7,661
Gross rental income	5,743	9,834
Government grants	29,784	104,250
Indemnities received	2,980	9,344
Sundry income	49,199	26,492
	125,825	200,603

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

8. Other gains and losses, net

	2020 RMB'000	2019 RMB'000
Gain on maturity of financial assets at FVTPL	56,960	45,641
Reversal of impairment losses on trade and other receivables	-	174
(Loss)/gain on disposal of property, plant and equipment	(2,854)	6,773
Dividend income	150	-
	54,256	52,588

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 2020

10. Finance costs

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	**74,611**	89,000
Interest on lease liabilities	**1,376**	14,141
	75,987	103,141

11. Profit before income tax

Profit before income tax is arrived at after charging:

	2020 RMB'000	2019 RMB'000
Cost of inventories sold	**8,527,309**	8,621,952
Reversal of write-down of inventories	**(1,596)**	(15)
Cost of services provided	**300,099**	315,142
Cost of sales recognised as expenses	**8,825,812**	8,937,079
Depreciation and amortisation:		
Depreciation of property, plant and equipment		
—Owned property, plant and equipment	**616,832**	616,914
—Right-of-use assets included:		
—Buildings	**2,030**	2,480
—Plant and machinery	**2,788**	53,493
Amortisation of mining rights	**1,882**	1,849
Amortisation of prepaid lease payments	**15,214**	15,377
Amortisation of investment properties	**5,945**	5,795
Amortisation of intangible assets	**3,560**	7,122
	648,251	703,030
Auditors' remuneration	**4,252**	3,107
Employee benefit expense (including directors' and supervisors' remunerations explained in Note 12)		
—Wages and salaries	**706,066**	785,143
—Defined contribution pension scheme	**30,985**	100,791
—Early retirement benefits and post-employment allowances	**761**	3,871
—Medical benefit costs	**43,960**	50,456
—Housing fund	**71,945**	60,898

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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	
	2020	2019
	RMB'000	RMB'000
Fee	**-**	-
Other emoluments		
Salaries and other allowances	**1,269**	1,472
Discretionary bonuses	**1,774**	2,219
Pension scheme contributions	**227**	276
	3,270	3,967

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

12. Key management personnel remuneration – Continued

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2020 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 (Note 1)	-	-	-	-	-
Liu Zhenyu (Note 2)	-	-	-	-	-
	-	-	-	-	-

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					
Wang Weimin	-	309	747	95	1,151
Hou Xiaofeng (Note 3)	-	142	580	47	769
	-	451	1,327	142	1,920

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	-	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 2020 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	-	103	447	85	635
Li Xiaoyu	-	65	-	-	65
Tang Quanrong (Note 4)	-	-	-	-	-
Liu Jianyao (Note 5)	-	-	-	-	-
	-	168	447	85	700

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

Total	-	1,269	1,774	227	3,270

Notes:

1 Meng Jun resigned as Non-executive director on 29 December 2020.

2 Liu Zhenyu was appointed as Non-executive director on 29 December 2020.

3 Hou Xiaofeng was appointed as Executive director on 26 August 2020.

4 Tang Quanrong resigned as Supervisor on 28 May 2020.

5 Liu Jianyao was appointed as Supervisor on 28 May 2020.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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.

	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 (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.

	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	-	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:

	Fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
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 2020

13. Five highest paid employees

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

	2020 Number	2019 Number
Directors and supervisors	1	2
Non-director and non-supervisor employees	4	3
	5	5

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

	2020 RMB'000	2019 RMB'000
Salaries and other allowances	941	708
Discretionary bonuses	2,568	3,272
Pension scheme contributions	367	279
	3,876	4,259

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

	2020 Number	2019 Number
HK$Nil to HK$1,000,000	-	-

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

14. Income tax expenses

	2020 RMB'000	2019 RMB'000
Current tax		
PRC Enterprise Income Tax	**237,374**	341,767
Deferred tax (Note 25)	**30,707**	278,787
	268,081	620,554
Under-provision in prior year	**6,377**	3,541
	274,458	624,095

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:

	2020 RMB'000	2019 RMB'000
Profit before income tax	**1,053,615**	1,379,083
Tax at the statutory tax rate of 25%	**263,404**	344,771
Income tax on concessionary rate	**(6,579)**	(229)
Under-provision in respect of prior year	**6,377**	3,541
Tax effect of share of (profits)/losses of joint ventures and associates	**(105)**	1,586
Tax effect of tax losses not recognised	**9,570**	13,127
Reversal of tax losses previously recognised	**-**	243,960
Tax effect of deductible temporary differences not recognised	**17,918**	15,354
Utilisation of deductible temporary differences not recognised	**(2,446)**	-
Income not taxable for tax	**(14,595)**	(990)
Expenses not deductible for tax	**914**	2,975
Income tax expenses	**274,458**	624,095
The Group's effective income tax rate	**26%**	45%

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

15. Proposed dividends

	2020 RMB'000	2019 RMB'000
Proposed dividends – RMB0.080 (2019: RMB0.076) per ordinary share	**368,800**	350,360

The proposed final dividend for the year ended 31 December 2019 was approved at the annual general meeting on 28 May 2020. Proposed final dividend for the year ended 31 December 2020 is subject to the approval of the Company's shareholders at the forthcoming 2020 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

	2020 RMB'000	2019 RMB'000
Earnings		
Profits for the year attributable to owners of the Company	**745,485**	703,217

	Number of shares	
	2020 '000	2019 '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 2020

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
Cost at 1 January 2020, net of accumulated depreciation and impairment	2,460,261	3,636,037	46,116	68,578	244,287	297,061	6,752,340
Additions	448	4,520	3,466	10,502	2,223	430,867	452,026
Disposals	(888)	(2,732)	(454)	(319)	(42)	(42,224)	(46,659)
Transfer	25,887	110,500	6,642	14,945	942	(158,916)	-
Depreciation	(153,168)	(420,648)	(10,348)	(36,451)	(1,035)	-	(621,650)
Classified as asset held for sales (Note 39)	-	-	(110)	(20)	-	(3,163)	(3,293)
Costs at 31 December 2020, net of accumulated depreciation and impairment	2,332,540	3,327,677	45,312	57,235	246,375	523,625	6,532,764
At 31 December 2020							
Cost	5,956,733	13,829,431	176,167	1,116,275	580,398	789,706	22,448,710
Accumulated depreciation and impairment	(3,624,193)	(10,501,754)	(130,855)	(1,059,040)	(334,023)	(266,081)	(15,915,946)
Net carrying amounts	2,332,540	3,327,677	45,312	57,235	246,375	523,625	6,532,764

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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
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

The Group has no capitalised borrowing costs on qualifying assets during the year (2019: RMBNil).

Security

As at 31 December 2020, property, plant and equipment of RMB901,218,000 (2019: 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 2020

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 2020	**20,683**	**8,415**	**571,221**	**600,319**
Additions	**-**	**4,498**	**-**	**4,498**
Depreciation	**(2,788)**	**(2,030)**	**(15,214)**	**(20,032)**
Transfer to assets classified as held for sale (Note 39)	**-**	**-**	**(9,237)**	**(9,237)**
At 31 December 2020	**17,895**	**10,883**	**546,770**	**575,548**
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.

18. Mining rights

	2020 RMB'000	2019 RMB'000
Cost as at 1 January, net of accumulated amortisation	**133,744**	135,593
Amortisation for the year	**(1,882)**	(1,849)
Cost as at 31 December, net of accumulated amortisation	**131,862**	133,744
As at 31 December		
Cost	**158,665**	158,665
Accumulated amortisation	**(26,803)**	(24,921)
Net carrying amount	**131,862**	133,744

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

19. Prepaid lease payments

	2020 RMB'000	2019 RMB'000
Carrying amount as at 1 January	**571,221**	588,786
Amortisation for the year	**(15,214)**	(15,377)
Disposals	**-**	(2,188)
	556,007	571,221
Transfer to assets classified as held for sale (Note 39)	**(9,237)**	-
Carrying amount as at 31 December	**546,770**	571,221

20. Investment properties

	Total RMB'000
Cost	
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**124,491**
Depreciation and impairment	
At 1 January 2019	14,438
Depreciation for the year	5,795
Impairment loss for the year	4,813
At 31 December 2019 and 1 January 2020	**25,046**
Depreciation for the year	**5,945**
At 31 December 2020	**30,991**
Carrying amounts	
At 31 December 2020	**93,500**
At 31 December 2019	**99,445**

Fair value measurement of the investment properties:

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period, categorised into three–level fair value hierarchy as defined in IFRS13 "Fair Value Measurement".

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

20. Investment properties – Continued

	Fair value measurement categorised into significant unobservable inputs (level 3)	
	2020	2019
	RMB'000	RMB'000
Recurring fair value measurement		
Investment properties	**93,625**	99,445

As at 31 December 2020, the carrying value of the aforesaid investment properties was RMB93,500,000, and the directors of the Company carried out the review of the recoverable amounts of the investment properties using the fair value based on a valuation carried out by Pan-China Assets Appraisal Co., Ltd., an independent valuer not connected with the Group. The fair value was determined based on the direct comparison approach and there has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

21. Intangible assets

	Computer Software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2020, net of accumulated amortisation	**7,004**	**21,570**	**28,574**
Additions	**2,413**	**-**	**2,413**
Amortisation for the year	**(1,092)**	**(2,468)**	**(3,560)**
Cost as at 31 December 2020, net of accumulated amortisation	**8,325**	**19,102**	**27,427**
As at 31 December 2020			
Cost	**69,055**	**163,014**	**232,069**
Accumulated amortisation	**(60,730)**	**(143,912)**	**(204,642)**
Net carrying amounts	**8,325**	**19,102**	**27,427**
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 amounts	7,004	21,570	28,574

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

22. Investment in joint ventures

	2020 RMB'000	2019 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	**(41,749)**	(37,380)
	223,550	227,919

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 (Note (ii))	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.) (Note i)	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) (Note i)	PRC 24 April 2005	RMB5,000	Direct Indirect	**–** **36.56**	Provision of overseas shipping services

Notes:

(i) These entities established in the PRC are domestic limited liability companies.

(ii) The English translation of the company names of the companies established in the PRC is for reference only. The official names of these joint ventures are in Chinese.

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

	2020 RMB'000	2019 RMB'000
The Group's share of (losses)/profits and other comprehensive income	**(4,369)**	638
Aggregate carrying amount of the Group's investment in joint ventures	**223,550**	227,919

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

23. Investment in associates

	2020 RMB'000	2019 RMB'000
Cost of investment in associates	**670,031**	670,031
Share of post-acquisition profits and other comprehensive Income, net of dividends received	**(453,115)**	(453,444)
Transfer to assets classified as held for sale (Note 39)	**(181,897)**	-
	35,019	216,587

The above associates are 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 (Notes (i) and (ii))	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 (iii))	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

Notes:

(i) These entities established in the PRC are domestic limited liability companies.

(ii) The English translation of the company names of the associates established in the PRC is for reference only. The official names of these associates are in Chinese.

(iii) Investment in Yanpoguan has been transferred to a non-current asset classified as held for sale during the year ended 31 December 2020. Details of the transaction were stated in Note 39 to these consolidated financial statements.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

23. Investment in associates – Continued

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.

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

	2020 RMB'000	2019 RMB'000
The Group's share of profits/(losses) and other comprehensive income	679	(3,171)
Aggregate carrying amount of the Group's investment in associates	35,019	216,587

24. Other financial assets

	2020 RMB'000	2019 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 was 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. All the wealth management products were matured during the year. Gain on maturity of financial assets at FVTPL of RMB56,960,000 (2019: RMB45,641,000) was recognised during the year.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	**470,816**	504,140
Deferred tax liabilities	**(14,456)**	(19,382)
	456,360	484,758

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

	Accelerated tax depreciation RMB'000	Impairment losses RMB'000	Wages and salaries RMB'000	Fair value adjustment on acquisition of subsidiaries RMB'000	Unused tax losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2019	21,576	496,889	16,021	(43,147)	264,312	7,894	763,545
(Charge)/credit to profit or loss	(4,442)	(51,795)	(1,706)	23,765	(242,159)	(2,450)	(278,787)
As at 31 December 2019 and 1 January 2020	**17,134**	**445,094**	**14,315**	**(19,382)**	**22,153**	**5,444**	**484,758**
(Charge)/credit to profit of loss	**822**	**(16,098)**	**(14,315)**	**2,617**	**(11,252)**	**7,519**	**(30,707)**
Transfer to assets and liabilities classified as held for sale (Note 39)	**-**	**-**	**-**	**2,309**	**-**	**-**	**2,309**
As at 31 December 2020	**17,956**	**428,996**	**-**	**(14,456)**	**10,901**	**12,963**	**456,360**

As at 31 December 2020, the Group has unused tax losses of RMB1,538,368,000 (2019: RMB1,808,631,000) of available for offset against future profits. A deferred tax asset has been recognised in respect of RMB43,604,000 (2019: RMB88,612,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB1,494,764,000 (2019: RMB1,720,019,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB1,494,764,000 (2019: RMB1,720,019,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB709,261,000 (2019: RMB647,372,000) 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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

26. Inventories

	2020 RMB'000	2019 RMB'000
Raw materials and spare parts	522,564	451,814
Work in progress	145,064	164,741
Finished goods	337,175	499,058
	1,004,803	1,115,613
Write-down	(3,250)	(4,846)
Transfer to a disposal group classified as held for sale (Note 39)	(48)	-
Net realisable value	1,001,505	1,110,767

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.

	2020 RMB'000	2019 RMB'000
Trade receivables	25,844	33,370
Less: impairment loss	(762)	(762)
Net realisable value	25,082	32,608

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, was as follows:

	2020 RMB'000	2019 RMB'000
Within six months	24,992	32,608
Over six months but within one year	90	-
	25,082	32,608

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

27. Trade receivables - Continued

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 (2019: RMB762,000).

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

	2020 RMB'000	2019 RMB'000
Neither past due nor impaired	25,082	32,608

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.

Movement in the ECLs allowance in respect of trade receivables during the year was as follows:

	2020 RMB'000	2019 RMB'000
Balance at beginning and 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 2020 and 2019. 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 2020, 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**"), associates 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:

	2020 RMB'000	2019 RMB'000
CNOOC group companies	5,632	1,700
Associates	3,206	1,650
Other Related Parties	-	114
	8,838	3,464

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

28. Bills receivable

The bills receivable of the Group as at 31 December 2020 and 2019 are all mature within twelve months.

At 31 December 2020, the Group has transferred bills receivables having maturity less than twelve months from the reporting dates to its suppliers to settle its payables through endorsing the bills to its suppliers amounted to RMB168,086,000 (2019: RMB374,999,000). 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 2020, 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 RMB168,086,000 (2019: RMB374,999,000).

The fair value of bills receivable are close to their carrying amounts given all bills receivable will mature within twelve months.

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.

	2020	2019
	RMB'000	RMB'000
Contract assets arising from:		
Provision of port operation and		
transportation services	**13,157**	58,233

The expected timing of recovery or settlement for contract assets as at 31 December 2020 is as follows:

	2020	2019
	RMB'000	RMB'000
Within one year	**13,157**	58,233

As at 31 December 2020, the amount due from CNOOC group companies included in the above contract assets amounted to RMB13,157,000 (2019: RMB53,444,000).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

29. Contract assets and contract liabilities - Continued

(b) Contract liabilities

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

	2020 RMB'000	2019 RMB'000
Contract liabilities arising from:		
Sale of goods	677,766	442,869

The expected timing of recognising as revenue for contract liabilities as at 31 December 2020 is as follows:

	2020 RMB'000	2019 RMB'000
Within one year	673,614	442,869
1 – 2 years	3,183	-
2 – 3 years	969	-
	677,766	442,869

As at 31 December 2020, 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:

	2020 RMB'000	2019 RMB'000
Ultimate holding company	-	11,892
CNOOC group companies	7,770	4,763
Associate	9,351	525
Other Related Parties	39	16,496
	17,160	33,676

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

30. Prepayments, deposits and other receivables

	2020 RMB'000	2019 RMB'000
Prepayments	162,160	156,201
Deposits and other receivables	285,665	196,198
Less: impairment loss	(15,153)	(15,153)
	432,672	337,246
Transfer to a disposal group classified as held for sales (Note 39)	(6,153)	-
	426,519	337,246

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

	2020 RMB'000	2019 RMB'000
Balance at beginning of the year	15,153	24,255
Reversal of impairment loss	-	(174)
Written off of impairment loss recognised	-	(8,928)
Balance at end of the year	15,153	15,153

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:

	2020 RMB'000	2019 RMB'000
Ultimate holding company	31	14
CNOOC group companies	20,832	47,069
Associates	3,175	6,383
Joint venture	342	5,205
Other Related Parties	-	1,643
	24,380	60,314

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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

	2020 RMB'000	2019 RMB'000
Cash and bank and financial institution balances	**10,172,791**	5,828,225
Less: Pledged bank deposits	**(7,350)**	(4,129)
Time deposits with original maturity over three months	**(7,400,000)**	(5,000,000)
Cash and cash equivalents in the consolidated statement of cash flows	**2,765,441**	824,096

The Group's cash and bank balances were denominated in RMB as at 31 December 2020 and 2019, except for (i) RMB27,751,000 (2019: RMB121,474,000) which was translated from US$4,253,000 (2019: US$17,413,000) and (ii) RMB6,000 (2019: RMB11,409,000) which was translated from HK$7,000 (2019: HK$12,737,000).

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 2020, included in the Group's cash and cash equivalents were RMB143,007,000 (2019: RMB399,857,000) 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 2020 and 2019	**4,610,000**	**4,610,000**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

33. Benefits liability

CNOOC Tianye provides post-employment allowances and early retirement benefits to employees and qualifying retirees. Hainan Basuo Port provides early retirement benefits to qualifying retirees.

	2020 RMB'000	2019 RMB'000
Post-employment allowances	**10,907**	10,975
Early retirement benefits	**20,367**	31,481
Total benefits liability	**31,274**	42,456

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 2019	10,975	41,062
Service cost	-	3,649
Net interest cost	-	222
Benefits paid	-	(13,452)
At 31 December 2019 and 1 January 2020	**10,975**	**31,481**
Net interest cost	**358**	**788**
Benefits paid	**(8,272)**	**(3,313)**
Actuarial gains/(losses)	**7,846**	**(8,589)**
At 31 December 2020	**10,907**	**20,367**

The principal assumptions used in determining post-employment allowances and early retirement benefits of the Group as at 31 December 2020 are shown below:

	Post-employment allowances		Early retirement benefits	
	2020	2019	**2020**	2019
Discount rate				
- CNOOC Tianye	**3.25%**	4.00%	**3.25%**	4.00%
- Hainan Basuo Port	**N/A**	N/A	**3.00%**	2.75%
Annual growth rate of employee benefits				
- CNOOC Tianye	**0.00%**	0.00%	**7.00%**	7.00%
- Hainan Basuo Port	**N/A**	N/A	**7.00%**	7.00%

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

33. Benefits liability - Continued

The directors of the Company have reviewed the actuarial valuation as at 31 December 2020 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 2020. The directors of the Group do not expect significant changes in principal assumptions.

34. Interest-bearing bank borrowings

	2020 RMB'000	2019 RMB'000
Within one year	1,940,971	1,587,000
More than one year, but not more than two years	10,000	312,000
More than two year, but not more than five years	-	110,000
	1,950,971	2,009,000
Analysed for reporting purposes as:		
Current	1,940,971	1,587,000
Non-current	10,000	422,000

As at 31 December 2020, bank borrowings of RMB877,868,000 (2019: RMB1,069,000,000) were secured by property, plant and equipment of RMB901,218,000 (2019: RMB977,166,000) (Note 17). The secured bank borrowings had effective interest rates of 2.05%–4.30% per annum, and payable within one year. The remaining bank borrowings were unsecured with effective interest rates of 3.37%–4.41% per annum, payable within 2021 and 2022. The amounts due were based on the scheduled repayment dates set out in the loan agreements. As at 31 December 2020, the amount due to CNOOC International Financial Leasing Limited ("**CNOOC Leasing**") included in the above interest-bearing bank borrowings amounted to RMB877,868,000 (2019: RMB1,069,000,000).

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.

	2020 RMB'000	2019 RMB'000
Balance at beginning of the year	130,126	169,327
Additions	23,132	65,049
Credited to consolidated statement of profit or loss	(29,784)	(104,250)
Balance at end of the year	123,474	130,126

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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:

	2020 RMB'000	2019 RMB'000
Within six months	721,388	671,056
Over six months but within one year	8,101	-
Over one year but within two years	7,018	11,822
Over two years but within three years	1,560	1,152
Over three years	2,346	4,441
	740,413	688,471

As at 31 December 2020, the amounts due to CNOOC group companies and associate included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	2020 RMB'000	2019 RMB'000
CNOOC group companies	364,102	301,291
Associate	1,413	68,000
	365,515	369,291

37. Other payables and accruals

	2020 RMB'000	2019 RMB'000
Accrued payroll	142,350	189,117
Other payables	273,678	229,443
Long-term liabilities due within one year in relation to CNOOC Hualu Shanxi Coal Chemical Co., Ltd. ("**CNOOC Hualu**") land use right	-	1,798
Interest payable	-	2,334
Dividends payable	13,445	13,445
Payable to government	18,603	21,103
Other tax payables	41,934	30,954
Port construction fee payable	158,773	158,773
Payables in relation to the construction and purchase of property, plant and equipment	89,103	229,652
Deposits received (Note 39)	719,066	-
	1,456,952	876,619
Transfer to liabilities associated with assets classified as held for sale (Note 39)	(206)	-
	1,456,746	876,619

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

37. Other payables and accruals - Continued

The amounts due to 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:

	2020 RMB'000	2019 RMB'000
Ultimate holding company	180	532
CNOOC group companies	35,444	25,948
Associates	-	1,237
Joint venture	-	55
Other Related Parties	5,148	14
	40,772	27,786

38. Leases

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:

	2020 RMB'000	2019 RMB'000
Ownership interests in leasehold land, carried at amortised cost	546,770	571,221
Other properties leased for own use, carried at depreciated cost	10,883	8,415
Plant and machinery, carried at depreciated cost	17,895	20,683

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

38. Leases - Continued

LEASE LIABILITIES

	Plant and machinery RMB'000	Land and buildings RMB'000	Total RMB'000
For the year ended 31 December 2020			
At 1 January 2020	**20,324**	**6,393**	**26,717**
Additions	**-**	**4,498**	**4,498**
Interest expense	**884**	**492**	**1,376**
Lease payments	**(3,429)**	**(2,400)**	**(5,829)**
At 31 December 2020	**17,779**	**8,983**	**26,762**
For the year ended 31 December 2019			
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:

	2020		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	**6,327**	**1,201**	**5,126**
After one but within two years	**5,493**	**977**	**4,516**
After two but within five years	**14,209**	**1,763**	**12,446**
More than 5 years	**4,962**	**288**	**4,674**
	24,664	**3,028**	**21,636**
	30,991	**4,229**	**26,762**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

38. Leases - Continued

	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

The present value of future lease payments are analysed as:

	2020 RMB'000	2019 RMB'000
Current liabilities	**5,126**	4,527
Non-current liabilities	**21,636**	22,190
	26,762	26,717

	2020 RMB'000	2019 RMB'000
Short-term lease expense	**16,612**	2,076

39. A DISPOSAL GROUP AND A NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

The Group entered into 2 equity transaction agreements dated on 18 June 2020 with Hequ Taiyang Coal Industry Co., Ltd. (the"**Purchaser**") to dispose (i) the Group's 51% equity interest in a subsidiary, CNOOC Hualu, which under other segment; and (ii) 49% equity interest in an associate, Yangpoquan Coal, at considerations of RMB102,066,000 and RMB637,000,000 respectively. The Group received deposits of RMB719,066,000, which recognised under other payables and accruals (Note 37), from the Purchaser on 31 December 2020. The Group was in view of that the equity transaction agreements have not yet been completed and they will provide necessary assistance and cooperation on procedures including the registration of the equity interests change and issuance of new business licenses so as to complete the disposal.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

39. A DISPOSAL GROUP AND A NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE - Continued

(a) The following assets and liabilities relating to a disposal group, CNOOC Hualu, were reclassified as held for sale in the consolidated statement of financial position.

	RMB'000
Assets classified as held for sale	
Cash and cash equivalents	**4**
Prepayments, deposits and other receivables	**6,153**
Inventories	**48**
Property, plant and equipment	**3,293**
Prepaid lease payments	**9,237**
	18,735
Liabilities associated with assets classified as held for sale	
Other payables and accruals	**206**
Deferred tax liabilities	**2,309**
	2,515

CNOOC Hualu incurred net profit of RMB28,364,000 (2019: RMB28,000) during the year ended 31 December 2020. The disposal of CNOOC Hualu did not constitute a discontinued operation as it does not represent a major line of business.

(b) The following non-current asset relating to Yangpoquan Coal was reclassified as held for sale in the consolidated statement of financial position.

	RMB'000
Assets classified as held for sale	
Investment in an associate	**181,897**

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:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for acquisition of plant and machinery	**105,653**	114,464

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

41. Related party transactions

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

(1) Recurring

	2020 RMB'000	2019 RMB'000
(A) Included in revenue and other income		
(i) CNOOC group companies		
Sale of goods	**352,601**	363,873
Provision of packaging and assembling services	**111,669**	97,551
Provision of transportation services	**94**	134
Provision of logistics services	**25,497**	36,346
Lease of property and land	**6,014**	6,646
(ii) Other Related Parties		
Sale of goods	**201,738**	411,605
Provision of transportation services	**14,085**	11,288
(iii) Associates		
Sale of goods	**-**	18,842
(iv) Joint venture		
Provision of packaging and assembling services	**-**	33,026
(B) Included in cost of sales and other expenses		
(i) CNOOC group companies		
Purchase of raw materials	**2,815,993**	2,786,544
Labour service	**217,535**	46,380
Construction and installation services	**42,840**	26,116
Lease of offices	**23,894**	25,996
Logistics services	**11,558**	1,819
Network service	**10,017**	16,469
(ii) Other Related Parties		
Purchase of raw materials	**17,969**	49,122
(C) Included in finance income/costs		
(i) CNOOC Finance		
Finance income	**4,279**	3,304
Fees and charges	**980**	1,154
(ii) CNOOC Leasing		
Fees and charges	**9,523**	7,638
Interests on bank borrowings	**28,648**	23,943
Interest on lease liabilities	**-**	14,141
Loan received	**900,000**	1,100,000
Loan repaid	**1,091,132**	31,000

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

41. Related party transactions - Continued

(1) Recurring - Continued

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 and 37. 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	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Ultimate holding company	**31**	14	**180**	12,424
CNOOC group companies	**39,621**	102,213	**407,316**	332,002
Associates	**6,381**	8,033	**10,764**	1,830
Joint venture	**342**	5,205	**-**	55
CNOOC Leasing	**-**	-	**877,868**	1,069,000
Other Related Parties	**-**	1,757	**5,187**	16,510

In addition, as at 31 December 2020, the deposits placed by the Group with CNOOC Finance were amounted to RMB143,007,000 (2019: RMB399,857,000), as detailed in Note 31.

(3) Compensation of key management personnel of the Group

	2020	2019
	RMB'000	RMB'000
Short-term employee benefits	**8,773**	10,472
Post-employment benefits	**161**	182
Total compensation paid to key management personnel	**8,934**	10,654

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

41. Related party transactions - Continued

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. Certain specific and major raw materials provided by SOE suppliers are from Western Natural Gas (the "**WNG**") and WNG mainly supplied natural gas to CNOOC Tianye. As of 31 December 2020, the Group made a total procurement of RMB266,864,000 from WNG (2019: RMB360,236,000). Urea and phosphorus sold by the Company and CNOOC Fudao (Shanghai) Chemical Limited to the Guangdong Tianhe Agricultural Means of Production Co. Ltd. constituted most of the sales to SOEs. For the year ended 31 December 2020, the sales amounted to amounted to RMB620,071,000 (2019: Methanol sold by the Company and CNOOC Kingboard Chemical Limited to the Guangdong Tianhe Agricultural Means of Production Co. Ltd. constituted most of the sales to SOEs reached RMB302,567,000). 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 2020, as summarised below:

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	2,765,302	764,554
Pledged bank deposits	7,350	4,129
Time deposits	7,400,000	5,000,000
	10,172,652	5,768,683
Interest-bearing bank borrowings	1,950,971	2,009,000

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 2020

42. Financial instruments

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

	2020		2019	
	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	-	610,794	-	333,354
Financial assets at amortised cost				
- Trade receivables	25,082	-	32,608	-
- Contract assets	13,157	-	58,233	-
- Deposits and other receivables	270,512	-	181,045	-
- Pledged bank deposits	7,350	-	4,129	-
- Time deposits	7,400,000	-	5,000,000	-
- Cash and cash equivalents	2,765,441	-	824,096	-
Financial liabilities at amortised cost				
- Trade payables	740,413	-	688,471	-
- Other payables and accruals	737,680	-	876,619	-
- Lease liabilities	26,762	-	26,717	-
- Interest-bearing bank borrowings	1,950,971	-	2,009,000	-
- Other long-term liabilities	16,080	-	29,880	-

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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.

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 twelve months.

Bills receivable as at 31 December 2019 was realised during the year. Bills receivable as at 31 December 2020 will be realised within twelve 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).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

43. Fair value and fair value hierarchy - Continued

(b) Financial instruments measured at fair value - Continued

	31 December 2020		
	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVOCI			
- Unlisted equity investment	-	**600**	**600**
- Bills receivable	-	**610,794**	**610,794**

	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

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 2020

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 leases liabilities with floating interest rates.

As at 31 December 2020, the Group's interest-bearing bank borrowings and lease liabilities bear variable interest rates amounted to RMB1,977,733,000 (2019: RMB2,035,717,000).

The interest rates and the terms of repayment of the Group's interest-bearing bank borrowings and lease liabilities 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 2020 would be decreased/increased by approximately RMB7,416,000 (2019: decreased/increased by RMB7,634,000).

(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	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States dollar ("**USD**")	-	121,474	-	-
HKD	6	11,409	-	-

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 6% (2019: 7%) 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 USD, HKD, 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 2020

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% (2019: 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% (2019: 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	
	2020	2019	2020	2019	2020	2019
	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)	-	(413)	-	-
Equity	-	(2,141)	-	(413)	-	-

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% (2019: 0.1%), while the ECLs rate for past due within one year is assessed to be 0.5% (2019: 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 2020

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 2020, the balance of the Group's interest-bearing bank borrowings was RMB1,950,971,000 (2019: RMB2,009,000,000).

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:

	2020					
	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	**1,950,971**	**1,982,966**	**1,972,525**	**10,441**	**-**	**-**
Trade payables	**740,413**	**740,413**	**740,413**	**-**	**-**	**-**
Other payables and accruals	**737,680**	**737,680**	**737,680**	**-**	**-**	**-**
Lease liabilities	**26,762**	**30,991**	**6,327**	**5,493**	**14,209**	**4,962**
Other long-term liabilities	**16,080**	**16,080**	**191**	**191**	**15,698**	**-**
	3,471,906	**3,508,130**	**3,457,136**	**16,125**	**29,907**	**4,962**

	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

In addition to the amounts shown in the above table as at 31 December 2020, 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 within the next 12 months, amounting to RMB168,086,000 (2019: RMB374,999,000) in aggregate.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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 2020 and 2019.

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:

	2020 RMB'000	2019 RMB'000
Interest-bearing debts (Note)	1,977,733	2,035,717
Net assets	15,628,137	15,117,089
Net assets plus Interest-bearing debts	17,605,870	17,152,806
Gearing ratio	11.23%	11.87%

Note: Interest-bearing debts comprises interest-bearing bank borrowings and lease liabilities as detailed in Notes 34 and 38 respectively.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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 (Note (ii))	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) (Note (i))	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.) (Note (i))	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.) (Note (i))	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**") (Note (i))	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**") (Note (i))	PRC 18 December 2000	RMB2,272,856	Direct Indirect	92.27 -	Manufacture and sale of fertilisers andmethanol
中海石油建滔化工有限公司 (transliterated as CNOOC Kingboard Chemical Limited) ("**CNOOC Kingboard**") (Note (i))	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) (Note (i))	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.) (Note (i))	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 Shanxi Coal Chemical Co., Ltd) (Note (i))	PRC 29 November 2005	RMB61,224	Direct Indirect	51.00 -	Preparatory work for a methanol and dimethyl ether project
湖北大峪口化工有限責任公司 (transliterated as Hubei Dayukou Chemical Limited) ("**Hubei Dayukou**") (Note (i))	PRC 12 August 2005	RMB1,103,127	Direct Indirect	79.98 -	Phosphate mining and processing, manufacture and sale of MAP and DAP fertilisers

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

45. Particulars of principal subsidiaries of the company - Continued

(i) General information of subsidiaries - Continued

Name of subsidiaries (Note (ii))	Place and date of incorporation and operation	Registered capital '000	Percentage of equity interest attributable to the Company	%	Principal activities
廣西富島農業生產資料有限公司 (transliterated as Guangxi Fudao Agricultural Means of Production Limited) (Note (i))	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) (Note (i))	PRC 26 May 2006	RMB1,035,600	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
中海油(海南)富島化工有限公司 (transliterated as CNOOC (Hainan) Fudao Chemical Limited) (Note (i),(iii))	PRC 19 Oct 2020	RMB300,000	Direct Indirect	51.00 -	Manufacture and sale of acrylonitrile and methyl methacrylate
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

Note:

(i) These entities established in the PRC are domestic limited liability companies.

(ii) The English translation of the company names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

(iii) The company is domestic limited liabilities company and was incorporated in the PRC on 19 October 2020 with paid up registered capital of RMB300,000,000.

(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	
	2020	2019	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
CNOOC Kingboard	**40.00%**	40.00%	**(3,020)**	42,122	**314,820**	363,328
Hainan Basuo Port	**26.89%**	26.89%	**14,540**	16,257	**198,019**	196,924
CNOOC Tianye	**7.73%**	7.73%	**(236)**	(4,007)	**36,714**	36,950
Hubei Dayukou	**20.02%**	20.02%	**7,725**	(8,176)	**216,912**	209,187

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

45. Particulars of principal subsidiaries of the company - Continued

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

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.

CNOOC Kingboard	2020 RMB'000	2019 RMB'000
Current assets	757,246	857,044
Non-current assets	174,615	221,935
Current liabilities	(139,357)	(162,895)
Non-current liabilities	(5,453)	(7,764)
Net assets	787,051	908,320
Non-controlling interests	314,820	363,328
Revenue	881,984	1,104,455
Expenses	(889,533)	(999,150)
(Loss)/profit and total comprehensive income	(7,549)	105,305
Profit and total comprehensive income attributable to:		
Owners of the Company	(4,529)	63,183
Non-controlling interests	(3,020)	42,122
(Loss)/profit and total comprehensive income	(7,549)	105,305
Dividends paid to non-controlling interests	45,488	162,087
Net cash (outflow)/inflow from operating activities	(43,195)	177,613
Net cash inflow/(outflow) from investing activities	157,263	(297,684)
Net cash outflow from financing activities	(113,720)	(405,216)
Net cash inflow/(outflow)	348	(525,287)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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	2020 RMB'000	2019 RMB'000
Current assets	**272,388**	209,012
Non-current assets	**927,398**	963,406
Current liabilities	**(361,013)**	(334,800)
Non-current liabilities	**(18,757)**	(21,674)
Net assets	**820,016**	815,944
Non-controlling interests	**198,019**	196,924
Revenue	**329,552**	316,639
Expenses	**(275,480)**	(256,183)
Profit and total comprehensive income	**54,072**	60,456
Profit and total comprehensive income attributable to:		
Owners of the Company	**39,532**	44,199
Non-controlling interests	**14,540**	16,257
Profit and total comprehensive income	**54,072**	60,456
Dividends paid to non-controlling interests	**13,445**	-
Net cash inflow from operating activities	**109,271**	22,799
Net cash outflow from investing activities	**(76,693)**	(69,169)
Net cash outflow from financing activities	**(13,445)**	-
Net cash inflow/(outflow)	**19,133**	(46,370)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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	2020 RMB'000	2019 RMB'000
Current assets	**190,833**	284,374
Non-current assets	**1,118,771**	1,112,277
Current liabilities	**(765,881)**	(838,911)
Non-current liabilities	**(68,762)**	(79,731)
Net assets	**474,961**	478,009
Non-controlling interests	**36,714**	36,950
Revenue	**1,354,312**	1,946,974
Expenses	**(1,357,360)**	(1,998,805)
Loss and total comprehensive income	**(3,048)**	(51,831)
Loss and total comprehensive income attributable to:		
Owners of the Company	**(2,812)**	(47,824)
Non-controlling interests	**(236)**	(4,007)
Loss and total comprehensive income	**(3,048)**	(51,831)
Dividends paid to non-controlling interests	**-**	-
Net cash inflow from operating activities	**161,071**	57,898
Net cash outflow from investing activities	**(17,895)**	(24,543)
Net cash outflow from financing activities	**(145,136)**	(37,677)
Net cash outflow	**(1,960)**	(4,322)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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	2020 RMB'000	2019 RMB'000
Current assets	857,115	725,026
Non-current assets	1,320,880	1,442,176
Current liabilities	(1,086,684)	(1,115,358)
Non-current liabilities	(7,842)	(6,954)
Net assets	1,083,469	1,044,890
Non-controlling interests	216,912	209,187
Revenue	2,082,996	2,043,070
Expenses	(2,044,417)	(2,083,907)
Profit/(loss) and total comprehensive income	38,579	(40,837)
Profit/(loss) and total comprehensive income attributable to:		
Owners of the Company	30,854	(32,661)
Non-controlling interests	7,725	(8,176)
Profit/(loss) and total comprehensive income	38,579	(40,837)
Dividends paid to non-controlling interests	-	-
Net cash inflow from operating activities	289,070	172,852
Net cash outflow from investing activities	(174,517)	(32,747)
Net cash outflow from financing activities	(112,036)	(141,388)
Effect of foreign exchange rate changes	(1,573)	53
Net cash inflow/(outflow)	944	(1,230)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

46. Statement of financial position and reserves of the company

	2020 RMB'000	2019 RMB'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	44,977	965,848
Investment properties	44,374	49,287
Prepaid lease payments	7,434	8,301
Intangible assets	1,868	193
Investment in subsidiaries	7,659,080	6,667,751
Investment in joint ventures	213,487	228,779
Investment in an associate	-	196,859
Deferred tax assets	164,446	170,676
Other long-term prepayment	486	502
	8,136,152	8,288,196
CURRENT ASSETS		
Inventories	-	172,952
Trade receivables	-	94,395
Prepayments, deposits and other receivables	161,133	306,188
Loans receivable	857,661	1,197,226
Financial assets at FVTPL	-	2,694,659
Time deposits with original maturity over three months	4,610,586	2,000,000
Cash and cash equivalents	2,491,715	666,979
	8,121,095	7,132,399
Assets classified as held for sale	181,897	-
	8,302,992	7,132,399
TOTAL ASSETS	16,439,144	15,420,595
EQUITY		
CAPITAL AND RESERVES		
Issued capital	4,610,000	4,610,000
Reserves	8,935,158	9,023,789
Proposed dividends	368,800	350,360
TOTAL EQUITY	13,913,958	13,984,149
LIABILITIES		
NON-CURRENT LIABILITIES		
Deferred revenue	2,768	2,768
Other long-term liabilities	12,999	13,149
	15,767	15,917

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

46. Statement of financial position and reserves of the company - Continued

	2020 RMB'000	2019 RMB'000
CURRENT LIABILITIES		
Trade payables	135	202,273
Contract liabilities	-	13,455
Other payables and accruals	2,493,486	1,193,173
Income tax payable	15,798	11,628
	2,509,419	1,420,529
TOTAL LIABILITIES	2,525,186	1,436,446
TOTAL EQUITY AND LIABILITIES	16,439,144	15,420,595

Movement in Company's reserves

The Company's movement in reserves and proposed dividends for the years ended 31 December 2020 and 2019 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 reserves RMB'000
At 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 and 1 January 2020		1,366,392*	1,417,822*	2,817*	6,236,758*	350,360	9,374,149
Total comprehensive income for the year		-	-	-	280,169	-	280,169
Appropriation and utilization of safety fund, net		-	-	(2,748)	2,748	-	-
Transfer from retained profits		-	28,737	-	(28,737)	-	-
2020 proposed final dividends	15	-	-	-	(368,800)	368,800	-
2019 final dividends declared		-	-	-	-	(350,360)	(350,360)
At 31 December 2020		1,366,392*	1,446,559*	69*	6,122,138*	368,800	9,303,958

* These reserve accounts comprise the Company's reserves of RMB8,935,158,000 (2019: RMB9,023,789,000) in the Company's statement of financial position.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

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	Lease liabilities RMB'000	Interest payable RMB'000	Dividends payable RMB'000
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	-	4,535	-	-
At 31 December 2019	2,009,000	26,717	2,334	13,445
At 1 January 2020	**2,009,000**	**26,717**	**2,334**	**13,445**
Changes from cash flow:				
Dividend paid	-	-	-	**(409,297)**
Bank borrowings raised	**1,917,275**	-	-	-
Repayment of bank Borrowings	**(1,977,275)**	-	-	-
Interest paid	**(72,640)**	-	**(2,334)**	-
Payment of lease liabilities	-	**(5,829)**	-	-
Other changes:				
Dividend declared to non-controlling interests	-	-	-	**58,937**
2019 final dividend declared	-	-	-	**350,360**
Finance costs (Note 10)	**74,611**	**1,376**	-	-
New leases	-	**4,498**	-	-
At 31 December 2020	**1,950,971**	**26,762**	-	**13,445**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2020

48. Events after the reporting year

There was no material event after the reporting date.

49. Approval of consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2021.

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.3, Park Third Road, Basuo Town, 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.3, Park Third Road, Basuo Town, Dongfang City, Hainan Province, the PRC
Representative Office in Hong Kong	65/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong
Company Secretary	Wu Xiaoxia
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	
Hong Kong	Tel: (852) 22132533 Fax: (852) 25259322
Beijing	Tel: (86) 010 84527343 Fax: (86) 010 84527254
Webiste	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983