中海石油化學股份有限公司
China BlueChemical Ltd.

ANNUAL REPORT 2021

HKSE CODE：3983

(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	2017	2018	2019	2020	2021
Revenue	9,799.7	11,259.6	10,858.4	10,417.5	**13,398.0**
Cost of sales	(8,114.6)	(8,501.3)	(8,937.1)	(9,083.8)	**(10,461.6)**
Gross profit	1,685.1	2,758.3	1,921.4	1,333.7	**2,936.4**
Other income and other gains and losses	293.7	434.7	253.2	180.1	**106.4**
Selling and distribution costs	(385.7)	(418.5)	(440.9)	(183.1)	**(118.5)**
Administrative expenses	(453.0)	(455.6)	(489.1)	(432.6)	**(542.3)**
Other expenses	(13.5)	(161.6)	(30.3)	(28.4)	**(358.9)**
Finance income	10.7	11.2	231.3	272.6	**372.7**
Finance costs	(121.4)	(104.6)	(103.1)	(76.0)	**(50.6)**
Exchange (losses)/gains, net	(48.2)	13.3	(0.6)	(13.2)	**0.4**
Share of losses of joint ventures	(36.8)	(0.2)	(3.1)	(0.4)	**0.7**
Share of gains/(losses) of associates	1.5	1.2	(3.2)	0.8	**2.6**
Impairment losses	(442.6)	(0.9)	(4.8)	-	**(304.3)**
Change in fair value of financial assets at fair value through profit or loss	-	-	48.4	-	**6.1**
Gain on disposal of a subsidiary	-	62.9	-	-	**68.7**
Gains on disposal of an associate	-	-	-	-	**455.1**
Gains on deemed disposal of a joint venture	-	-	-	-	**67.0**
Gain on loss of control of subsidiaries	0.3	-	-	-	**-**
Profit/(loss) before tax	490.1	2,140.2	1,379.1	1,053.6	**2,641.6**
Income tax (expenses)/benefits	(382.6)	(611.9)	(624.1)	(274.5)	**(1,000.2)**
Profit/(loss) for the year	107.5	1,528.3	755.0	779.2	**1,641.4**
Profit/(loss) for the year attributable to Owners of the Company	50.2	1,378.9	703.2	745.5	**1,497.6**
Basic Earnings/(loss) per share attributable to ordinary owners of the Company (RMB)	0.01	0.3	0.15	0.16	**0.32**

Selected consolidated statement of financial position data

As at 31 December, RMB'million

Financial Highlights	2017	2018	2019	2020	2021
Assets					
Non-current assets	9,836.0	9,207.8	8,534.6	8,062.3	**7,970.0**
Current assets	9,413.0	10,741.4	10,885.0	12,685.5	**13,461.6**
Total assets	19,249.0	19,949.2	19,419.6	20,747.8	**21,431.6**
Equity and liabilities					
Total equity	14,247.9	15,127.6	15,117.1	15,628.1	**16,914.7**
Non-current liabilities	2,523.3	1,089.4	666.0	216.9	**1,074.9**
Current liabilities	2,477.8	3,732.2	3,636.5	4,902.7	**3,442.0**
Total equity and liabilities	19,249.0	19,949.2	19,419.6	20,747.8	**21,431.6**

Operational Highlights

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

		For the year ended 31 December					
		Production volume (tonnes)			Utilisation rate (%)		
		2021	2020	Change %	2021	2020	Change
Chemical fertilisers							
Urea	Fudao Phase I	611,846	513,106	19.2	117.7	98.7	19.3
	Fudao Phase II	817,405	903,261	(9.5)	102.2	112.9	(9.5)
	CNOOC Tianye	-	557,344	(100.0)	0.0	107.2	(100.0)
	CNOOC Huahe	599,630	646,948	(7.3)	115.3	124.4	(7.3)
	Group total	2,028,880	2,620,659	(22.6)	86.0	111.0	(22.5)
Phosphate fertilisers and compound fertilisers	DYK MAP	67,834	56,830	1.9	45.2	37.9	19.3
	DYK DAP Phase I (Note 1)	311,678	306,001	5.8	89.1	87.4	1.9
	DYK DAP Phase II	595,458	552,186	5.5	119.1	110.4	7.9
	Group total	974,970	915,017	6.6	97.5	91.5	6.6
Chemical products							
Methanol	Hainan Phase I	583,430	602,842	(3.2)	97.2	100.5	(3.3)
	Hainan Phase II	814,818	849,460	(4.1)	101.9	106.2	(4.0)
	CNOOC Tianye	-	109,901	(100.0)	0.0	55.0	(100.0)
	Group total	1,398,248	1,562,203	(10.5)	87.4	97.6	(10.5)
POM	CNOOC Tianye	30,967	37,594	17.6	77.4	94.0	(17.7)
	Group total	30,967	37,594	17.6	77.4	94.0	(17.7)

Note 1: In 2021, DYK DAP Phase I Plant produced 30,686 tonnes of DAP and 280,992 tonnes of compound fertilisers, respectively, amounting to 311,678 tonnes in total. 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.

Sales volume of the Group's various plants

Unit: tonne

		For the year ended 31 December 2021	For the year ended 31 December 2020	Change %
Chemical fertilisers				
Urea	Fudao Phase I	581,631	473,328	22.88
	Fudao Phase II	808,207	886,938	(8.88)
	CNOOC Tianye	1,703	560,965	(99.7)
	CNOOC Huahe	596,842	645,594	(7.55)
	Group total	1,988,384	2,566,825	(22.5)
Phosphate fertilisers and compound fertilisers	DYK MAP	63,948	72,131	(11.3)
	DYK DAP Phase I	297,044	289,716	2.5
	DYK DAP Phase II	610,735	621,575	(1.7)
	Group total	971,727	983,422	(1.2)
Chemical products				
Methanol	Hainan Phase I	576,012	603,900	(4.6)
	Hainan Phase II	790,569	851,534	(7.2)
	CNOOC Tianye	-	84,694	(100.0)
	Group total	1,366,581	1,540,128	(11.3)
POM	CNOOC Tianye	31,033	37,858	(18.0)
	Group total	31,033	37,858	(18.0)

DYK Chemical phosphoric acid workshop

Dear shareholders,

Looking back at 2021, as the COVID-19 pandemic continued to send shockwaves across the global industry chain, the fertilisers industry saw prices hitting peak for the recent decade and the overall chemicals industry experienced promising development momentum. Under the leadership of the Board, by grasping favourable opportunities and thanks to the concerted efforts and can-do spirit of the management and staff members, the Group got off to an auspicious start for the first year of the 14th Five-Year Plan, with a better-than-expected performance in production and operation and development progress.

Hou Xiaofeng / CEO & President

CEO's Report

Review of 2021

Bearing the concept of green development in mind, in 2021, the Group continued to strengthen the management of production and operation, strictly implemented cost reduction and efficiency enhancement in all respects, optimised and expanded its sales business, endeavoured to push forward the construction of key projects and proactively promoted technology innovation. These efforts reaped notable results in the Group's reform and transformation of development. In 2021, the Group realised a revenue of RMB13,398 million and a gross profit of RMB2,936 million, with a net profit attributable to owners of the Company of RMB1,498 million recorded, representing a significant increase of 101% over 2020. In terms of profitability, the Group maintained in the leading position within the industry. In view of the sound financial position of the Group and to reward the shareholders, the Board has recommended a payment of final dividend for 2021 in the amount of RMB0.155 per share (tax inclusive), representing a payout ratio of 48%.

In respect of production management, with the persistent efforts in strengthening the management of safety production and pandemic prevention and control, the Group achieved an overall stable performance in safety, environmental protection and pandemic prevention and control. Both the Fudao Phase II urea plant and the Hainan Phase I methanol plant broke the national record of long-term operation with a continuous operation period of 629 days and 674 days, respectively. Meanwhile, in order to realise a robust operation in the future, nine sets of plants commenced planned maintenance works in an orderly manner. For environmental and safety concerns, the CNOOC Tianye urea plant and methanol plant suspended production throughout the year. Against this backdrop, the Group's production volume of urea, methanol and POM dropped while it saw a growth in the output of phosphate and compound fertilisers. In 2021, the Group produced 2,029 thousand tonnes of urea, 975 thousand tonnes of phosphate and compound fertilisers, 1,398 thousand tonnes of methanol and 31 thousand tonnes of POM.

In respect of sales management, by grasping favourable opportunities and with precise market study and analysis, promotion of scientific and refined product pricing and further enhancement of brand value, the Group basically positioned itself as a price leader for its key products among industry peers in the same regions. The Group constructed e-commerce and logistics platforms for trading all of its self-produced products online. In line with the outputs, sales volume of the Group's self-produced urea, methanol and POM declined while that of phosphate and compound fertilisers remained flat basically in 2021. The Group sold 1,988 thousand tonnes of urea, 1,367 thousand tonnes of methanol, 972 thousand tonnes of phosphate fertilisers and compound fertilisers and 31 thousand tonnes of POM. During the year, the Group exported a total of 164 thousand tonnes of urea and 120 thousand tonnes of DAP.

While maintaining stable production capacity of fertilisers, the Group has built a clear roadmap to establishing presence in the new chemical materials industry. Our key acrylonitrile project orderly advanced and the overall construction progressed as anticipated. The operating licence for hazardous chemicals has been obtained in respect of the pre-sales of acrylonitrile products. Centering around the efficient utilisation of CO_2-rich natural gas conversion, the Group took active steps in identifying cooperation on key technologies and entered into a strategic cooperation respectively with BASF and Wuhuan Engineering to promote technology innovation and development.

As an active move to echo with the development strategy of "carbon peaking and carbon neutrality", the Group laid out a low-carbon development initiative to implement its energy conservation and emission reduction projects in an orderly manner which allowed the Group to boast about maintaining its leadership in energy efficiency indicators. The Group was honoured to award a "Benchmark Enterprise of Leading Energy

Hainan Phase I methanol plant

Efficiency of the Year" in the synthetic ammonia and methanol industry by China Petroleum and Chemical Industry Federation for ten years in a row, to be named as a "Leading Water Efficiency Enterprise" and an "advanced energy conservation and emission reduction entity" by China Nitrogen Fertilizer Industry Association for consecutive years, and receive a "Leading Energy Efficiency Enterprise" by the Ministry of Industry and Information Technology (MIIT) of the PRC for our ammonia and methanol plants. In 2021, the Group was also recognised a national excellent model of reducing consumption and improving use efficiency of fertilisers by the Ministry of Agriculture for meeting the government's requirements of ensuring the supply of fertilisers.

It is delightful to see the continued growth of the Group's brand value. In the 2021 China brand value evaluation, the Group ranked 29th in the energy and chemical industry with a brand value of RMB3.199 billion.

Outlook for 2022

China will adhere to its economic development principle of seeking progress while maintaining stability under the triple pressures of contracting demand, supply shocks and weakening expectations. In the fertilisers industry, players will strive to achieve green development and transformational upgrade under the dual goals of carbon peaking and carbon neutrality, by upholding stability and pursuing a progressive development. The intensifying market competition and stricter environmental standards will further promote integration in the domestic fertilisers industry. As the production costs have been inflated, it may cause fertiliser prices to remain at high levels. In respect of methanol, with the slowdown of new methanol production capacity, the relatively stable demand in the methanol-to-olefins and traditional downstream methanol industries and the increasing needs of wider applications of new energy-related fine chemicals, we foresee a price fluctuation in market prices throughout the year.

In 2022, the Group will hold a positive attitude towards addressing the impacts and uncertainties of the COVID-19 pandemic, put its concept of safety into practice, further enhance its HSE and refined production management and proactively implement its goals of "dual carbon" initiative. Continued efforts will be made to strengthen its market leadership, optimise its model of precision pricing, further deepen the marketing reform through digital means, promote direct supply from farmers, and stimulate expansion of trade and coordination of resources and brands as well as realisation of marketing value in a wider area and at a deeper level. The Group will further strengthen its lean management to form an optimal inventory structure with economic efficiency. The Group will also ensure the success of trial operation of the acrylonitrile project and get well-prepared for production and sales. It will push forward the development of the petrochemical wharf project by seizing the opportunities arising from the construction of Hainan Free Trade Port. In addition, technology innovation will be vigorously promoted. To achieve this, the Group will enter into technological cooperation focusing on the efficient utilisation of CO_2-rich natural gas conversion and the extension of acrylonitrile downstream industry chain, and explore opportunities for new projects. The Group will also systemically promote digital transformation and smart development, so as to further enhance its labour productivity and profitability.

In 2022, 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 the shareholders.

Hou Xiaofeng

Chief Executive Officer (CEO), President

Construction of Acrylonitrile project in Hainan

Management Discussion and Analysis

Sector Review

Chemical fertiliser industry

In 2021, the global economy was still affected by the COVID-19 pandemic. There was a general phenomenon of increasing stockpiling of grain across the countries, which led to an upward trend in international grain prices. It has always been emphasised by the PRC government that safeguarding grain safety is a critical national strategy. Therefore, it is imperative to stand firm on the commitment to grain safety by maintaining stable grain sown area so that Chinese people can have grain mainly produced in China. According to the data from the National Bureau of Statistics of China, in 2021, China remained as the largest grain producer in the world, with national total grain output of 682.85 million tonnes, up by 2.0% over 2020.

The COVID-19 pandemic continued to strike the global industry chain in 2021, among which the chemical fertiliser industry was also affected where prices hit peak for the recent decade. In the first half of the year, production cost of fertilisers surged as a result of factors such as higher bulk material prices, increasing environmental cost and rising electricity tariff. Meanwhile, fertiliser prices hiked as driven by the international market together with low social inventories. In the second half of the year, thanks to the intensive rollout of a series of national policies on ensuring supply and price stability, raw material prices declined, resulting in a gradual easing in prices of fertiliser products since the fourth quarter.

Refilling to water sealing tank for the main torch

(1) Urea

According to industry statistics, the domestic production volume of urea amounted to approximately 54.58 million tonnes (in kind) in 2021, representing a year-on-year decrease of 2.7%. Meanwhile, the statistics from General Administration of Customs of the PRC ("GACC") showed that China exported a total of approximately 5.30 million tonnes of urea in 2021, representing a year-on-year decrease of 2.8% over 2020.

In 2021, the urea price continued the rising trend seen at the fourth quarter of the previous year. Owing to the increased international urea price, tight supply and strong demand, the domestic urea price increased further in the first half of the year, and in particular, the high-end price rose to RMB2,900 per tonne. The price experienced a high volatility in the second half of the year. Bolstered by factors such as tight supply of raw materials and urea tenders in India, the price skyrocketed to its all-time high of more than RMB3,000 per tonne in October. With the rollout of national policies on ensuring fertiliser supply and price stability and on coal production ramp-up and price capping, the urea price has eased down since mid-October and stood firmly at RMB2,400 per tonne in December.

(2) Phosphate fertilisers

According to industry statistics, the domestic annual output of ammonium phosphate was approximately 28.80 million tonnes (in kind) in 2021, representing a year-on-year decrease of approximately 12.8% over 2020. Meanwhile, the statistics from GACC showed that the export volume of DAP of China was 6.26 million tonnes in 2021, representing a year-on-year increase of 9.2% over 2020.

The overall price of phosphate fertilisers continued to ratchet up in 2021. In the first half of the year, driven by export demand as well as the demand from domestic spring farming, the export volume and price simultaneously increased. The tight supply also boosted the prices to rise. It is worth noting that the DAP price reached RMB3,500 per tonne in June. In the second half of the year, the market price stayed steadily at high levels as underpinned by factors such as strong international demand, deficient supply in spot market and support of costs. The price of DAP remained at above RMB3,600 per tonne.

Chemical industry

Although the overall domestic chemical industry has been hard hit by the COVID-19 pandemic, it was, to a certain extent, restored by its promising development momentum in 2021.

Against the backdrop of tight supply of bulk raw materials, natural gas and coal in the international market, the relatively strong demand resonated with the tightened supply. Domestically, under the dual control over energy consumption intensity and volume, the chemicals market continued to grow in line with the increase in coal price, which subsequently returned to be rational and in turn, corrected the prices of chemical products. All in all, the industry experienced a great movement in prices throughout the year.

(1) Methanol

According to industry statistics, the cumulative domestic production volume of methanol was approximately 73.51 million tonnes in 2021, representing a year-on-year increase of approximately 9.4% over 2020. China's import volume of methanol dropped in 2021. The annual import volume for the year decreased by 1.79 million tonnes or 13.8% compared with last year to approximately 11.22 million tonnes.

Compared with 2020, the general business environment in the PRC's methanol industry further improved in 2021, with the methanol price keeping its restorative growth. During the year, the market price was highly volatile. It fluctuated upward from January to October. Under the background of tight coal supply, dual control over energy consumption intensity and volume as well as power rationing, the market price in Southern China topped at RMB4,150 per tonne in mid-October, a new record high for the recent decade. As the tight supply of coal eased, the methanol price rebounded rapidly after mid-October and adjusted to around RMB2,540 per tonne at the end of the year.

▼ CNOOC Tianye methanol plant

(2) POM

According to industry statistics, China recorded a POM output of 340 thousand tonnes in 2021, representing a year-on-year increase of 17%, indicating a significantly strengthened supply capacity.

In 2021, the annual average price of POM in China was RMB18,063 per tonne, representing a year-on-year increase of 51%. The price went upward throughout the year from RMB13,842 per tonne at the beginning of the year to RMB21,991 pe tonne at the end of the year, up by RMB8,149 per tonne on an annual basis.

▲ CNOOC Tianye POM plant

▲ DYK Chemical liquid ammonia tank

Business Review

Production Management

To cope with the COVID-19 impacts, in 2021, the Company further strengthened its management of safety production and pandemic prevention and control. With these efforts, the Company achieved stable performance in safety, environmental protection and pandemic prevention and control. Both the Fudao Phase II urea plant and the Hainan Phase I methanol plant broke the national record of long-term operation with a continuous operation period of 629 days and 674 days, respectively. Meanwhile, in order to realise a robust operation in the future, nine sets of plants commenced planned maintenance works in an orderly manner. In view of enhancing the Company's standard of ESG management, the CNOOC Tianye urea plant and methanol plant suspended production. Due to the above factors, the Company recorded a decrease in the production volumes of urea, methanol and POM while there was an increase in the production volume of phosphate fertilisers. In 2021, the Company produced 2,029 thousand tonnes of urea, 975 thousand tonnes of phosphate and compound fertilisers, 1,398 thousand tonnes of methanol and 31 thousand tonnes of POM.

▼ Production control

Check packing line

Details of production of the Group's plants in 2021 are set out as follows:

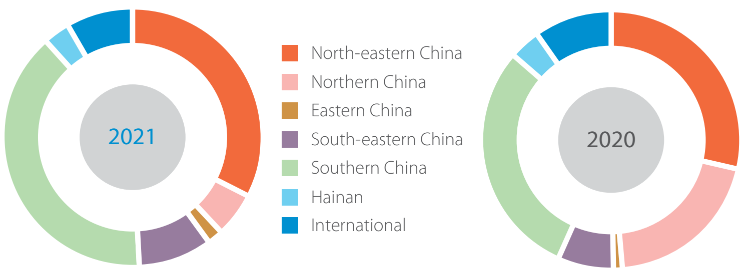
	For the year ended 31 December			
	2021		2020	
	Production *(tonnes)*	Utilisation rate *(%)*	Production *(tonnes)*	Utilisation rate *(%)*
Chemical fertilisers				
Urea				
Fudao Phase I	**611,846**	**117.7**	513,106	98.7
Fudao Phase II	**817,405**	**102.2**	903,261	112.9
CNOOC Tianye	**-**	**-**	557,344	107.2
CNOOC Huahe	**599,630**	**115.3**	646,948	124.4
Group total	**2,028,880**	**86.0**	2,620,659	111.0
Phosphate Fertilisers and Compound Fertilisers				
DYK MAP	**67,834**	**45.2**	56,830	37.9
DYK DAP Phase I (Note)	**311,678**	**89.1**	306,001	87.4
DYK DAP Phase II	**595,458**	**119.1**	552,186	110.4
Group total	**974,970**	**97.5**	915,017	91.5
Chemical products				
Methanol				
Hainan Phase I	**583,430**	**97.2**	602,842	100.5
Hainan Phase II	**814,818**	**101.9**	849,460	106.2
CNOOC Tianye	**-**	**-**	109,901	55.0
Group total	**1,398,248**	**87.4**	1,562,203	97.6
POM				
CNOOC Tianye POM	**30,967**	**77.4**	37,594	94.0
Group total	**30,967**	**77.4**	37,594	94.0

Note: In 2021, DYK DAP Phase I Plant produced 30,686 tonnes of DAP and 280,992 tonnes of compound fertilisers, respectively, amounting to 311,678 tonnes in total. 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.

Methanol lading

Sales Management

In 2021, by grasping the favourable opportunities brought about by the generally strong domestic fertiliser and methanol markets, the Company managed to surpass the scheduled sales progress of compound fertilisers and reduce the inventories to the lowest level for the recent three years. With precise market study and analysis, promotion of scientific and refined product pricing and further enhancement of brand value, the Company generally achieved its target position as a price leader for its key products among industry peers in the same regions. The Company completed the construction of e-commerce and logistics platforms for trading all of its self-produced products online. In line with the production volume, sales volume of the Company's self-produced urea, methanol and POM declined while that of phosphate and compound fertilisers remained stable basically in 2021. The Company sold 1,988 thousand tonnes of urea, 1,367 thousand tonnes of methanol, 972 thousand tonnes of phosphate fertilisers and compound fertilisers and 31 thousand tonnes of POM. During the year, the Company exported a total of 164 thousand tonnes of urea and 120 thousand tonnes of DAP.

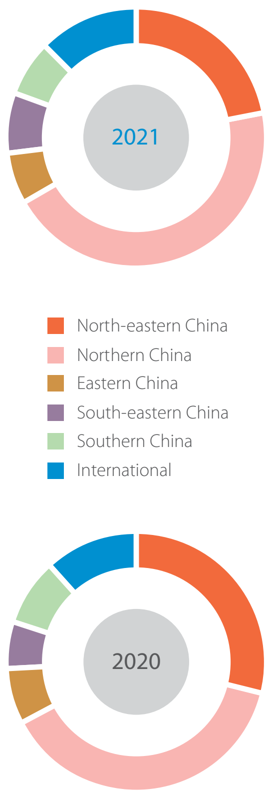


Urea

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			
	2021		2020	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**650,438**	**32.7**	739,195	28.8
Northern China	**107,872**	**5.4**	514,335	20.0
Eastern China	**37,688**	**1.9**	26,573	1.0
South-eastern China	**182,760**	**9.2**	179,574	7.0
Southern China	**779,779**	**39.2**	763,201	29.8
Hainan	**66,016**	**3.3**	95,219	3.7
International	**163,831**	**8.2**	248,728	9.7
Total	**1,988,384**	**100.0**	2,566,825	100.0

Urea outbound



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			
	2021		2020	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	214,042	22.0	285,178	29.0
Northern China	435,523	44.8	376,969	38.3
Eastern China	62,382	6.4	69,499	7.1
South-eastern China	73,573	7.6	56,571	5.7
Southern China	65,897	6.8	81,326	8.3
International	120,311	12.4	113,879	11.6
Total	971,727	100.0	983,422	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			
	2021		2020	
Sales region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	-	-	48,921	3.2
Northern China	-	-	35,773	2.3
Eastern China	198,145	14.5	178,217	11.5
South-eastern China	81,772	6.0	79,750	5.2
Southern China	979,357	71.7	1,077,683	70.0
Hainan	105,316	7.7	111,819	7.3
International	1,991	0.1	7,965	0.5
Total	1,366,581	100.0	1,540,128	100.0

Ship shore check

▲ Work zone of Basuo port

BB Fertilisers

In 2021, the Group produced a total of 39,825 tonnes of BB fertilisers and achieved a sales volume of 38,816 tonnes.

Sea-land logistics services

In 2021, Basuo Port in Hainan completed a volume of throughput of 12.31 million tonnes.

CNOOC Huahe urea plant

Financial Review

Revenue

During the reporting period, the Group's revenue was RMB13,398.0 million, representing an increase of RMB2,980.5 million, or 28.6%, from that of RMB10,417.5 million in the same period of 2020. This was primarily attributable to the year-on-year significant increase in the selling prices of urea, methanol and phosphate and compound fertilisers of the Group.

During the reporting period, the Group realised an external revenue from urea of RMB4,352.9 million, representing an increase of RMB297.8 million, or 7.3%, from that of RMB4,055.1 million in the same period of 2020. This was primarily attributable to (1) an increase of RMB609.3 per tonne in the selling price of urea, which resulted in an increase in revenue of RMB1,211.6 million; and (2) a decrease of 578,441 tonnes in the sales volume of urea, which resulted in a decrease in revenue of RMB913.8 million that partially offset the above increase.

During the reporting period, the Group realised an external revenue from phosphate and compound fertilisers of RMB2,814.9 million, representing an increase of RMB709.9 million, or 33.7%, from that of RMB2,105.0 million in the same period of 2020. This was primarily attributable to (1) an increase of RMB756.3 per tonne in the selling price of phosphate and compound fertilisers, which resulted in an increase in revenue of RMB734.9 million; and (2) a decrease of 11,694 tonnes in the sales volume of phosphate and compound fertilisers, which resulted in a decrease in revenue of RMB25.0 million that partially offset the above increase.

During the reporting period, the Group realised an external revenue from methanol of RMB3,213.1 million, representing an increase of RMB881.5 million, or 37.8%, from that of RMB2,331.6 million in the same period of 2020. This was primarily attributable to (1) an increase of RMB837.3 per tonne in the selling price of methanol, which resulted in an increase in revenue of RMB1,144.2 million; and (2) an decrease of 173,547 tonnes in the sales volume of methanol, which resulted in a decrease in revenue of RMB262.7 million that partially offset the above increase.

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 RMB3,017.2 million, representing an increase of RMB1,091.4 million, or 56.7%, from that of RMB1,925.8 million in the same period of 2020. This was primarily attributable to (1) the combined effect of the increase in selling price and decrease in sales volume of POM during this year, which resulted in an increase in revenue of RMB98.3 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 RMB1,023.3 million from the trading business this year as compared to last year; (3) an increase of RMB4.9 million in the revenue from BB fertilisers which was mainly caused by the combined effect of higher selling prices and lower sales volume; (4) a decrease of RMB22.4 million in revenue due to the throughput of Basuo Port; and (5) a decrease of RMB12.7 million in revenue from the sales of liquid ammonia, formaldehyde, and carbon dioxide.

Cost of sales

During the reporting period, the Group's cost of sales was RMB10,461.6 million, representing an increase of RMB1,377.8 million, or 15.2%, from that of RMB9,083.8 million in 2020.

During the reporting period, the Group's cost of sales for urea was RMB3,215.9 million, representing an increase of RMB7.6 million, or 0.2%, from that of RMB3,208.3 million in 2020. This was primarily attributable to (1) factors including the increase in raw material prices, which resulted in a year-on-year increase of RMB730.6 million in the cost of sales; (2) a year-on-year decrease of 578,441 tonnes in the sales volume this year, which resulted in a decrease in cost of RMB723.0 million.

During the reporting period, the Group's cost of sales for phosphate and compound fertilisers was RMB2,424.7 million, representing an increase of RMB468.0 million, or 23.9%, from that of RMB1,956.7 million in 2020. This was primarily attributable to (1) the increase 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 increase of RMB491.3 million in the cost of sales; and (2) a decrease of 11,694 tonnes in the sales volume of phosphate and compound fertilisers, which resulted in a decrease of RMB23.3 million in the cost of sales.

During the reporting period, the Group's cost of sales for methanol was RMB2,093.3 million, representing a decrease of RMB87.3 million, or 4.0%, from that of RMB2,180.6 million in 2020. This was primarily attributable to (1) a decrease of 173,547 tonnes in the sales volume of methanol, which resulted in a decrease of RMB245.7 million in the cost of sales; and (2) the suspension of operation of the production plants for overhaul during the year, as well as the slight increase in natural gas prices, which resulted in an increase of RMB158.4 million in the cost of sales.

During the reporting period, the Group's cost of sales for other segments was RMB2,727.7 million, representing an increase of RMB989.4 million, or 56.9%, from that of RMB1,738.2 million in 2020. This was primarily attributable to (1) an increase of RMB983.5 million in the cost of the trading business; and (2) the combined effect of the increase in raw material prices and the decrease in sales volume of POM during this year, which resulted in an increase of RMB29.7 million in the cost of sales; and (3) a year- on-year decrease of RMB23.8 million in the cost of sales for BB fertilisers and liquid ammonia.

Gross profit

During the reporting period, the Group's gross profit was RMB2,936.4 million, representing an increase of RMB1,602.7 million, or 120.2%, from that of RMB1,333.7 million in 2020. This was primarily attributable to (1) the significant increase in the selling price of methanol in 2021, which exceeded the increase in costs, resulting in an increase of RMB968.7 million in the gross profit from methanol; (2) the significant increase in the price of urea in 2021, which exceeded the increase in costs, resulting in an increase of RMB290.1 million in the gross profit from urea; (3) the significant increase in the price of phosphate and compound fertilisers, which exceeded the increase in costs, resulting in an increase of RMB241.9 million in the gross profit; (4) the significant increase in the price of POM, which exceeded the increase in costs, resulting in a year-on-year increase of RMB68.6 million in the gross profit; (5) an increase of RMB39.8 million in the gross profit from the trading business; (6) an increase of RMB41.3 million in the gross profit from other segments; and (7) a year-on-year decrease of RMB47.7 million in the gross profit from Basuo Port due to the year-on-year increase in the costs of throughput.

Other income

During the reporting period, the Group's other income was RMB110.0 million, representing a decrease of RMB15.8 million, or 12.6%, from that of RMB125.8 million in 2020. This was primarily attributable to the year-on-year decease of RMB16.9 million from the profit from the trading of methanol and the maintenance service of CNOOC Tianye and the sales of waste rocks of DYK Chemical.

Other gains and losses, net

During the reporting period, the Group's other gains and losses, net were RMB-3.6 million, representing a decrease of RMB57.8 million, or 106.6%, from RMB54.2 million in 2020. This was primarily attributable to (1) a year-on-year decrease of RMB44.5 million in the interests from wealth management products; (2) a year-on-year decrease of RMB30.9 million in the gain on disposal of fixed assets; and (3) the compensations for demolition of the east wall of the living area of CNOOC Tianye, which increased the gains by RMB12.5 million.

Selling and distribution expenses

During the reporting period, the Group's selling and distribution expenses amounted to RMB118.5 million, representing a decrease of RMB64.6 million, or 35.3% from that of RMB183.1 million in 2020. This was primarily attributable to (1) a year-on-year decrease of RMB77.9 million in commission charges, inspection charges and other direct selling expenses due to the overall decrease in sales volume during the year; and (2) a year-on-year increase of RMB13.3 million in sales agent fees.

Administrative expenses

During the reporting period, the Group's administrative expenses amounted to RMB542.3 million, representing an increase of RMB109.7 million, or 25.4%, from that of RMB432.6 million in 2020. This was primarily attributable to (1) an increase of RMB83.5 million in staff costs; (2) a year-on-year increase of RMB7.4 million in depreciation and amortisation charges; (3) a year-on-year increase of RMB11.3 million in consultation fees, health, safety and environmental protection fees and other fees; (4) a year-on- year increase of RMB3.2 million in expenditures for technology research; and (5) a year-on-year increase of RMB4.3 million in property tax, land use tax and other taxes.

Other expenses

During the reporting period, the Group's other expenses amounted to RMB358.9 million, representing an increase of RMB330.5 million, or 1,163.7%, from that of RMB28.4 million in 2020. This was primarily attributable to (1) the provision of RMB308.4 million for the employee severance costs of CNOOC Tianye; (2) an increase of RMB9.6 million in bank handling fees and interest expenses on discounting bills; and (3) an increase of RMB17.5 million in the expenses incurred for the retirement and disposal of inefficient and ineffective assets.

Finance income and finance costs

During the reporting period, the Group's finance income amounted to RMB372.7 million, representing an increase of RMB100.1 million, or 36.7%, from that of RMB272.6 million in 2020. This was primarily attributable to the addition of large-denomination certificate of deposits and fixed deposits with principal amount of RMB2,300.0 million by the Group in 2021, which resulted in an increase of RMB86.9 million in finance income.

During the reporting period, the Group's finance costs were RMB50.6 million, representing a decrease of RMB25.4 million, or 33.5%, from that of RMB76.0 million in 2020. 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 gain of RMB0.4 million, as compared to a net exchange loss of RMB13.2 million in 2020, representing a difference of RMB13.6 million. This was primarily attributable to the decrease of exchange losses arising from the Group's foreign exchange transactions as the group reduced its export business and adopted the spot settlement policy for foreign exchange collection in 2021.

Impairment loss on assets

During the reporting period, the Group recognised an impairment loss on assets of RMB304.3 million, primarily attributable to: (1) the recognition of impairment of RMB222.1 million on the fixed assets of CNOOC Tianye; (2) the recognition of impairment of RMB78.5 million on the construction in progress of CNOOC Tianye; (3) the recognition of impairment of RMB1.9 million on the investment properties of DYK Chemical; and (4) the recognition of impairment of RMB1.8 million on the equity investment in Inner Mongolia Hong Feng Packaging Co., Ltd. of CNOOC Tianye.

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 RMB3.3 million, representing an increase of RMB2.9 million as compared to the share of loss of associates and joint ventures of RMB0.4 million in 2020. This was primarily attributable to (1) a year-on-year increase of RMB0.5 million in the share of profit of CBC (Canada) Holding Corp. recognised during the year; (2) an increase of RMB2.9 million in the share of profit of United Wealthfert Co., Ltd. recognised during the year; (3) a year-on-year increase of RMB0.6 million in the share of profit of Guizhou Jinlin Chemical Co., Ltd. recognised during the year; and (4) a year-on-year decrease of RMB1.1 million in the share of profit of China Basuo Overseas Shipping Agency Co., Ltd. and Inner Mongolia Hong Feng Packaging Co., Ltd. recognised during the year.

Income tax expenses

During the reporting period, the Group's income tax expenses were RMB1,000.2 million, representing an increase of RMB725.7 million, or 264.4% from that of RMB274.5 million in 2020. This was primarily attributable to (1) a corresponding increase in income tax expenses for the current period as the Group recorded a year-on-year increase in profit before tax for the year; and (2) the increase in reversal of deferred income tax assets provided by CNOOC Tianye, a subsidiary of the Company, in prior years.

Net profit for the year

During the reporting period, the Group's net profit was RMB1,641.4 million, representing an increase of RMB862.3 million as compared to that of RMB779.2 million in 2020.

Dividends

The board of directors of the Company (the "Board") recommended the payment of a final dividend for 2021 in the amount of RMB714.6 million, or RMB0.155 per share. The proposed final dividend for 2021 will be subject to the approval by the shareholders of the Company at the 2021 annual general meeting.

Capital expenditure

During the reporting period, the Group's total capital expenditure for the year amounted to RMB1,825.0 million, including RMB1,574.0 million for oil refining and chemicals projects, RMB112.7 million for environmental management, energy conservation and low carbon projects, RMB73.5 million for base construction (production accessories) projects, RMB13.9 million for mining projects, RMB21.9 million for information system construction projects, RMB25.2 million for technology research (capital expenditures) projects, RMB3.8 million for office equipment project, and RMB2.9 million for charitable projects.

Key projects mainly included: (1) the chemical project in respect of acrylonitrile in the amount of RMB1,467.7 million; (2) the chemical project in respect of DYK Chupi Mountain Phosphogypsum Dry Slag Yard Project (Phase I) in the amount of RMB59.6 million; and (3) the chemical project in respect of Fudao Phase I Desalinated Water and Raw Water Modification in the amount of RMB19.8 million.

Pledge of assets

During the reporting period, the Group did not pledge any property, plant and equipment 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 2021 (calculated as interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities) was 5.8%, representing a decrease of 5.4% compared to 11.2% as at 31 December 2020, which was primarily attributable to the increase in the Company's capital by RMB1,286.5 million during the reporting period and the decrease in its lease liabilities, obligations under finance leases and interest-bearing bank borrowings by RMB932.2 million as compared to last year.

Welding operation

Cash and cash equivalents

At the beginning of 2021, the Group had cash and cash equivalents of RMB2,765.4 million. In 2021, the net cash inflow from operating activities was RMB2,938.7 million, the net cash outflow from investing activities was RMB3,662.7 million, the net cash outflow from financing activities was RMB1,366.7 million, and the decrease from the effect of foreign exchange rate changes on cash and cash equivalents was RMB0.2 million. As at 31 December 2021, the Group's cash and cash equivalents were RMB674.4 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 2021, the Group had 4,663 employees. The aggregate of employees' wages and allowances for 2021 was approximately RMB797.1 million. The Group has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Group effectively provides incentive to its staff. The Group determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company strictly implemented its annual training plan and recorded a total of 386,736 enrolments with a total of 434,452.76 training hours (including online training). The Company also organised 11,915 courses on safety training (on-site safety education and three-level safety training with contractors attended), internet safety training and external training with a total of 161,326 enrolments and 572,138 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 6.3498 and 6.5713. 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 2021, the balance of the Group's deposits in USD was US$0.27 million.

Inflation and currency risk

According to data of National Bureau of Statistics of China, the consumer price index of the PRC increased by 0.9% 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 2021, based on the carrying amount of borrowings as shown in the financial statements, the Group's borrowings in the amount of RMB447.8 million would become due within one year. The Group has sufficient capital and is not exposed to liquidity risk.

Subsequent events

Subsequent to the end of 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, the transaction was completed in the reporting period.

Sector Outlook

Looking forward to 2022, China will adhere to its economic development principle of seeking progress while maintaining stability under the triple pressures of contracting demand, supply shocks and weakening expectations. With respect to the fertilisers industry, players will strive to achieve green development and transformation upgrade under the dual goals of carbon peaking and carbon neutrality, by holding stability while pursuing a progressive development. The intensifying market competition and stricter environmental standards will further promote integration in the domestic fertilisers industry. As the production cost has been inflated, fertiliser prices are expected to remain at high levels. In respect of methanol, with the slowdown of new methanol production capacity, the relatively stable demand in the methanol-to-olefins and traditional downstream methanol industries and the increasing demand from wider applications of new energy-related fine chemicals, it is expected to present a price fluctuation in market prices throughout the year 2022.

Our Key Tasks in 2022

1. To further enhance our HSE and refined production management and proactively achieve the Company's initiative in respect of carbon peaking and carbon neutrality amid the impacts and uncertainties of the COVID-19 pandemic;

2. To further deepen the marketing reform through digital means so as to stimulate expansion of trade, coordination of resources and brands, as well as realisation of marketing value in a wider area and at a deeper level;

3. To further strengthen lean management to form an optimal inventory structure with economic efficiency;

4. To ensure the success of trial operation of the acrylonitrile project and get well-prepared for production and sales;

5. To seize the opportunities arising from the construction of Hainan Free Trade Port and push forward the development of the petrochemical wharf project;

6. To vigorously promote technology innovation, enter into technological cooperation focusing on the efficient utilisation of CO_2-rich natural gas conversion and the extension of acrylonitrile downstream industry chain, and explore opportunities for new projects;

7. To systemically promote digital transformation and smart development; and

8. To increase efforts in exploring opportunities for corporate development and accelerate the study on key projects.

CNOOC Huahe urea plant

Environmental, Social and Governance Report

DYK Chemical NPK plant

Introduction

Under Appendix 27 - Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), China BlueChemical Ltd. (the "Company") and its subsidiaries (collectively, the "Group" or "we") are pleased to present the Environmental, Social and Governance Report (the "Environmental, Social and Governance Report" or "ESG Report") for the year ended 31 December 2021 (the "Reporting Period").

Governance Structure

The Board of Directors (the "Board") of the Group accepts responsibility for the environmental, social and governance ("ESG") strategies and reports. The Board is also responsible for identifying and assessing the risks potentially arising during the course of governance and ensuring that the Group has already had appropriate and effective ESG risk management and internal monitoring systems in place. During the Reporting Period, we set a long-term objective, which is to incorporate sustainability into the Group's business development strategies. To this end, the Group has put in place an effective ESG internal control system and taken reasonable risk management steps to embed the ESG concept into our cultural system with the aim of communicating the concept of sustainability to our staff. Having reviewed the subject matters of the KPI indicators in the area of corporate environment (such subject matters relating to the business of the Company), the Board formulated the corresponding targets in respect of the key energy conservation and emission reduction indicators (including pollutant emissions, energy conservation and water saving) and the steps to achieve them, and approved, closely followed up and monitored the progress of the targets by means of meetings and reporting. It is the belief of the Group that sustainable corporate development is not limited to the endeavours to create the greatest benefits for all stakeholders, and sound corporate governance, emphasis on corporate social responsibility, compliance with the environment protection laws and regulations and always upholding the concept of environment protection, etc. are also the key factors for sustainable development. Accordingly, the Group's business activities of manufacturing and selling urea, phosphate fertilisers, methanol and POM, etc. and other operations conducted in Hainan Province, Hubei Province, Heilongjiang Province and the Inner Mongolia Autonomous Region have been strictly in compliance with the relevant laws and regulations, employment provisions and environment protection policies.

Reporting Principles

The Group prepared, assessed and presented the relevant information set out in this report in accordance with the ESG Reporting Guide. The following principles summarised in the ESG Reporting Guide have been incorporated in this report.

1. Materiality: The Group identified the material factors through the Board's review and consideration procedures according to the criteria at which ESG issues have material impacts on investors and other stakeholders, and authorized the management to identify significant stakeholders and which entities and operations are included in this report.

2. Quantitative: The ESG targets identified by the Group should be measurable to facilitate the comparison against those in previous years, competitors and industry standards. Emissions are calculated pursuant to the Guidelines for Accounting Method and Reporting Greenhouse Gas Emissions for China Chemical Production Enterprises (Trial); and energy consumption is calculated pursuant to the General Principles for Calculation of Total Production Energy Consumption (GB/T 2589-2020), the Energy Consumption Limit per Unit Product of Synthetic Ammonia (GB 21344-2015), the Energy Consumption Limit per Unit Product of Urea (GB 32035-2015) and the Energy Consumption Limit per Unit Product of Methanol – Part 2: Natural Gas-Derived Methanol (GB 29436.2-2015).

3. Balance: The information set out in this report shall provide an unbiased picture of the Group's ESG performance and should avoid any selection, omission or presentation format that may inappropriately mislead stakeholders in their decision making or judgement process.

4. Consistency: The assumptions and calculation methods adopted in any KPI should be consistent with those adopted in previous years to ensure effective comparisons of the relevant data. If there is any change of the relevant assumptions or calculation methods, clear disclosure should be made to stakeholders.

Stakeholders' engagement

To formulate the prevailing and future sustainable development strategies of the Group, we must understand stakeholders' views on and expectations for the development and success of the Group so as to facilitate us to assess the potential impacts of our future business activities on the environment and society.

Stakeholders' Engagement		**Major Concerns**	**Major Channels of Communication**
Internal stakeholders	Shareholders and investors	Returns on investments	Periodic reports
		Profitability and financial stability and sustainability	Annual general meetings
		Information disclosure and transparency	Corporate website and email
	Employees	Employees' remuneration and benefits	Regular meetings and training
		Satisfaction with healthy and safe working environment	Performance appraisal
		Career development and training opportunities	Team building activities
External stakeholders	Customers	Quality products and services	Customer service hotline and email
		Protection of customer privacy and interests	Face-to-face discussions and on-site inspections
		Business ethics	Customer satisfaction survey
	Suppliers	Fair, public and impartial procurement	Public tender
		Win-win cooperation	Standardised procurement procedures
		Environmental protection	Face-to-face discussions and on-site inspections
			Industry seminars
	Professional institutions	Environmental protection and social responsibility	Questionnaires and online participation
		Regulating staff conduct and business practices	Telephone discussions
	Government and regulatory authorities	Compliance with laws, regulations and national policies	Monitoring compliance with relevant laws and regulations
		Occupational health and safety	Regular reports and tax payment
		Welfare of people	
		Employment condition	

CNOOC Fudao plant

Environment

The Company has all along insisted on adopting an investment decision-making mechanism which prioritises ecological protection over economic gains aside with the aim of building itself into a "green chemical enterprise". In active response to the call of its stakeholders for environmental protection, the Company took various measures to conserve energy and reduce emissions, as well as strengthen the compliance management of the Company's environmental protection work, while exploring a new green development model enabling a win-win situation for production and operations and ecological environment protection. In 2021, as the Company continued to press ahead with its green and low-carbon development strategy, it maintained its leading position in terms of energy efficiency with its ammonia and methanol production plants honoured as the "Leading Enterprises in Energy Efficiency" by the Ministry of Industry and Information Technology. The Company has been awarded the "Benchmark Enterprise of Leading Energy Efficiency" for ten years in a row and recognised as the "Leading Enterprise in Water Efficiency" for the first time by the China Petroleum and Chemical Industry Federation. In the meanwhile, the Company has also been granted the title of "Leading Enterprise in Water Efficiency" for two consecutive years and the "Leading Unit in Energy Conservation and Emission Reduction" for many years in a row by the China Nitrogen Fertilizer Industry Association.

▲ DYK Chemical plant

Emission and its management

The Company uses natural gas and coal as raw materials to generate urea and methanol, and uses phosphate ores, sulphur and ammonia as raw materials to produce ammonium phosphate (MAP and DAP) and compound fertilisers. The production process mainly gives off exhaust gases such as CO_2, SO_2 and NO_X, chemical oxygen demand (COD) of industrial wastewater, and solid wastes such as coal ashes, as well as hazardous solid wastes including catalysts and radioactive materials (cobalt and cesium) used in production. The Company strictly abides by the relevant environmental protection laws and regulations of the PRC and endeavours to ensure clean production. We are actively engaged in pollution prevention and control to minimise environmental impacts. In 2021, the allowable pollutant emissions of the Company were 2,699.34 tonnes of SO_2, 2,962.14 tonnes of NO_X, 120.698 tonnes of COD and 17.4 tonnes of NH_3-N, whilst the actual emissions were 555.4 tonnes of SO_2, 962.88 tonnes of NO_X, 56.88 tonnes of COD and 1.54 tonnes of NH_3-N, which were all controlled within the range of the allowable emissions. As compared with the previous year, the actual emissions of the four wastes for the current year declined by 26.5%, 43.1%, 18.6% and 169.7%, respectively. The Company expects that from 2022 to 2025, the growth rate of the exhaust gas and wastewater emissions will not be higher than the growth rate of business revenue

Management of exhaust gas and reduction of greenhouse gases

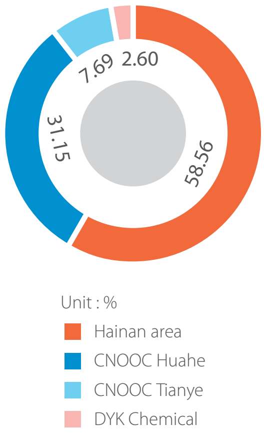
The Company strictly complies with the applicable laws, regulations and standards, including Atmospheric Pollution Prevention and Control Law of the PRC, Integrated Emission Standard of Air Pollutants as well as Emission Standards of Air Pollutants for Thermal Power Plants, with all our production plants having satisfied the standards of SO_2 and NO_X emissions under the national environmental protection requirements. By focussing on the major environmental protection projects such as the fumes control for coal-fired furnaces, our atmospheric pollutant emissions were significantly reduced.

As part of the initiatives to promote "carbon peak" and "carbon neutrality", the Company vigorously developed the carbon emission management strategy and commenced the review of historical data on carbon emissions. DYK Chemical took the lead to engage in carbon trading starting from 2017 and the carbon contract for the current year was fulfilled on 22 November 2021 with the volume of carbon traded under the contract being 135,802 tonnes. Since 2017, the Company has completed the contracts involving 749,206 tonnes of carbon emissions in aggregate and it has been the fifth year in a row for the Company to have fulfilled its contractual obligations in carbon trading. In 2021, CNOOC Fudao continued to work with a cold energy utilisation company to push through the sales arrangement in relation to a joint development project of CO_2, under which it was targeted to reduce CO_2 emission through the export of dry ice to facilitate the achievement of the "carbon neutrality" objective. In 2021, the production and sales of liquid CO_2 amounted to 7,986.3 tonnes, thereby reducing greenhouse gases emission. The Company's planned annual carbon emission and planned annual carbon intensity per unit of the total industrial output value (in terms of comparable price) for 2021 were 6,490,000 tonnes and 6.43 tonnes of CO_2/RMB 10,000, respectively, whilst the actual CO_2 emission was 5,549,400 tonnes (not audited by a third party), down approximately 17.57% from the same period of last year. In particular, the direct CO_2 emission (including emissions from the industrial production process and combustion emissions from fossil fuels) amounted to 5,128,400 tonnes, the indirect CO_2 emission (emissions from the net power and heat energy purchases) amounted to 429,000 tonnes and the annual carbon intensity per unit of the total industrial output value (in terms of comparable price) amounted to 5.87 tonnes of CO_2/RMB 10,000, approximately 8.62% lower than those in the same period of last year. Among the emission output, 3,238,600 tonnes were attributable to Hainan area, accounting for 58.56% of the total, which was followed by 7.69% from CNOOC Tianye, 2.60% from DYK Chemical and 31.15% from CNOOC Huahe. See the table below for details.

Entity	CO_2 Emission Amount	
	10,000 tonnes	Percentage
Hainan area	323.86	58.56%
CNOOC Tianye	42.55	7.69%
DYK Chemical	14.37	2.60%
CNOOC Huahe	172.29	31.15%
Total	553.07	100.00%

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

Percentage of carbon emission of the Company in 2021



Installation of windproof and dust suppression net

Wastewater management

In compliance with the requirements under 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 put in place stringent treatments for its industrial and domestic sewage to ensure compliant discharge and emission and raise the efficiency of recycling wastewater, which reduced wastewater emission.

In 2021, the efficiency of recycling wastewater of the Company significantly improved, thereby reducing the discharge of wastewater. Under the Sewage Treatment Service Agreement between CNOOC Fudao and SUEZ NWS Environmental Management Hainan Company, a professional firm in environmental protection, the latter was engaged to be fully responsible for the overall operation and maintenance of the sewage treatment plant, as well as the undertaking the sewage treatment upgrade and renovation project of the CNOOC Fudao. Wastewater produced by DYK Chemical was recycled and reused with the tailings pool wastewater achieving 100% treatment and use of recycled water through the water filtering and purification plant, which in turn reduced the use of fresh water in each plant. In 2021, the Company discharged an aggregate of COD and NH_3-N amounted to 56.88 tonnes and 1.54 tonnes, respectively.

Disposal of solid wastes

The Company attaches immense importance to the generation and disposal of hazardous and non-hazardous wastes and complies strictly with the requirements under, amongst others, the Standards for Pollution Control on Storage and Disposal Sites for General Industrial Solid Wastes, the Standards for Pollution Control on Hazardous Waste Storage. A phosphogypsum filtering plant was established and processed 8,525 tonnes of phosphogypsum into phosphogypsum-based materials for integrated use, which laid a foundation for the integrated use of phosphogypsum in the next step. The Company adopted the resource reuse approach in disposing of solid wastes. For example,an aggregate of 196,000m^3 of phosphogypsum were used as a material for dam construction. In 2021, the hazardous waste produced by the Company amounted to approximately 56,210.38 tonnes in aggregate, of which 56,210.38 tonnes were disposed of in a professional manner by the processors with the national environmental protection accreditations commissioned by the Company with the safe treatment and disposal rate reaching 100%. Based on the characteristics of the Company's production, the production volume of solid wastes is uncertain, and it is difficult to set a clear production reduction target, but the Company will continue to carry out safe treatment and disposal to maintain the safe treatment and disposal rate at 100%.

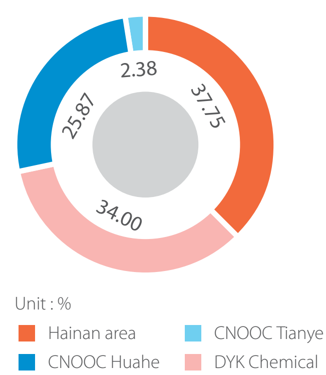
Use of resources

The Company is committed to conserving energy and resources and developing circular economy. In strict accordance with the requirements under the Energy Conservation Law of the People's Republic of China, various management systems were formulated, such as the Administrative Measures for Energy Conservation and Emission Reduction, the Implementation Rules for Monitoring and Controlling Energy Conservation and Emission Reduction and the Implementation Rules for Water Conservation Control. The Company currently has in place a management authority designated for energy saving and emission reduction, which have imposed quotas on energy consumption and incorporated criteria of energy conservation and emission reduction into the scope of the annual appraisal. The Company has also established an energy-saving and carbon-reduction steering body to coordinate energy-saving and emission and carbon-reduction efforts.

In 2021, the Company consumed an aggregate of 84,609 tonnes of woven bags, of which approximately 31,940.28 tonnes or 37.75% were attributable to Hainan area, followed by CNOOC Tianye (2.38%), DYK Chemical (34.00%) and CNOOC Huahe (25.87%). See the table below for details.

Company	Woven bags (Total volume) Tonnes	Woven bags Percentage
Hainan area	31,940.28	37.75%
CNOOC Tianye	2,014.10	2.38%
DYK Chemical	28,768.07	34.00%
CNOOC Huahe	21,886.56	25.87%
Total	84,609.00	100.00%

Percentage of Woven bags consumption of the Company in 2021



Use of energy

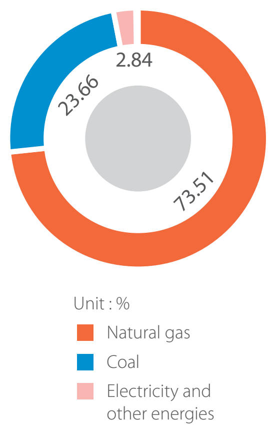
The energy used by the Company mainly includes, amongst others, natural gas, coal and electricity. In 2021, the Company's comprehensive energy consumption amounted to 3,487,549.57 tonnes of standard coal, of which the natural gas consumption amounted to 3,334.6522 million Nm^3, accounting for 73.51% of our total energy consumption; the coal consumption amounted to 1,121,510.15 tonnes, representing 23.66% of our total energy consumption; and the electricity and others accounted for 2.84% of our total energy consumption.

Type of energy	Unit	Actual consumption	Standard coal equivalent (Tonnes of standard coal)
Cleaned coal	Tonne	644,876.59	540,342.09
General bituminous coal	Tonne	476,633.56	284,645.56
Natural gas	10,000Nm^3	333,465.22	2,563,647.23
Diesel	Tonne	6.61	9.73
Gasoline	Tonne	1,616.04	2,354.73
Liquefied petroleum gas	Tonne	202.49	347.13
Heat	million KJ	518,056.33	17,665.72
Electric power	10,000kWh	63,928.42	78,568.03
Total	Tonne of standard coal		3,487,549.57

Energy conservation

In 2021, the Company set its carbon emission target at 6,625,935 tonnes of CO_2 with the actual emission being 5,530,817 tonnes of CO_2; the energy conservation target at 20,042 tonnes of standard coal with the actual energy consumption being 46,823 tonnes of standard coal; and the energy consumption target per RMB10,000 of production value at ≤3.55 tonnes of standard coal/RMB10,000 with the actual consumption being 3.27 tonnes of standard coal/RMB10,000. These pre-set targets for carbon emission, energy conservation and energy consumption per RMB10,000 of production value were all achieved. The Company vigorously promoted the use of advanced energy-saving technology, technique and equipment through technological upgrades. In 2021, the Company undertook two projects on energy-saving technological upgrade and one project on contractual energy management. In particular, CNOOC Fudao completed the water circulation revamp (Phase II project) for four facilities, the replacement of four water circulation facilities in total and five water circulation pumps and the revamp of the wind turbine generators and hydro turbines at six cooling towers. According to the data on electricity consumption before and after the revamp, it is estimated that approximately 15.17 million kwh of electricity consumption and approximately RMB9.55 million of tariff could be saved every year after the revamp with the energy conservation and emission reduction reaching 1,865 tonnes of standard coal and 7,998 tonnes of CO_2, respectively, whilst the overall water circulation revamp project (both Phase I and Phase II) could directly contribute to a reduction in energy cost of RMB46.31 million. In the meantime, during the period of the large-scale renovation, CNOOC Fudao commenced the catalyst replacement for three facilities of chemical fertilisers phase II, methanol phase I and methanol phase II and therefore materialised apparent energy consumption. In 2021, the comprehensive energy consumptions per unit product of urea and methanol decreased by 1.1% and 2.07%, respectively, year-on-year, and the gas consumption declined by 80.29 million cubic meters year-on-year.

Percentage of energy consumption of the Company



CNOOC Fudao's energy-saving renovation project of overall circulating water system optimisation

Safety dam

The Company expects that at the end of the 14th Five-Year Plan (2025),the total amount of energy to be saved between 2021 and 2025 will reach 34,844tce, the comprehensive energy consumption in 2025 will be controlled at 4,835,500tce, and the comprehensive energy consumption per RMB10,000 will be below 3.85tce/RMB10,000. To increase the power usage effectiveness, the Company will press ahead with the technical revamp and technological measures for energy conservation and emission reduction as well as project initiatives during the course of the 14th Five-Year Plan. The power usage effectiveness target would be achieved by enhancing the recycling and reuse of the waste heat and pressure (including, among other projects, the recycling of released low-pressure steam at Fudao Phase II methanol plant, the application of the mid-pressure heat-proof flash evaporation technology at the Phase II chemical fertiliser plant, the recycling of exhaust gas and heat from chemical fertiliser turbines at the Phase II chemical fertiliser plant, and the introduction of thermal-electric power cogenerationusing the equivalent thermal resistance at DYK Chemical), increasing the energy effectiveness of electric engines (the upgrade and revamp of energy-intensive electrical engines and frequency converters of DYK Chemical), optimising production and operation through the adjustment to the product structure, and launching the photovoltaic power project (the 5MW distributed photovoltaic power generation project of DYK Chemical).

Comprehensive energy consumption of the Company's major products

Products	Comprehensive energy consumption per unit product (tce/t)	Energy consumption quota (tce/t)
Urea	0.1492	0.1800
Methanol	1.1061	1.5600

Note: Standard of energy consumption quota per unit urea product GB/T 32035- 2015.

Water resources conservation

In 2021, the Company's water conservation target was 164,800 tonnes and the actual amount of water saved was 245,500 tonnes. The Company vigorously promotes water conservation by forging ahead with the technological upgrades for energy conservation and water saving. CNOOC Fudao initiated the energy-saving renovation project of overall circulating water system. CNOOC Fudao Phase II commenced the desalination and reverse osmosis recovery project. Under contracted energy management model which combined more professional energy-saving approach with more advanced technologies, CNOOC Tianye enhanced the operational efficiency of the circulating water pumps by switching to high-efficiency circulating water pumps and high-efficiency electric engines. In 2021, the Company consumed 26,715,277 tonnes of fresh water. The Company successfully obtained and utilised the water sources and caused no significant impacts on the environment or the external world. In 2021, the Company completed CNOOC Fudao's energy-saving renovation project of overall circulating water system and facilitated the DYK Chemical to commence the revamp of the steam turbines installed with circulating sulphuric acid pumps in July 2021, which is expected to be completed in December 2022.

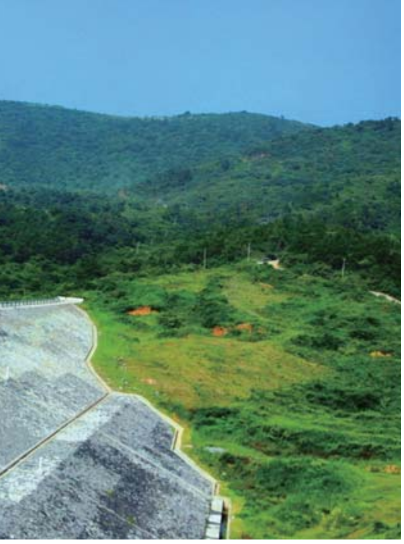
The Company expects that at the end of the 14th Five-Year Plan (2025), the total amount of water to be saved between 2021 and 2025 will reach 283,000tce.To increase the water use performance, the Company will press ahead with the technical revamp and technological measures for water conservation as well as project initiatives during the course of the 14th Five-Year Plan.The water use performance would be enhanced through various technical revamps and technological measures such as recycling and reusing the wastewater produced by two major chemical fertiliser plants of CNOOC Fudao, commencing the integrated water management of DYK Chemical, further reducing one-off water consumption and lowering the cost of reclaimed water treatment, and re-engineering the main circulating water pipelines of syngas compressors of CNOOC Huahe.

Type	Running water	Underground water	Surface water	Total
Freshwater consumption (10,000 tonnes)	530.2998	66.5002	2,074.7277	2,671.5277

Water consumption of the Company's major products

Products	Water Consumption per Unti (t/t)	Water Intake Quota (t/t)
Urea	2.67	3.00
Methanol	4.35	/

Note: Urea water intake quota standard GB/T 18916.27-2017.



Certificate of "Green Product" of DKY Chemical

产品认证证书

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 certification in November 2021, the scope of which was extended from the original compound fertilisers to monoammonium phosphate and diammonium phosphate, by evaluating the Company' products based on four major attributes, namely resources, energy, environment and quality. All of the products already passed all evaluations and were certified as "green products". DKY Chemical also played an active role in revising the industry standards by taking part in the compilation of the industry standards entitled "Technical Specifications for Green Design Product Evaluation on Monoammonium Phosphate and Diammonium Phosphate", which is set to published later, and currently participating in the revisions to the "Energy Consumption Quota per Unit Monoammonium Phosphate Product" numbered GB29138 and the "Energy Consumption Quota per Unit Diammonium Phosphate Product" numbered GB29139.

Environmental protection

The Company established and has continuously improved the Health, Safety and Environment (HSE) management system, and formulated several management regulations, such as the Administrative Measures for Environmental Protection, the Administrative Measures for HSE in Construction Projects and the Administrative Measures for HSE for Contractors.

Plant overhaul

The Quality, Health, Safety and Environment Committee was established, which is responsible for major decision-making in relation to safety and environmental concerns of the Company. The production safety department formulates the general policies for environmental protection and oversees their implementation. All subsidiaries are responsible for the practical execution of environmental protection measures and accountable for the compliance with the same.

The Company earnestly implemented the Environmental Protection Law of the People's Republic of China and its ancillary requirements, and strictly complied with the requirements of concurrent design, construction and introduction of both the environmental protection measures and project construction works. Management initiatives for potential environmental hazards were enhanced in order to control environmental risk exposures in a comprehensive manner.

Green mines

In adherence to our principle of "green development", the Company discharged its responsibility for the restoration and comprehensive management of the geological environment of mines by continuing its initiatives to restore and manage the geological environment of mines. Efforts from all aspects were arranged and coordinated to reinforce the protection of the geological environment of mines. With the effective protection and timely management of the ecological environment of new and operating mines, a new landscape was developed where development and protection were coordinated with each other.

Climate change

Located in Hegang in Heilongjiang Province where the extreme weather conditions such as continual snowstorms and extremely freezing and windy conditions are common, CNOOC Huahe formulated the "Scheme of Production and Anti-Cold Weather in Winter", under which an anti-cold weather emergency group was formed on a team leadership basis to continuously monitor the anti-cold and warming measures taken to ensure the operation of the plants. All staff gave early consideration to all potential areas of risks and took steps to prioritise heating inspection as a key mission to ensure the operation of the plants in winter. These measures have formed a "three-tier gatekeeping" mechanism where individual staff members are responsible for execution, team leaders are responsible for inspection and rectification and the technology team is responsible for review and evaluation. During the non-heating period, heating pipelines which were mis-arranged were upgraded and re-engineered to achieve the effects that no equipment was frozen and damaged, no pipelines were blocked by frozen liquid and no condensate was discharged directly.

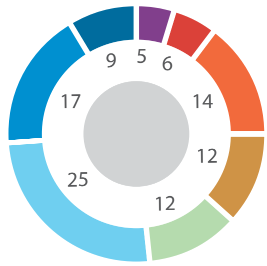
In the future, the extreme weather risk, market risk, compliance risk and other relevant issues arising from climate change may have adverse impact on the Company's operations. As part of the initiatives to promote "carbon peak" and "carbon neutrality", the Company vigorously developed the carbon emission management strategy to cope with such risks.

Society

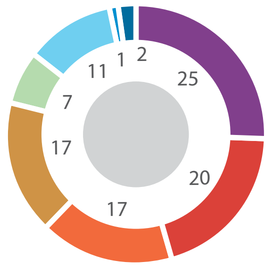
Employment and labour practices

The Company strictly complied with the relevant national employment laws and regulations. In adherence to our principle of being "people-oriented and employee-caring", by pursuing a personnel policy that is scientific, reasonable and highly-efficient, we enhanced the establishment of our talent pool and motivation mechanism. In 2021, in accordance with our principle of "controlling the total volume, making good use of the storage volume while optimising the structure to improve quality", the Company stepped up efforts to continuously improve and optimise our staff structure, functional adjustments, remuneration oversight, performance review and employee training, which provided a solid and secured personnel foundation for the sustainable and steadfast development of the Company.

The percentage of employee distribution by age



The percentage of employee turnover by age

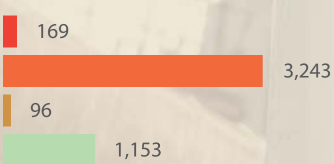


Unit : %

Age 20-25
Age 26-30
Age 31-35
Age 36-40
Age 41-45
Age 46-50
Age 51-55
56 or above

Plant maintenance

Employee distribution by type of employment



Unit : Person

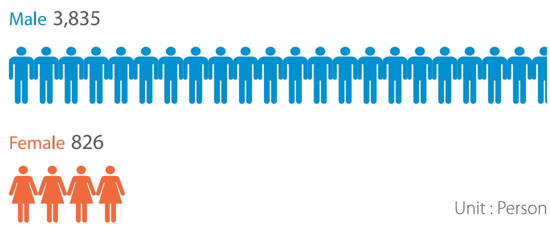
Position contractual basis
Direct employment by holding company
Direct employment via open recruitment
New labour contract basis

Codes on employment and labour

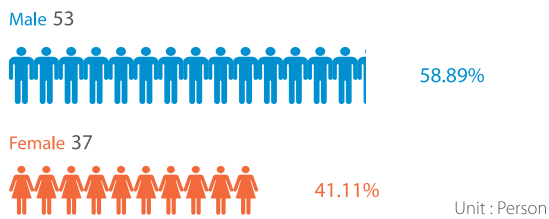
In compliance with the laws and regulations such as the Labour Law, Labour Contract Law, Social Insurance Law, Women's Rights and Interests Protection Law and Provisions on Prohibition of Child Labour of the People's Republic of China, the Company formulated such administrative measures as the Administrative Measures on Employment, the Administrative Measures on Daily Personnel Affairs and the Administrative Measures on Remuneration, whilst 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 labour using or force labour.

The Company provides labour protection for its employees and makes full and timely contributions to each of the social insurance and housing provident funds. Female workers' rights and interests are protected and discrimination of all kinds is strongly opposed. By properly undertaking the pre-employment reference checks, the Company reviewed the backgrounds of all incoming staff members and maintained all documentation in the information system for record-keeping purposes with the aim of firmly keeping the "first gate" of employment. With active promotion of our policies and rules, we set firm boundaries against the use of child labour and force labour and conduct regular inspections to stamp out child labour and force labour, which has formed a routine mechanism to guard the "supervisory gate" during the daily use of labour. A line of defence for staffing was set through strengthening internal training and raising the awareness of legal and regulatory requirements in a bid to hold the "ideological gate" in place for governing the use of labour. The ultimate purpose of these gates is to prohibit the employment of child labour and force labour. Employees are entitled to 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. In addition to financial supports to employees in poverty, we were also concerned about the physical and mental well-being of employees. By enriching employees' afterwork life, solidarity could be created in the enterprise.

Employee distribution by gender

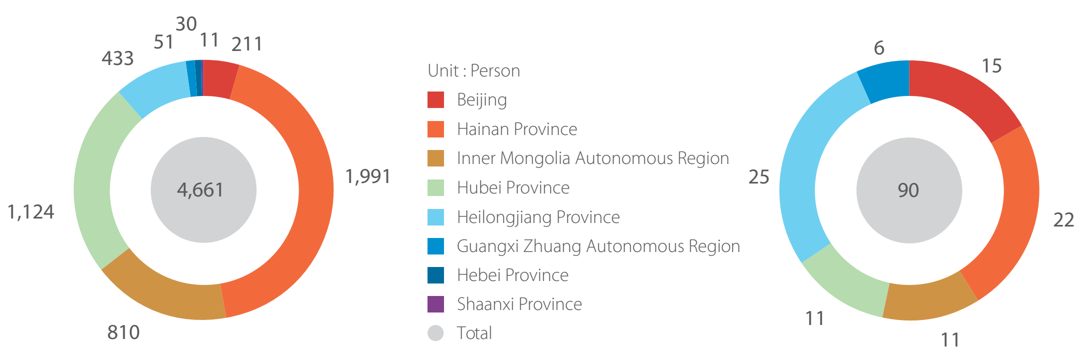


Employee turnover by gender



Employee distribution by geographical region

Employee turnover by geographical region



Note: The statistical measurement is based on direct employment, which refers to the employees who entered into labour contracts directly with the Company.

Health and safety

The Company diligently complied with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and maintained the approach of "Precaution-based Prevention and Control". Accordingly, the Company stepped up efforts to enhance the training on the prevention and control of occupational hazards, to raise employees' awareness of occupational safety and health, to exerciseactive control on the elements leading to occupational hazards, to control and eradicate occupational diseases, and to enhance the management performance of the prevention and control of occupational hazards.The Company also focussed on improving both the working environment and the occupational health of employees by vigorously promoting the knowledge of occupational disease prevention and control, developing the training management system, offering protective facilities and taking dust prevention measures. These produced a remarkable result in preventing and controlling occupational diseases and therefore created a safe and healthy workplace for all employees of the Company. In 2021, a total of 2,558 employees were exposed to occupational disease hazards with the physical examination rate reaching 100%. No case of suspected occupational diseases and confirmed occupational diseases was identified through the occupational physical examination.

The Company actively implemented the prevention and control measures against the COVID-19 epidemic. An anti-epidemic prevention and control leading group and special taskforces were soon set up in the first instance to closely follow up on the epidemic policies and developments, which developed into a standardised management and control system characterised by five major elements, namely well-established structure, systematisation, contingency plans, sufficient resources and available places. By taking project-based controls during the specific periods, holidays and renovation periods, as well as conducting grid unit-based inspections in response to local confirmed cases, the Company combined the standardised and specific prevention and control measures with part of the localised emergency measures dynamically. During the year, a total of 71 epidemic inspections were conducted mainly in the infected areas such as Liu'an in Anhui, Yingkou in Liaoning, Guangzhou in Guangdong, Ha'erbin in Heilongjiang, Nanjing in Jiangsu and Xi'an in Shaanxi and there were more than 660,000 attendances for inspections with no close contact person being identified. Corresponding measures were taken in response to a total of 17 anti-epidemic documents issued by the nation and group companies, which mainly concerned the requirements for the preventive measures and controls against the pandemic formulated by the State and group companies, with the aim of keeping abreast of the epidemic prevention initiatives for the areas of mid-to-high risks. In particular, a total of 55 pandemic updates were published and four pandemic-related documents were issued by the Company during the specific festivals, holidays, Lunar New Year and the heavy security period.

The Company has been highly concerned about production safety and abided by the core values, namely "Safety First, Environmental Protection Supremacy, People-oriented, and Adequate Equipment". The Company continued to enhance various protective facilities to minimise the number of work-related accidents or work injuries. In 2021, the Company actively initiated the three-year action plan on production safety to focus on crucial missions with the six crucial missions all accomplished. We also continued to proceed with the two-pronged controls, namely the classified controls against safety risks and the identification and mitigation of potential risks by prioritising safety risks over potential risks and potential risks over incidents so as to closely monitor major sources of hazards. Other measures taken included continuing to provide safety training, strengthening the safety management of contractors and constantly improving operation management.With the clear definition of position-specific safety duties, the Company facilitated the discharge of the responsibility for production safety. In 2021, the Company recorded nil dangerous chemical leakage accident, fire and explosion accident, environmental pollution accident and other types of liability accidents involving direct losses of more than RMB1 million was recorded. According to industry rules and as required by the Group, the Company mainly adopts OSHA to count the work injury incidents. In 2021, the rate of accidents recorded with the Occupational Safety and Health Administration (OSHA) is 0.04. During the last three years including the reporting period, there was no work-related fatalities.

Development and training

The Company highly regards employee development and training. In 2021, in accordance with a strategic agenda based on the "14th Five-Year" talent development plan and the "3 plus 1" talent project applicable to all group companies, the Company aimed to intensify three institutional reforms, refine the talent nurturing and development mechanism and enhance the comprehensive ability of core talents and senior management staff, which was regarded as the annual working objective. By rolling out a series of measures such as promoting the training responsibility, clearly defining the duties of the management, innovating and changing the training methods and tightening the training evaluation, the Company launched various training activities for the purpose of nurturing three teams of talents

Fire drill

▲ Training in rotation of highly skilled talents on problem analysis and solution

systemically and specifically according to the categories and levels. It was aimed to develop an unrelenting and ambitious management team, nurture a team of professionals with influences on the industry and create a team of operating talents with extraordinary skills in an attempt to solidify a promising organisational structure and manpower support.

During the year, there were a total of 386,736 attendees of the training activities offered by the Company with the total training hours and the average training hours per attendee being 434,452.76 and 91.77, respectively (excluding the safety-related training). If analysed by gender, the male attendees accounted for 81%, who received 94.7 hours of training on average; and the female attendees accounted for 19%, who received 79 hours of training on average. If analysed by type of employment, the top management of the Company accounted for 0.1%, who received 182.9 hours of training on average; the middle management accounted for 1.4%, who received 34.2 hours of training on average; and the general staff accounted for 98.5%, who received 77.8 hours of training on average.The Company had an outstanding performance at the 13th National Petroleum and Chemical Industry Vocational skills Competition. Our chemical control team won the champion and the first runner-up in terms of individual performance, while we received two first prizes and one second prizein the group category. Two staff members were recognised as the national technical experts and six were honoured with the title of technical expert in the national petroleum and chemical industry.

▼ Staff volleyball match

Operating practices

Supply chain management

The Company formulated a supply chain management system comprised of, amongst others, the Administrative Measures for Suppliers and the Implementation Rules for Management of Suppliers to conduct the centralised management of suppliers while allocating responsibilities by levels. The project procurement department is responsible for formulating the supplier management system, while the Company's procurement sharing centre is responsible for developing and maintaining the supplier database, which includes the admission assessment and approval of suppliers, the annual assessment and appraisal, as well as the improvement of the management of the supplier database. The executives assigned by the procurement sharing centre to each subsidiary are specifically responsible for the matters relating to the referral, preliminary review and evaluation of suppliers.

In applying the principle of "management first, engagement later" to its management of suppliers, the Company created a register of qualified suppliers. Suppliers could be added to the register after a procurement contract is concluded or after the necessary assessment is completed in response to a direct application. The registered suppliers could be invited to participate in the Company's procurement of the relevant products falling within their registered categories of products. In 2021, the number of registered suppliers increased by 300, of which 44 are in the Northeast region, 114 are in Northern and Central China, 44 are in Southern China and 98 are in other regions. As at the end of 2021, there were 3,656 existing suppliers on the register of suppliers, of which 360 are in the Northeast region, 1,323 are in Northern and Central China, 772 are in Southern China and 1,201 are in other regions.

Regarding the bidding qualifications and requirements of suppliers, the terms and conditions of bidding were formulated according to specific project requirements to require bidders to provide the qualification certificates as well as supporting materials such as the certificates of green, environmental protection and social credit. At the stage of assessing the qualifications of suppliers, inquiries were conducted in relation to the qualifications, track records, and environmental and social risks of suppliers by making reference to the information available on the websites of government agencies such as the State Tax Administration, China Judgements Online and Credit China in order to understand and review the information about suppliers such as their productivity, quality system, environmental accreditation and environmental protection work, and on-site assessment and inspection of the capacity of suppliers would be carried out on a case-by-case basis to sufficiently identify risks with the aim of ensuring that the products supplied by the selected suppliers are of stable and credible quality and complied with the relevant national standards of production safety and environmental protection. At the evaluation and rating stages, review, approval and supervision would be conducted on a level-by-level basis according to the supply chain management system of the Company so as to confirm that a contractual relationship would be established with a qualified supplier in the end. In 2021, there were 1,092 suppliers in cooperation with the Company.

The Company has attached growing importance to the management of environmental and social risks within the supply chain system by making it clear in the supply chain management system that appropriate preferential and incentive policies would be applied to the suppliers of green and environment-friendly energy-saving products and services. During the course of practical procurement, the Company would consider giving extra credits to the suppliers who applied green and environment-friendly energy-saving products and services on a case-by-case basis under the comprehensive evaluation and rating scheme and supervise the procurement process and performance of contracts under the Company's supply chain management system.

The Company monitored the performance of contracts by suppliers in accordance with the relevant systems and the terms and conditions of the relevant contracts to ensure that suppliers provided quality products on a timely basis and their production procedures were complied with the local government policies and the requirements for safety and environmental protection. A set of qualification standards has been imposed by the Company on potential suppliers in order to manage suppliers under the principles of unified selection, centralised registration and regulated use. By adopting the procurement business information system, the Company conducted online centralised control and management of procurement dealings as well as the supplier database information. Suppliers' services were monitored throughout the procurement process. Suppliers were overseen and appraised on a yearly basis so as to enable evaluation and management by category and ranking.

The Company is committed to maintaining an orderly market, complying with its policies and undertakings to suppliers, and advocating the establishment of a business environment with fair competition, equality and mutual benefits. In addition to capitalising its advantages in terms of procurement scale and professionalism, the Company stepped up its efforts to keep the information on procurement and bidding transparent and enhanced the risk controls during the procurement process, which successfully prevented breaches of laws and regulations, such as black box operations and commercial bribery, as well as effectively fostered cost control.

Product liabilities

The Company has abided by the laws and regulations, such as the Product Quality Law of the People's Republic of China, the Trademark Law of the People's Republic of China and the Anti-unfair Competition Law of the People's Republic of China and the national standards for various types of products; and enhanced its own systems such as the Administrative Measures for Complaints from Customers about Self-manufactured Products and the Administrative Rules for Packaging Materials Distribution of Self-manufactured Products. Comprehensive and stringent quality control measures have been put in place to govern the product quality and safety, advertisements and promotions, trademarks, labels, privacy and remedies.These all constituted a set of professional, standardised and effective administrative measures for product quality, which not only addressed the relevant after-sale issues about the marketed products and therefore facilitated the Company to boost the sales, but also provided the Company with a basis of decision making for enhancing the quality and effectiveness of products and improving the quality of its products and services.

The Company played an active role in setting industry standards and has been committed to promoting the research, development and application of new techniques and new equipment as well as constantly strengthening the product quality control by leveraging on technological innovation as a driving force and enhancing the development of systems. In 2021, none of the sold or delivered products was recalled due to the safety and health concerns; 16 reports of market feedback on quality issues were received, of which 9 involved the applications for packaging bags after verification and 5 involved business claims of compensation with the amount of compensation totalling RMB42,000. The Company has strictly complied with the relevant national laws and regulations governing the protection of intellectual property (IP) rights and is legally entitled to the relevant IP rights without being involved in any IP infringement activities. During the course of branding and marketing activities, if the IP rights of other entities were to be used, the right of use would be obtained in a lawful manner and the relevant contracts would be signed with the payment of reasonable fees for the use of those IP rights to ensure the legitimacy of such use. Efforts were stepped up to investigate and monitor any suspected incidents of infringement of the Company's IP rights, while anti-counterfeiting campaigns have been launched from time to time to safeguard the basic interests and rights of the Company. The Group fully recognised the importance of protecting and safeguarding the personal data of customers. Accordingly, the Company has put in place the "Corporate Secrecy Requirements" policy to protect the data and privacy of customers and raise the awareness of confidentiality among employees. All employees are required to sign the confidentiality agreement and must observe the guideline on prohibition against the disclosure of confidential information without authorisation. The Company encourages creativity and innovation. During the reporting period, the Company submitted a total of 28 patent applications with 21 patents being granted, one trademark application, and submitted one copyrights application; the product delivery and quality supervision taskforce was set up to conduct specific quality supervision, including inspecting whether there were any circumstances of broken bags, dirty bags, caking, damping and mixing up of bags, and eliminating and punishing any failures to comply with the product delivery requirements alongside collecting evidence; and the Company formulated the Administrative Measures for Complaints from Customers about Self-manufactured Products to govern the handling of product quality issues relating to the Company's self-manufactured products arising during the course of production, warehousing and transportation and to devise standardised solutions, including the measures such as return or change of goods, in response to the issues such as complaints from distributers and ultimate users and administrative punishments imposed by the government authorities. Based on product characteristics, the recall system is temporarily not applicable to the Company's products. During this year, there was no major legal proceedings or complaints arising from the quality of products and services.

Anti-corruption

Prevention and control of the corruption risk has become an integral part of the Company's risk management framework. In addition to taking actions against individual cases of corruption, the Company has attached greater importance to addressing such issue at root by adopting preventive measures to nip corruption in the bud as well as pressing ahead with the construction of the anti-corruption risk prevention and control mechanism. In rigorous compliance with the laws and regulations such as the Criminal Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China and Certain Rules on Integrity of Executives of State-owned Enterprises, the Company introduced a column to promote integrity education and issued reminders concerning the celebration of festive times with probity during certain major festivals and holidays in a bid to call on employees to act in strict conformity to the laws and requirements and ethical codes in relation to the prevention of bribery, extortion, fraud and money laundering. By coordinating and aligning the disciplinary supervision and the audit, financial and inspection supervisions, the Company established a regular communication mechanism, thereby forming a macro supervisory framework covering and integrating all aspects of supervision. 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 scrutinising disciplinary actions and accountability matters, overseeing the discipline of the Party members and leading cadres, and investigating and dealing with violations of discipline and rules, which has developed a comprehensive integrity and risk control system. The Company introduced a regime which aims to eliminate the courage, capability and intention to be involved in corruption by publicising the reporting hotline, mailbox and address to accept reports from the public by letter or in person. Both the identities of a reporters and contents of reports are rigorously protected and officers in charge are strictly prohibited from disclosing all information concerned while no liaison with the persons involved and their related persons is allowed without authorisation. Through the constant enhancement of both stopgap measures and durable solutions, further promotion of daily anti-corruption and integrity education, implementation of specific governance and control initiatives, and formulation of the systems such as the Requirements for Disciplinary Actions Against Employees and the Implementation Rules for Complaint Cases, a stringent internal prevention and management regime was established to standardize employees' performance of duties and responsibilities. The Company has built an information platform for acceptance of reports and handling of the governance and control matters in the entire procedures to enable the centralised online management of all reports, as well as formulated the systems such as the Implementation Rules for Acceptance of Reports by Letters or In Person to govern such matters as the scope of acceptance of reports, handling procedures, and review and approval authority.

The Company coordinated the anti-corruption risk controls and the production and operation business by conducting routine monitoring of the key projects and critical processes as part of the preventive measures as well as supervision of on-going incidents.The Company organised four education campaigns to remind employees of the Party's ethical and integrity standards, and arranged sessions for watching an education video entitled "Anti-Corruption Is All Around You" to fortify the ideology and moral bottom line among the Party members and cadres against corruption.

In 2021, neither the Company nor its employees were subject to any legal proceedings in respect of corruption.

Community building

The Company accords great importance to the development of the local communities of the places where we operate and deems it obligatory to give back to the general society by active participating in charity work, rendering services for community building, making donations and providing aids for students, thus promoting the harmonious development of both the Company and society.

By leveraging on its advantages as an agriculture-related Centrally-controlled enterprise, the Company was engaged in charity and public welfare activities and took part in the development of community. A total of several hundred tonnes of chemical fertilisers have been donated and a campaign of introducing agrochemical technologies and services to rural areas was launched to provide guidance to farmers in underprivileged areas on the scientific mixing and application of fertilisers in an attempt to help the villages in underprivileged areas out of their poverty. Since 2002, a total of 10 temporary cadres have been deployed to the State-designated supported areas, including Hezuo City and Xiahe County, Gannan Prefecture, Gansu Province, and Wuzhishan City, Hainan Province, to make top-notch contributions to poverty relief by assisting the group companies in implementing nearly 100 special construction projects involving more than RMB100 million as part of our efforts to provide economic assistance to underprivileged areas and develop their own abilities to promote economic growth. Hezuo City and Xiahe County in Gannan Prefecture and Wuzhishan City have been removed from the list of regions in poverty in 2018, 2019 and 2020, respectively.

In 2021, the Company continued to take forward five special projects, including the special project of developing and establishment of centralised photovoltaic power facilities, with the cooperating cities under the Gannan Prefecture Strategic Cooperation Agreement; purchased agricultural by-products of RMB1,624,400 in aggregate from the supported areas; procured working uniforms and shoes of RMB7,115,100 in aggregate from the manufacturers of labour protective products and tools in the supported areas; and made unswerving contributions to the supported areas to facilitate better development. At the commendation ceremony for poverty alleviation of Gansu Province, the office of the Company was recognised as an advanced group and two staff members were honoured the title of advanced individuals. At the commendation ceremony for poverty alleviation of CNOOC, the Company received an advanced group award, three staff members were recognised as the model battlers against poverty and five individuals were awarded as advanced individuals.

There are 11 youth volunteer service teams with more than 400 active young volunteers. In 2021, various kinds of volunteer service campaigns were launched in combination with the Party history education programme entitled "We Serve the Public".

The "Blue Power" volunteer service team of CNOOC Fudao further rationalised the work procedures such as the alignment of various volunteer projects, recruitment of volunteers and volunteer hours certification, and proactively organised numerous volunteer service activities in line with key festivals and days such as "5th March Lei Feng Learning Day" and the celebration activities of the 100th anniversary of the founding of the Communist Party of China, with the aim of promoting the co-development of the enterprise and local community.

The "Blue Power" volunteer service team of DYK Chemical launched the "Caring for the Left-behind Children" initiative to make a specific contribution to poverty alleviation.

The charity campaign "Perpetuating the Lei Feng Spirit and Making Outstanding Achievements within the Positions" hosted by "Blue Power" volunteer service team of CNOOC Tianye was selected by the two tiers of government of Inner Mongolia and Hohhot as the main venue of the "Regional Learning Lei Feng Volunteer Service Demonstration Activities 2021 cum Announcement Ceremony of the List of Good Samaritans in Inner Mongolia".

Through the formation of the "Blue Power" promotion team, youth service team and site visit reception team for family members of staff, CNOOC Huahe endeavoured to provide practical services and resolve complicated matters for the people around so as to enhance social cohesion.

In 2021, save as disclosed in this report, the Company 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 version.

Corporate Governance Report

In 2021, the Company continued to be committed to implementing high standard of corporate governance policy and practices, 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 (the "Supervisory Committee") and senior management in accordance with the laws and regulations such as the Company Law of the People's Republic of China (the "Company Law"), the rules and guidelines promulgated by domestic and overseas regulatory bodies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the provisions set out in Appendix 14 thereto.

During the reporting period, the Company has complied with all code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, and continued to pursue professional governance standards and further strengthened the authority and duties of the Board. The Company organised and convened general meetings, Board meetings and Supervisory Committee meetings in a compliant manner and completed the election for the session of the Board, Supervisory Committee and senior management. The information disclosures of the Company were compliant, timely and accurate, and no incident of enquiry, disciplinary hearing or censure by the regulatory authorities in Hong Kong had incurred. The Company maintained smooth and effective communication with the capital market and the media through various platforms and channels to preserve its positive image in the capital market. The Directors and Supervisors were timely and comprehensively provided with production and operation information so as to give strong support for their duty performance. The internal control system were maintained and improved to ensure that the 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 relevant Supervisors;
- to consider and approve reports of Directors and reports of 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 issues of bonds and other securities and listings of the Company;
- to pass resolutions on appointment, removal or non-reappointment of accounting firms;
- 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 shareholder(s) holding, either individually or collectively, three percent or more of the voting shares of the Company;
- to consider and approve share incentive schemes;
- such matters as may be authorised 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, the specific rights of shareholders of the Company in the following three aspects are as follows:

Convening extraordinary general meetings

When shareholders individually or collectively holding ten percent or more of the issued and outstanding voting shares of 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 of 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 laws and regulations and shall fall within the scope of business and the duties of the general meeting of the Company; (2) the proposals 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.

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

Procedures for making enquiries to the Board and information available thereon

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

Information on general meetings

During the reporting period, the Company held one annual general meeting, one H Shareholders' class meeting, one domestic Shareholders' class meeting and one extraordinary general meeting. At these meetings, 22 proposals in relation to, among other things, the appointment of the new session of Directors and Supervisors, the 2020 annual financial report, the report of Directors, the report of the Supervisory Committee, profit distribution plan, the 2021 budget proposal of the Company, and the grant of general mandate to the Board to repurchase H Shares, were considered and passed. In 2021, each of Mr. Wang Weimin, Mr. Yu Changchun, Mr. Xie Dong, Mr. Lin Feng, Ms. Karen Lee Kit Ying and Mr. Eddie Lee Kwan Hung, being the then Directors, had an attendance rate at the general meetings of 100%. Mr. Hou Xiaofeng, a Director, had an attendance rate of 25% as he was unable to attend the annual general meeting and the class meetings due to other business engagements. Mr. Guo Xinjun and Mr. Liu Zhenyu had an attendance rate of 75% as they were unable to attend the extraordinary general meeting due to other business engagements. Mr. Huang Hulong, Mr. Zhao Baoshun and Mr. Li Zhi, being Directors, were appointed on 23 December 2021, the Company did not hold any general meeting since then.

The convening of the general meetings of the Company and the procedures for considering and approving the proposals were in compliance with the laws and regulations and the relevant provisions of the Articles, which effectively protected the interests of the Shareholders as a whole.

2 Board of Directors

The Board is the decision-making body of the Company and shall be accountable to the general meeting.

Duties of the Board

While delegating certain powers and responsibilities to the management in relation to the management of routine business operation of the Group, the Board is responsible for formulating business strategies and guidelines, business plans, investment plans, setting up management goals, reviewing the performance of the Company and assessing the effectiveness of management strategies, formulating profit distribution plans and loss recovery plans of the Company, appointing or dismissing senior management of the Company and fixing their remuneration, determining the establishment of the Company's internal management structure and formulating the basic management system of the Company, and exercising various reserved powers including:

- to convene the general meeting and report to the general meeting on its work and carry out resolutions of the general meeting;

- to formulate business plans, investment plans, proposals for annual financial budgets and final accounts, profit distribution plans and loss recovery plans of the Company;
- to formulate proposals for the increase or reduction of the registered capital of the Company and proposals for the issue of bonds and other securities and the listings of the Company;
- to draw up proposals for the merger, division, change of corporate form or dissolution of the Company;
- to determine the establishment of internal management structure of the Company, to appoint or dismiss the president of the Company and to appointor dismiss other senior management personnel pursuant to the nomination by the president, and to fix their remuneration;
- to formulate proposals for amendments to the Articles and the basic management system of the Company;
- to make proposals to the general meeting for appointing, re-appointing or dismissing the accounting firm that provides audit service to 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 2021, the Board consisted of eight Directors, including three 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 47 to 49 of this annual report.

The composition and structure of the Board is in compliance with the requirements of the Company Law and the Listing Rules, which has established an effective internal check and balance mechanism and caters 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. The Board will appoint a female member by the timeline stipulated in the Listing Rules to ensure the diversity of the Board members based on the above considerations.

As at 31 December 2021, the members of the sixth session of the Board were as follows:

Board member	Position(s)	Date of appointment
Wang Weimin	Chairman and executive Director	27 May 2021
Hou Xiaofeng	Executive Director, CEO and President	27 May 2021
Huang Hulong	Non-executive Director	23 December 2021
Zhao Baoshun	Non-executive Director	23 December 2021
Li Zhi	Executive Director	23 December 2021
Yu Changchun	Independent non-executive Director	27 May 2021
Lin Feng	Independent non-executive Director	27 May 2021
Xie Dong	Independent non-executive Director	27 May 2021

Each of the Directors appointed by the Company has entered into a service agreement with the Company. Among them, Mr. Wang Weimin, Mr. Hou Xiaofeng, Mr. Yu Changchun, Mr. Lin Feng and Mr. Xie Dong, all being the then Directors, were appointed for a term of office of three years, or until a new session of Directors is elected by Shareholders at the 2023 annual general meeting of the Company. Mr. Huang Hulong, Mr. Zhao Baoshun and Mr. Li Zhi, all being Directors, were appointed for a term of office commencing from the date on which their appointments were approved at the 2021 extraordinary general meeting until a new session of Directors is elected by Shareholders at the 2023 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 an existing Director, 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 his / her term of office expire. Directors may be re-elected and re-appointed 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 of the independent non-executive Directors and considered that all of them met the independence requirements under the Listing Rules. One of the independent non-executive Directors fully met the requirements of 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, the independent non-executive Directors expressed their views and comments 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 five 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. Attendance of each member of the Board at the physical Board meetings during the year ended 31 December 2021 was as follows:

Director	Number of meetings attended/held	Attendance rate (%)
Wang Weimin	4/5	80
Hou Xiaofeng	4/5	80
Huang Hulong (Note 1)	1/1	100
Zhao Baoshun (Note 1)	1/1	100
Li Zhi (Note 1)	1/1	100
Yu Changchun	5/5	100
Lin Feng (Note 2)	4/4	100
Xie Dong (Note 2)	4/4	100
Guo Xinjun (Note 3)	4/4	100
Liu Zhenyu (Note 3)	4/4	100
Karen Lee Kit Ying (Note 4)	1/1	100
Eddie Lee Kwan Hung (Note 4)	1/1	100

Note 1: Mr. Huang Hulong, Mr. Zhao Baoshun and Mr. Li Zhi were appointed as Directors on 23 December 2021. One Board meeting was held during the period from 23 December 2021 to 31 December 2021.

Note 2: Mr. Lin Feng and Mr. Xie Dong were appointed as independent non-executive Directors on 27 May 2021. Four Board meetings were held during the period from 27 May 2021 to 31 December 2021.

Note 3: Due to other work arrangements, Mr. Guo Xinjun and Mr. Liu Zhenyu ceased to be the non-executive Directors on 23 December 2021. Four Board meetings were held during the period from 1 January 2021 to 23 December 2021.

Note 4: Due to other work arrangements, Ms. Karen Lee Kit Ying and Mr. Eddie Lee Kwan Hung ceased to be independent non-executive Directors on 27 May 2021. One Board meeting was held during the period from 1 January 2021 to 27 May 2021.

The procedures for convening of the Board meetings and considering and approving the proposals were in compliance with the relevant laws and regulations and the provisions of the Articles. The Directors have fulfilled their fiduciary duties in a practical manner and made decisions on important matters of the Company after prudent discussion. The Directors must declare their direct and indirect interests (if any) in relation to the issues to be discussed at the Board meetings and the interested Directors must abstain from voting on the resolutions concerned, and shall not vote on behalf of other Directors, which effectively protected the interests of the Shareholders of the Company as a whole.

Training for Directors

As stipulated in code provision C.1.4 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, the then Directors (namely Mr. Wang Weimin, Mr. Guo Xinjun, Mr. Liu Zhenyu, Mr. Yu Changchun, Mr. Lin Feng and Mr. Xie Dong) attended the on-site training organised by the Company on 27 May 2021 to learn about the latest regulatory trends of listed companies and other related topics. In addition, the Company circulated written materials to the then Directors (namely Mr. Wang Weimin, Mr. Hou Xiaofeng, Mr. Huang Hulong, Mr. Zhao Baoshun, Mr. Li Zhi, Mr. Yu Changchun, Mr. Lin Feng and Mr. Xie Dong) by mail on 29 December 2021, 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. Huang Hulong, Mr. Zhao Baoshun, Mr. Li Zhi, Mr. Lin Feng and Mr. Xie Dong, 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 A.2.1 of the Corporate Governance Code. During the reporting period, the Board reviewed the Company's compliance with the laws and regulatory requirements and the Corporate Governance Code and its disclosures in the Corporate Governance Report; reviewed and monitored the training and continuous professional development of Directors and senior management, further strengthened the authority and duties of the Board, considered the topics about KPIs of the Company in the environmental aspect, set out targets and steps for achieving the targets of key indicators for energy saving and emission reduction in the environmental aspect, and approved and tracked the above targets and monitored relevant implementation; enhanced the risk management and internal control of the Company, and further improved 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 the independent non-executive Directors namely Mr. Xie Dong, Mr. Yu Changchun and Mr. Lin Feng, and the non-executive Directors namely Mr. Huang Hulong and Mr. Zhao Baoshun, with Mr. Xie Dong being the chairman. The chairman 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 efficiency of the Company's business operation and the achievement of the Company's objectives and strategies, review the independence and objectivity of 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 plans of the Company and submits relevant reports, review opinions and recommendations to the Board.

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

- reviewed the 2020 consolidated financial statements and the 2021 interim condensed consolidated financial statements and results, with focus on the compliance with accounting standards, the Listing Rules and other requirements, and made recommendations and advice to the Board;
- reviewed the 2022 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 2021;
- reviewed the statutory audit plan of the external auditor and the nature and scope of audit; and
- reviewed the internal audit and supervisory work reports of the Company for 2021 and approved the internal audit plan for 2022 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 each member 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 (%)
Xie Dong (Chairman) (Note 1)	3/3	100
Yu Changchun	4/4	100
Lin Feng (Note 1)	3/3	100
Huang Hulong (Note 2)	1/1	100
Zhao Baoshun (Note 2)	1/1	100
Guo Xinjun (Note 3)	3/3	100
Liu Zhenyu (Note 3)	3/3	100
Karen Lee Kit Ying (Note 4)	1/1	100
Eddie Lee Kwan Hung (Note 4)	1/1	100

Note 1: Mr. Xie Dong and Mr. Lin Feng were appointed as members of the Audit Committee on 27 May 2021. Three meetings of the Audit Committee were held during the period from 27 May 2021 to 31 December 2021.

Note 2: Mr. Huang Hulong and Mr. Zhao Baoshun were appointed as members of the Audit Committee on 23 December 2021. One meeting of the Audit Committee was held during the period from 23 December 2021 to 31 December 2021.

Note 3: Mr. Guo Xinjun and Mr. Liu Zhenyu ceased to be members of the Audit Committee on 23 December 2021. Three meetings of the Audit Committee were held during the period from 1 January 2021 to 23 December 2021.

Note 4: Ms. Karen Lee Kit Ying and Mr. Eddie Lee Kwan Hung ceased to be members of the Audit Committee on 27 May 2021. One meeting of the Audit Committee was held during the period from 1 January 2021 to 27 May 2021.

Remuneration Committee

The Remuneration Committee currently consists of three members, including independent non-executive Directors namely Mr. Lin Feng and Mr. Xie Dong, and non-executive Director namely Mr. Huang Hulong, with Mr. Lin Feng 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 remuneration policies and proposals, including 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, with delegated responsibility from the general meeting and the Board, determines the remuneration packages of executive Directors, Supervisors and senior management. It is also responsible for monitoring the implementation of theCompany'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 executive Directors is designed to link the remuneration and performance of executive Directors 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 2021 are set out in Note 12 to the consolidated financial statements.

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

Attendance of each member 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 (%)
Lin Feng (Chairman)	2/2	100
Xie Dong	2/2	100
Huang Hulong (Note 1)	1/1	100
Karen Lee Kit Ying (Note 2)	-/-	-
Eddie Lee Kwan Hung (Note 2)	-/-	-
Liu Zhenyu (Note 3)	1/1	100

Note 1: Mr. Huang Hulong was appointed as a member of the Remuneration Committee on 23 December 2021. One meeting of the Remuneration Committee was held during the period from 23 December 2021 to 31 December 2021.

Note 2: Ms. Karen Lee Kit Ying and Mr. Eddie Lee Kwan Hung ceased to be members of the Remuneration Committee on 27 May 2021. No meeting of the Remuneration Committee was held during the period from 1 January 2021 to 27 May 2021.

Note 3: Mr. Liu Zhenyu ceased to be a member of the Remuneration Committee on 23 December 2021. One meeting of the Remuneration Committee was held during the period from 1 January 2021 to 23 December 2021.

Nomination Committee

During the reporting period, the Nomination Committee currently consists of three members, including the then Chairman and executive Director namely Mr. Wang Weimin, and independent non-executive Directors namely Mr. Yu Changchun and Mr. Lin Feng with Mr. Wang Weimin being the chairman of the committee. The chairman of the Nomination Committee has the qualifications required under Rule 3.27A of the Listing Rules.

On 30 March 2022, Mr. Wang Weimin resigned from his position as the chairman of the Company, an executive director of the Company, as well as a member and the chairman of the Nomination Committee of the Board due to work reasons. At the same day, the Board appointed Mr. Hou Xiaofeng as a member of the Nomination Committee and the duties and responsibilities of the chairman of the Nomination Committee were performed by Mr. Hou Xiaofeng until the day on which the appointment of the chairman of the Nomination Committee takes effect.

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 on 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 assessing 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, the satisfaction of the required independence criteria, willingness and ability to devote sufficient time to discharge duties as a Director and a member of the 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 will assess 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 candidates for election as the new session of 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 2021.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. The Board will appoint a female member by the timeline stipulated in the Listing Rules to ensure the diversity of the Board members based on the above considerations.

Attendance of each member 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
Yu Changchun	3/3	100
Lin Feng (Note 1)	2/2	100
Eddie Lee Kwan Hung (Note 2)	1/1	100

Note 1: Mr. Lin Feng was appointed as a member of the Nomination Committee on 27 May 2021. Two meetings of the Nomination Committee were held during the period from 27 May 2021 to 31 December 2021.

Note 2: Mr. Eddie Lee Kwan Hung ceased to be a member of the Nomination Committee on 27 May 2021. One meeting of the Nomination Committee was held during the period from 1 January 2021 to 27 May 2021.

Investment Review Committee

The Investment Review Committee currently consists of five members, including the independent non-executive Directors namely Mr. Yu Changchun, Mr. Lin Feng and Mr. Xie Dong, and the non-executive Directors namely Mr. Huang Hulong and Mr. Zhao Baoshun, 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 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 their review comments to the Board.

Attendance of each member 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
Lin Feng (Note 1)	1/1	100
Xie Dong (Note 1)	1/1	100
Huang Hulong (Note 2)	-/-	-
Zhao Baoshun (Note 2)	-/-	-
Guo Xinjun (Note 3)	2/2	100
Liu Zhenyu (Note 3)	2/2	100
Karen Lee Kit Ying (Note 4)	1/1	100
Eddie Lee Kwan Hung (Note 4)	1/1	100

Note 1: Mr. Lin Feng and Mr. Xie Dong were appointed as members of the Investment Review Committee on 27 May 2021. One meeting of the Investment Review Committee was held during the period from 27 May 2021 to 31 December 2021.

Note 2: Mr. Huang Hulong and Mr. Zhao Baoshun were appointed as members of the Investment Review Committee on 23 December 2021. No meeting of the Investment Review Committee was held during the period from 23 December 2021 to 31 December 2021.

Note 3: Mr. Guo Xinjun and Mr. Liu Zhenyu ceased to be members of the Investment Review Committee on 23 December 2021. Two meetings of the Investment Review Committee were held during the period from 1 January 2021 to 23 December 2021.

Note 4: Ms. Karen Lee Kit Ying and Mr. Eddie Lee Kwan Hung ceased to be members of the Investment Review Committee on 27 May 2021. One meeting of the Investment Review Committee was held during the period from 1 January 2021 to 27 May 2021.

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, the 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 plans and other financial information to be submitted by the Board at general meetings, and to engage certified public accountants or auditors to re-examine the same in the name of the Company in case of doubt;
- to propose the convening of extraordinary general meetings, and 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 shareholders' 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 65 to 66 of this annual report.

5 Senior management

The senior management consists of the chief executive officer, the President, the chief financial officer, the vice president and the secretary to the Board (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 by the Board, and exercises 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 cooperates closely to ensure the day-to-day operation of the Company be carried out efficiently.

The management of the Company submits the management accounts of the Company (including analysis of production and sales data and internal financial statements), a monthly QHSE report and a monthly risk management 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 issue information reports on capital markets covering stock price trends, analyst reports from investment banks and media news on a periodic basis to keep Directors and Supervisors abreast of the developments in the capital markets relating to the Company. The management also issues a daily stock quote report to keep

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 adequately ensure that the production, operation and investment decision-making and risk management of the Company are conducted in a scientific and prudent way .

Details of the remuneration range of the members of senior management of the Company for the financial year ended 31 December 2021 are 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 of them 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

During the reporting period, Mr. Wang Weimin served as the Chairman of the Company and Mr. Hou Xiaofeng served as the chief executive officer/ President of the Company. The Chairman was responsible for leading the effective operation of the Board of the Company and the chief executive officer/ President was responsible for the management of the Company's daily business operation and accountable to the Board in respect of the overall operation of the Company, which have complied with the code provisions set out in the Corporate Governance Code 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. All Directors have the access to 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, Ms. Wu Xiaoxia confirmed that she met all the requirements stipulated in the Listing Rules regarding qualification, experience and training during her term of office.

9 Communication with investors

The Board recognises the importance of good and effective communication with all Shareholders. In addition to the release of information and publication of 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' forums organised by investment banks, invites investors/ analysts to visit our plants, and holds face-to-face interviews or teleconferences with investors.

10 Risk management and internal control

The Company maintains an internal audit function. In strict compliance with the relevant requirements under the Listing Rules and the Basic Standard for Enterprise Internal 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, under which, each subsidiary identifies and reports risk issues; the risk management department analyses and identifies major risks of the Company and reports to the management of the Company; and the Risk Management Committee reviews the Company's monthly risk management 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 strengthening internal control, preventing risks and promoting compliance, the Company revised the business authorities and organ responsibilities in technology, investment and other areas, adjusted corporate governance, marketing, strategic investment and other systems and regimes, sorted out the management responsibilities of all business sectors at all stages, and drew up a list of responsibilities covering the entire business approval process. 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 required procedures as set out in the Listing Rules, clarifying the department responsible for disclosure of inside information to ensure timely and compliant information 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 confirmations that for the year ended 31 December 2021, (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 2021, 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 RMB98,000.

The responsibility statement of the Company's external auditor on the consolidated financial statements is set out on pages 67 to 69 of this annual report.

12 2021 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 29 March 2022, the Company and CNOOC held the 2021 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 consolidated financial statements

The Directors acknowledge that they are responsible for the preparation of the Group's consolidated financial statements, and that they should evaluate the Company's financial position, results, cash flow position and prospects for the reporting period in a lucid and comprehensive manner based on such consolidated 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.

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Directors, Supervisors and Senior Management

Executive Directors

①Mr. **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 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, the chairman of Hubei Dayukou Chemical Co., Ltd. and a director of CBC (Canada) Holding Corp. in August 2020. He was appointed as a director of CNOOC Kingboard Chemical Limited in August 2020 and the chairman in January 2022.

②Mr. **Li Zhi** , born in 1964, graduated from Chengdu Institute of Geology with a bachelor's degree majoring in petroleum geology in July 1987. He also obtained a master's degree in business administration from China Europe International Business School in June 2014. He was qualified as a senior engineer. From July 1987 to April 1993, he served as the mud logging engineer in the operation department of Bohai Petroleum Geological Services Company Limited. From April 1993 to May 1995, he served as the mud logging captain in the logging department of China France Bohai Geoservices Co., Ltd. From May 1995 to June 1996, he served as the research and development engineer in the technical department of HR Technology Development Company of CNOOC Technology Services Company. From June 1996 to January 2006, he successively served as the manager of the safety and quality department, the manager of the human resources department, and the manager of human resources development department of China France Bohai Geoservices Co., Ltd. From January 2006 to June 2017, he successively served as the training and development manager in the human resources department of China Oilfield Services Limited ("COSL"), deputy general manager of COSL Drilling Pan-Pacific Ltd., general manager of audit and supervision department of COSL, general manager of human resources department of COSL, dean and secretary of disciplinary committee of CNOOC COSL Engineering and Technology Institute. From May 2013 to July 2019, he served as the employee supervisor of COSL. Since June 2017, he has served as the leader of the disciplinary inspection team of the party committee of CNOOC in COSL, CNOOC Limited Zhanjiang Branch, and CNOOC Limited Hainan branch. He has served as the chairman of the board of directors of CNOOC Tianye Chemical ltd. since November 2021. He was appointed as an executive Director of the company in December 2021. (Former name: Li Tijun and Li Jincai)



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Non-executive Directors

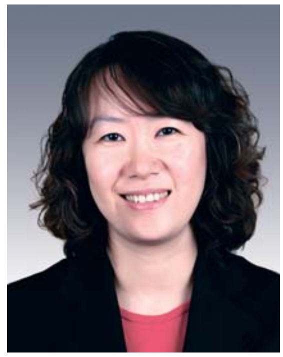
③Mr. **Huang Hulong**, born in 1963, graduated from the Development Department of the East China Petroleum Institute with a bachelor's degree majoring in drilling engineering in August 1985. He also obtained a master's degree in business administration from the School of Business Administration of Northern Jiaotong University in April 2001. He was qualified as a senior economist. From August 1985 to June 1993, he served as an engineer and the head of the equipment group in the electromechanical office of CNOOC Development Engineering Design Company. From June 1993 to September 2002, he served as the secretary and head of the secretariat of the general office in CNOOC. From September 2002 to April 2008, he served as the deputy general manager of CNOOC Gas and Power Limited. From April 2008 to December 2013, he served as the chief safety officer and deputy general manager of CNOOC Gas and Power Group Ltd. From December 2013 to May 2018, he served as the general manager of the preparatory group in Ordos coal-to-gas project, general manager of CNOOC Inner Mongolia Energy Investment Co., Ltd., general manager of CNOOC Ordos Energy and Chemical Co., Ltd. From May 2018 to September 2021, he successively served as the deputy general manager, chief safety officer, deputy secretary of the party committee, and chairman of the labor union in CNOOC Gas and Power Group Ltd. Since September 2021, he has served as a full-time despatched director by CNOOC.He was appointed as an non-executive Director of the company in December 2021.

④Mr. **Zhao Baoshun**, born in 1963, graduated from the East China Petroleum Institute with a bachelor's degree majoring in geophysical exploration in August 1984. He was qualified as a senior engineer. From August 1984 to August 1987, Mr. Zhao served as a technician in the computation centre of Bohai Oil Corporation. From August 1987 to March 1996, he successively served as main operator of satellite navigation, instrument operator, main operator of seismic source, and sector staff in the production section/equipment section/personnel section of Bohai Oil Geophysics Company, respectively. From March 1996 to May 2001, he successively served as the secretary of general office, secretary to general manager, the deputy director of secretariat of the general office and the secretary to general manager, the deputy director of the general affairs department of general office, deputy director of the security department of general office in CNOOC. From May 2001 to August 2004, he successively served as the cadre of the bitumen development and operation department, the head of Qingdao bitumen acquisition project, the leader of the field project team of China Offshore bitumen (Luzhou) project and the manager of the comprehensive management department of CNOOC Oil & Gas Development and Utilization Company. From August 2004 to November 2005, he served as the general manager of CNOOC Bitumen Co. Ltd. From November 2005 to December 2011, he served as the deputy general manager of CNOOC Oil & Gas Development and Utilization Company. From December 2011 to July 2018, he served as the deputy general manager of the QHSE department (Quality, Health, Safety and Environment department) of CNOOC (CNOOC Limited). From July 2018 to June 2020, he served as chairman of the labor union directly under CNOOC and the deputy head of the united front work department of the party committee of CNOOC. From June 2020 to August 2021, he served as the deputy director of the party and mass work department, chairman of the labor union directly under CNOOC, the deputy head of the united front work department of the party committee, and the deputy director in the working committee of the labor union of CNOOC. From December 2020 to December 2021, he served as a non-executive director of COSL. From March 2021 to August 2021, he was engaged in special work in the Company; and since August 2021, he has served as a full-time despatched director by CNOOC. He was appointed as an non-executive Director of the company in December 2021.

Independent non-executive Directors

⑤Mr. **Yu Changchun**, born in 1969, graduated with a bachelor's degree from Sichuan Normal College majoring in chemistry in 1990. He obtained a master's degree of physical chemistry from Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1993, and a doctor's degree of physical chemistry from the OSSO State Key Lab (OSSO國家重點實驗室) of Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1997 and obtained the assistant professor title afterward. From April 1997 to December 2002, Mr. Yu Changchun worked as a teacher in the Chemical Industry Institute of China University of Petroleum (Beijing). He was a visiting scholar in University of British Columbia, Canada from January 2003 to January 2004; From February 2004 to February 2012, he worked as a secretary to Academic Committee of China National Petroleum Corporation Catalyst Key Lab of China University of Petroleum (Beijing) and a teacher of the School of Chemical Engineering of China University of Petroleum (Beijing). He is a member of the Committee for Affairs of New Energy Research Center in China University of Petroleum





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(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.

⑥Mr. **Lin Feng**, born in 1965, graduated from the Law Department of Fudan University with a bachelor's degree in 1987. He obtained a master's degree in law from the University of Wellington, New Zealand in 1992, and a doctorate in law from Peking University in 1998. He has been teaching at the City University of Hong Kong since 1992. Currently, he serves as a professor and associate dean of the School of Law of the City University of Hong Kong, the chairman of China Judge Training and Research Center. He is a practising barrister in Hong Kong, a councilor of the China Law Society, a councilor of the Chinese Judicial Studies Association, and a councilor of the Hong Kong Mental Health Foundation. Mr. Lin's research areas mainly cover comparative constitutional law, Hong Kong Basic Law, Administrative Law and Environmental Law. He previously served as the editor-inchief of Asia Pacific Law Review, a member of the Law Reform Commission of Hong Kong, a member of the Board of Review (Inland Revenue Ordinance) and a member of the Telecommunications Appeal Board. He was appointed as an independent non-executive Director of the company in May 2021.

⑦Mr. **Xie Dong**, born in 1980, obtained his bachelor's degree in Economics in 2003 and master's degree in World Economics from Nankai University in 2006, respectively. He has over 15 years of professional experience in sectors of finance, auditing, investment and financing, and capital markets, and is the holder of Chinese Institute of Certified Public Accountants (CICPA), Certified Internal Auditor (CIA), Certified Tax Agent (CTA) and Chinese Legal Professional Qualification. From June 2006 to October 2007, he worked as the auditor of the global financial services department of Ernst & Young Hua Ming LLP; from November 2007 to March 2010 and from October 2010 to August 2014, he served as the deputy director of M&A (Mergers and Acquisitions) Financial Advisory Services Department of Deloitte; from April 2010 to September 2010, he was appointed as Vice President of direct investment department of CCB International (China) Limited; from September 2014 to December 2018, he served as the chief financial officer and company secretary of FinUp Finance Technology Group (Holding) Limited; from January 2019 to March 2020, he served as the chief financial officer of Renbuy Technology Holding (任買科技控股); from March 2020 to December 2020, the partner (capital market services) of PGA Consulting Limited; from January 2021 onwards, he served as the chief financial officer of Beijing Erwan Technology Group (北京爾灣科技集團).He was appointed as an independent non-executive Director of the company in May 2021.

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 2000, 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; from May 2000 to May 2002, 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 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

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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 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. From May 2019 to July 2021, 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. **Li Ruiqing**, born in 1966, graduated from the Department of Management Engineering of China University of Petroleum (East China) in July 1988 with a bachelor's degree of engineering majoring in management engineering. He is a senior economist. From July 1988 to April 1995, he served successively as the officer-in-charge of the operation office and the secretary of the plant office at the oil production plant No. 2 of Henan Petroleum Exploration Bureau (Henan Oilfields), a project management supervisor at the development and production department and a development management supervisor at the oil production division and the secretary of the plant office of Henan Oilfields, and a deputy head of project development department and the head of the investment development department at the external economic and technology coordination division of Henan Oilfields. From April 1995 to November 1998, he worked successively as a manager of the business planning department and the business management of Nanyang Hua'ao Industrial Company under Henan Oilfields, and a deputy general manager of Henan Huayou Enterprise Group Company. From November 1998 to April 2003, he was successively an office research manager of China National Offshore Oil Nanhai Eastern Co. Ltd. and an assistant to manager and a deputy manager of Shenzhen Nanhai Eastern Oil Shekou Base Company. He served as an equity management manager at the asset management department of China National Offshore Oil Corporation from April 2003 to December 2004, a deputy general manager at the Petrochemical Branch of CNOOC Oil Base Group Ltd. from December 2004 to September 2007, and a deputy general manager of Tianjin Binhai Hi-Tech Zone Development and Construction Co., Ltd. from September 2007 to December 2009. He worked with CNOOC Energy Technology & Services Limited successively as the general manager of the production and operation department and the business management department (technology development department) from December 2009 to May 2014. From May 2014 to March 2022, he worked with CNOOC successively as a deputy general manager and an acting general manager at the

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preparation team for the Datong coal-based gas project. He has served as the vice president of the Company since March 2022.

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. He has served as the chairman of the board of directors of Hainan Basuo Port Ltd. since November 2021.

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 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 in July 2017. From July 2017 to January 2022, she was appointed as the director of CNOOC Kingboard Chemical Limited . She has acted as the sole Company Secretary since October 2020 and has also served as the chief legal adviser and the chief compliance officer since March 2022.

⑭Mr. **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 to August 2021. He was appointed as Vice President of the company from March 2021 and has served as the chief safety officer of the Company since April 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 2021.

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 2021 and the financial position of the Company and the Group as at that date are set out on pages 70 to 77 of the consolidated financial statements for the year ended 31 December 2021.3.5

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 67 to 69, respectively. Particulars of the important events affecting the Company that have occurred since the end of the financial year of 2021 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 36; 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 36, 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 RMB714.6 million for the year of 2021, in aggregate RMB 0.155per 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 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 2021 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 2021, 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 2021 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 2021.

Equity-linked agreements

No equity-linked agreements were entered into by the Group during the year ended 31 December 2021.

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 2021.

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 2021, the reserves available for distribution of the Company was RMB12,108.20 million.

Charitable donations

During the year, the Group made charitable donations of RMB2.8 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's top five customers accounted for17.59% of the total sales of the year and sales to the largest customer included therein amounted to 5.52% of the total sales of the year. Purchases from the Group's top five suppliers accounted for 45.83% of the total purchases for the year and purchases from the largest supplier accounted for 28.00% 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 2021 were:

Executive Director:	
Wang Weimin	Re-appointed on 27 May 2021
Hou Xiaofeng	Re-appointed on 27 May 2021
Li Zhi	Appointed on 23 December 2021
Non-executive Directors:	
Huang Hulong	Appointed on 23 December 2021
Zhao Baoshun	Appointed on 23 December 2021
Independent Non-executive Directors:	
Yu Changchun	Re-appointed on 27 May 2021
Lin Feng	Appointed on 27 May 2021
Xie Dong	Appointed on 27 May 2021
Supervisors:	
Liu Jianyao	Re-appointed on 27 May 2021
Li Xiaoyu	Re-appointed on 27 May 2021
Liu Lijie	Elected at a meeting of the employee representatives held on 25 January 2021

Note 1: Mr. Wang Weimin ceased to be the executive Director of the Company with effect on 30 March 2022 due to other work arrangements.

Mr. Guo Xinjun and Mr. Liu Zhenyu ceased to be the non-executive Director of the Company with effect on 23 December 2021 due to other work arrangements.

Ms. Karen Lee Kit Ying and Mr. Eddie Lee Kwan Hung ceased to be the independent non-executive Director of the Company with effect on 27 May 2021 due to other work commitments.

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

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

Biographies of Directors, Supervisors and senior management

Biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 47 to 51 of this annual report.

Service contracts of Directors and Supervisors

At the annual general meeting of the Company held on 27 May 2021, 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 27 May 2021 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 27 May 2021 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.

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.

Mr. Li Zhi was appointed as an executive Director of the Company and Mr. Huang Hulong and Mr. Zhao Baoshun were appointed as the non-executive Directors of the Company at the extraordinary general meeting convened on 23 December 2021. They entered into service contracts with the Company, and their terms of office shall begin from the date of approval of their appointment at the extraordinary general meeting until a new session of Directors are approved at the annual general meeting for 2023 by the shareholders, upon which they are 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 2021 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 2021, 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 220,000 H shares of the Company.

Interests of substantial shareholders

As at 31 December 2021, 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)
MGD Holdings(Note 2)	Interests in controlled corporation	277,062,000(L)	H Shares	15.64(L)	6.01(L)
Hermes Investment Management Ltd	Investment manager	201,156,075(L)	H Shares	11.36(L)	4.36(L)
Hermes Investment Funds PLC	Beneficial owner	143,333,345(L)	H Shares	8.09(L)	3.11(L)
Edgbaston Investment Partners LLP	Investment manager	106,376,000(L)	H Shares	6.01(L)	2.31(L)

Notes: The letter (L) denotes long position.

(1) Mr. Huang Hulong and Mr. Zhao Baoshun, the non-executive Directors, also serve as full-time despatched directors by CNOOC.

(2) MGD Holdings indirectly holds these shares through its controlled corporation, namely Daher Capital LTD and DFG LTD.

Save as disclosed above, to the best knowledge of any of the Directors and chief executive of the Company, as at 31 December 2021, no person (other than Directors, Supervisors and chief executive of the Company or their respective associates) had any interests and short positions in the shares and underlying shares (as the case may be) of the Company which were required to be entered into the register kept pursuant to Section 336 of the SFO.

Management contract

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

Connected transactions

Continuing connected transactions

Details of the continuing connected transactions of the Group which required reporting and annual review in 2021 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 23 October 2020, 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(if needed) 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 2021 and will expire on 31 December 2023, 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 pricing 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 or similar types 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 or similar types or 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 2021, the annual expenses paid by the Group for the properties leasing and management services from CNOOC Group were RMB23,847,000 and the annual revenue for the properties leasing and management services provided by the Group to CNOOC Group was RMB6,861,000.

2 Natural Gas Sale and Purchase Agreements

(1) During the year, the Group continued to purchase natural gas pursuant to the five 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 pre-existing 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 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.

(v) Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement among the Company, CNOOC Fudao and CNOOC China Limited dated 3 November 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 agreement is 20 years commencing on 15 November 2018.

In order to ensure that the price of the natural gas under the above-mentioned natural gas sale and purchase agreements (i) to (iii) is determined on a fair and reasonable basis and in accordance with the pricing principles, the Company has adopted the following procedures when determining the price of the natural gas to be supplied to its production facilities in Hainan:

a. the designated department of the Company would monitor and obtain the prevailing average prices of the Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire on a quarterly basis in the case of Fudao Phase I Urea Plant, Fudao Phase II Urea Plant and Hainan Phase II Methanol Plant, and on a monthly basis in the case of Hainan Phase I Methanol Plant;

b. based on the average prices of the Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire obtained, the designated department would calculate the natural gas price for the preceding quarter or month (as the case may be) in accordance with the pricing principles as set out in the relevant natural gas sale and purchase agreement;

c. the designated department would then submit the natural gas price so determined to senior management of the Company for approval upon which the Company would make payment to CNOOC China Limited in accordance with the terms and conditions as set out in the relevant natural gas sale and purchase agreements.

The transactions under the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement has been conducted on normal commercial terms and conditions which is no less favourable than those offered to independent third parties by CNOOC China Limited, and has been priced in accordance with a benchmark price which is determined with reference to the exploration, development and production cost of the gasfield plus reasonable profit in principle as CNOOC China Limited is the sole supplier of natural gas in the region. The 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 transactions under the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement has been conducted on normal commercial terms and conditions which is no less favourable than those offered to independent third parties by CNOOC China Limited, and has been priced in accordance with a benchmark price which is determined with reference to the exploration, development and production cost of the gasfield plus reasonable profit in principle as CNOOC China Limited is the sole supplier of natural gas in the region.

The price of natural gas will be adjusted based on the benchmark price on a quarterly basis if the average price of international crude oil (Dated Brent) or the average selling price of the Company's urea or methanol of that quarter increases to a certain threshold, 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. Under the current adjustment mechanism, the price of natural gas will stay unchanged if none of the average price of international crude oil (Dated Brent) or the average selling price of the Company's methanol or urea increases to a certain threshold, while the price of natural gas will increase if any of the average price of international crude oil (Dated Brent) or the average selling price of the Company's methanol or urea increases to a certain threshold.

In 2021, the aggregate costs of the Group on purchases of natural gas from CNOOC China Limited amounted to RMB2,622,160,000.

3 Comprehensive Services and Product Sales Agreement

On 23 Octorber 2020, the Company entered into the Comprehensive Services and Product Sales Agreement with CNOOC, 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, 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 Comprehensive Services and Product Sales Agreement commenced on 1 January 2021 and will expire on 31 December 2023, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

In order to facilitate effective internal control of the continuing connected transactions contemplated under the Comprehensive Services and Product Sales Agreement, the Company will divide, so far as practicable, such transactions into two categories, which are (i) the provision of services and supplies and sale of products by the Group to CNOOC Group and (ii) the provision of services and supplies and sale of products by CNOOC Group to the Group.

Under the Comprehensive Services and Products Sales Agreement, the provision of services, supplies and products by the Group to CNOOC Group will be conducted on normal commercial terms and conditions which shall not be favourable than those offered to independent third parties by the Group, the provision of services, supplies and products by CNOOC Group to the Group will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to independent third parties by CNOOC Group, and the prices thereunder will be determined in accordance with the pricing principles set out in the Comprehensive Services and Product Sales Agreement as follows:

1. As to provision of services, supplies and products by the Group to CNOOC Group: a. not lower than the prices charged by the Group to other comparable independent third party customers for the same type of services, supplies or products; or b. with reference to the prices for the same type of services, supplies or products in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service providers or suppliers; or c. with reference to the prices for the same type of services, supplies or products in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party providers or suppliers.

2. As to provision of services, supplies and products by CNOOC Group to the Group: a. not higher than the prices charged by CNOOC Group to its associates (other than members of the Group) or other comparable independent third party customers (if any) for the same type of services, supplies or products; or b. with reference to the prices for the same type of services, supplies or products in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service providers or suppliers; or c. with reference to the prices for the same type of services, supplies or products in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party providers or suppliers.

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

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 2021 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB450,264,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB599,162,000.

4 Financial Services Agreement

The Group utilizes from time to time financial services provided by CNOOC Finance and, therefore, entered into the "Financial Services Agreement"with CNOOC Finance on 23 October 2020, 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 CBIRC to the members of the Group.

The term of the Financial Services Agreement commenced on 1 January 2021 and will expire on 31 December 2023 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 prime rate (LPR) promulgated by the National Interbank Funding Center as authorized 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) provision of deposit services: the interest rates for such deposits are determined in accordance with the deposit benchmark interest rates for relevant financial institutions as promulgated by the PBOC from time to time, and shall be no less than the comparable deposit interest rate offered by major financing banks of the Company;

(3) bank notes acceptance and discounting services: in providing note acceptance services to the Group, CNOOC Finance will charge service fees that are calculated in accordance with the par value, and the fee rates are determined with appropriate discount to the comparable rate provided by major financing banks of the Company; in providing note discounting services to the Group by CNOOC Finance, the interest rates are determined by reference to the latest notes market quote, and with applicable discount to the comparable 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 Company and/or its subsidiaries; 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 standards 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 2021, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB399,495,000.

5 **Finance Lease Agreement**

On 23 October 2020, the Company entered into the "Finance Lease Agreement" with CNOOC Leasing, 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 2021 and will expire on 31 December 2023, 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 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 2021, the annual costs, being the maximum principal amount outstanding plus production lease interest and commission fees accrued, paid by the Group pursuant to the Finance Lease Agreement amounted to RMB1,021,628,000.

6 **Kingboard Product Sales and Services Agreement**

The Company entered into the "Kingboard Product Sales and Services Agreement"with Kingboard on 23 October 2020, 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 2021 and will expire on 31 December 2023 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 2021, the aggregate revenue of the Group from Kingboard and its associates for sales of products and provision of related services amounted to RMB262,391,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2021 are set out below:

	Annual cap amount for 2021 (RMB'000)	Actual transaction amounts for 2021 (RMB'000)
A. Continuing connected transactions with CNOOC and its associates		
(1) Properties Leasing Agreement: Lease of properties by the Group from CNOOC Group	32,728	23,847
(2) Properties Leasing Agreement: Lease of properties by CNOOC Group from the Group	7,486	6,861
(3) Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited	2,814,157	2,622,160
(4) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by CNOOC Group to the Group	893,208	450,264
(b) Provision of services, supplies and sales of products by the Group to CNOOC Group	766,115	599,162
(5) Financial Services Agreement: Deposits placed in CNOOC Finance by the Group (Note 1)	400,000	399,495
(6) Finance Lease Agreement: Provision of finance lease services by CNOOC Leasing to the Group	1,104,000	1,021,628
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	315,893	262,391

Note 1: 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 2021 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 2021, 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 36.

Audit Committee

The 2021 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 2021 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

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

On 30 March 2022, Mr. Wang Weimin resigned from the positions of the chairman of the Board and an executive Director, and Mr. Hou Xiaofeng, 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. Hou Xiaofeng'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. Hou Xiaofeng, in addition to acting as the 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 the Board has three independent non- executive Directors out of the seven Directors, which is in compliance with the Listing Rules; (ii) Mr. Hou Xiaofeng 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 responsibilities 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.

The Company will use its best endeavor to identify suitable candidates to fill the vacancies and to re-comply with the relevant requirements of the Corporate Governance Code as soon as practicable.

Auditors

On 27 May 2021, BDO Limited and BDO China Shu Lun Pan CPAs were appointed as the overseas and domestic auditors of the Company respectively on the 2020 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 2021 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 Companys, respectively. For details of change of auditors by the Company on 31 May 2018, please refer to the circular of the Company dated 16 April 2018.

For and on behalf of the Board
Executive Director
Hou Xiaofeng

Beijing the PRC, 30 March 2022

Report of the Supervisory Committee

In 2021, 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 2021, the Supervisory Committee held three physical meetings and one interim meeting. These meetings were all convened in compliance with requirements of relevant laws and regulations and the Articles. Specifically:

(1) On 25 March 2021, the Supervisory Committee held the first meeting for 2021 in Beijing, at which the committee considered and approved the Report of the Supervisory Committee for 2020, reviewed the annual financial report of the Company for 2020, and discussed the main tasks of the Supervisory Committee for 2021.

(2) On 9 April 2021, the Supervisory Committee held the first interim meeting by way of written resolution, at which the committee considered and approved the resolutions regarding the candidates for the non-employee representative Supervisor of the new session of the Supervisory Committee and the remunerations of Supervisors.

(3) On 27 May 2021, the Supervisory Committee held the second meeting for 2021 in Beijing, at which the committee elected the chairman of the new session of the Supervisory Committee.

(4) On 26 August 2021, the Supervisory Committee held the third meeting for 2021 in Beijing, at which the committee reviewed the interim financial report of the Company for 2021, and discussed the prioritized tasks for the second half of 2021.

2 Principal inspection and supervision work carried out by the Supervisory Committee in 2021

(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 one extraordinary general meetings. Mr. Li Xiaoyu, the independent Supervisor of the Company, acted as the scrutineer for the vote-taking at these meetings.

(3) Members of the Supervisory Committee attended five 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 2021, members of the Supervisory Committee visited Hainan Fudao, Hainan Basuo Port and the acrylonitrile project team to investigate and inspect their 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, in view of the continued resurgence of COVID-19 pandemic and a complex and challenging business landscape, the Company grasped the market opportunities in the industry by further improving the management of production and operation, exercising comprehensive and stringent measures to reduce cost and enhance efficiency, deepening reform and innovation, and further enhancing its brand value. 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 financial and economic laws and regulations and the 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 2021 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 under the connected transactions were reasonable, open and fair without any prejudice to the interests of the shareholders and the Company.

(4) Implementation of resolutions of the general meetings

The Supervisory Committee 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 2022, the Supervisory Committee will continue to comply with the requirements under the Company Law, the Articles, the Rules of Procedures for Meetings of the Supervisory Committee and the Listing Rules, conscientiously perform their supervisory duties, independently exercise their powers and functions in accordance with the law, 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, 29 March 2022

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of China BlueChemical Ltd. (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 70 to 151 which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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
Impairment on certain non-current assets related to urea and methanol segments	
We identified the impairment in certain non-current assets related to urea and methanol segments as a key audit matter due to the significant judgments and estimates used in the impairment assessment by managements. Managements concluded that impairment indicators exised for certain cash-generating units ("CGUs") in urea and methanol segments at the end of the reporting period, and therefore performed an impairment assessment on those CGUs. The recoverable amounts of the CGUs are determined based on the estimated fair value less costs of disposal and with assistance from the independent professional qualified valuer. Details of the key estimation uncertainties and the impairment assessment on the non-current assets of the CGUs are disclosed in Notes 4c and 17, respectively, to the consolidated financial statements.	Our procedures in relation to the impairment on certain non-current assets related to urea and methanol segments included: • assessing the valuation methodology; • obtaining the understanding of the current and expected future developments of the CGUs and factors that might affect key assumptions and estimates of the fair values applicable to the CGUs; • evaluating the objectivity, capabilities and competence of the external valuers engaged by the Group; • reconciling input data used in the valuation to supporting evidence; and • reviewing the related disclosures in the consolidated financial statement.

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 threats 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, 30 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	7	**13,398,008**	10,417,493
Cost of sales		**(10,461,599)**	(9,083,765)
Gross profit		**2,936,409**	1,333,728
Other income	7	**109,982**	125,825
Other gains and losses, net	8	**(3,587)**	54,256
Selling and distribution costs		**(118,507)**	(183,126)
Administrative expenses		**(542,300)**	(432,558)
Other expenses	11	**(358,862)**	(28,367)
Change in fair value of financial assets at fair value through profit or loss		**6,122**	-
Finance income	9	**372,708**	272,632
Finance costs	10	**(50,559)**	(75,987)
Impairment losses	11	**(304,326)**	-
Exchange gains/(losses), net		**363**	(13,207)
Gains on disposal of a subsidiary	39	**68,707**	-
Gains on disposal of an associate	39	**455,103**	-
Gains on deemed disposal of a joint venture	22	**67,036**	-
Share of profits/(losses) of joint ventures	22	**717**	(405)
Share of profits of associates	23	**2,600**	824
Profit before income tax	11	**2,641,606**	1,053,615
Income tax expenses	14	**(1,000,171)**	(274,458)
Profit for the year		**1,641,435**	779,157
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		**(246)**	(1,703)
Share of other comprehensive income of joint ventures	22	**(1,161)**	(3,964)
Share of other comprehensive income of associates	23	**(52)**	(145)
		(1,459)	(5,812)
Total comprehensive income for the year		**1,639,976**	773,345

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

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Profit attributable to:			
Owners of the Company		**1,497,598**	745,485
Non-controlling interests		**143,837**	33,672
		1,641,435	779,157
Total comprehensive income attributable to:			
Owners of the Company		**1,496,139**	739,673
Non-controlling interests		**143,837**	33,672
		1,639,976	773,345
Earnings per share attributable to owners of the Company			
– Basic for the year (RMB per share)	16	**0.32**	0.16

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	6,742,510	6,532,764
Mining rights	18	130,279	131,862
Prepaid lease payments	19	533,210	546,770
Investment properties	20	86,196	93,500
Intangible assets	21	39,840	27,427
Investment in joint ventures	22	289,524	223,550
Investment in associates	23	34,424	35,019
Financial asset at fair value through other comprehensive income	24	600	600
Deferred tax assets	25	37,517	470,816
Other long-term prepayment for property, plant and equipment		75,867	-
		7,969,967	8,062,308
CURRENT ASSETS			
Inventories	26	1,231,545	1,001,505
Trade receivables	27	35,409	25,082
Bills receivable	28	176,853	610,794
Contract assets	29	7,259	13,157
Prepayments, deposits and other receivables	30	332,375	426,519
Financial assets at fair value through profit or loss	24	2,756,122	-
VAT recoverable		434,380	234,980
Pledged bank deposits	31	13,219	7,350
Time deposits with original maturity over three months	31	7,800,000	7,400,000
Cash and cash equivalents	31	674,449	2,765,441
		13,461,611	12,484,828
A disposal group and a non-current asset classified as held for sale	39	-	200,632
		13,461,611	12,685,460
TOTAL ASSETS		21,431,578	20,747,768
EQUITY			
CAPITAL AND RESERVES			
Issued capital	32	4,610,000	4,610,000
Reserves		10,502,551	9,720,962
Proposed dividends	15	714,550	368,800
Equity attributable to owners of the Company		15,827,101	14,699,762
Non-controlling interests		1,087,573	928,375
TOTAL EQUITY		16,914,674	15,628,137

Consolidated Statement of Financial Position - Continued

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Benefits liability	33	6,059	31,274
Interest-bearing bank borrowings	34	571,991	10,000
Lease liabilities	38	17,120	21,636
Deferred tax liabilities	25	27,331	14,456
Deferred revenue	35	125,804	123,474
Other long-term liabilities		326,560	16,080
		1,074,865	216,920
CURRENT LIABILITIES			
Interest-bearing bank borrowings	34	447,750	1,940,971
Trade payables	36	1,335,288	740,413
Contract liabilities	29	811,122	677,766
Other payables and accruals	37	667,949	1,456,746
Lease liabilities	38	8,695	5,126
Income tax payable		171,235	79,174
		3,442,039	4,900,196
Liabilities associated with a disposal group classified as held for sale	39	-	2,515
		3,442,039	4,902,711
TOTAL LIABILITIES		4,516,904	5,119,631
TOTAL EQUITY AND LIABILITIES		21,431,578	20,747,768
TOTAL CURRENT ASSETS		10,019,572	7,782,749
TOTAL ASSETS LESS CURRENT LIABILITIES		17,989,539	15,845,057
NET ASSETS		16,914,674	15,628,137

On behalf of the Board

Hou Xiaofeng
Director

Xie Dong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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 2021	**4,610,000**	**1,109,316**	**1,449,298**	**71,754**
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Appropriation and utilisation of safety fund, net	-	-	-	**9,252**
2021 proposed dividends (Note 15)	-	-	-	-
2020 final dividends declared	-	-	-	-
Transfer from retained earnings	-	-	**317,170**	-
Dividends paid to non–controlling interests	-	-	-	-
Disposal of a subsidiary (Note 39)	-	-	-	-
Balance at 31 December 2021	**4,610,000**	**1,109,316**	**1,766,468**	**81,006**
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

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
7,091,031	**368,800**	**(437)**	**14,699,762**	**928,375**	**15,628,137**
1,497,598	**-**	**-**	**1,497,598**	**143,837**	**1,641,435**
-	**-**	**(1,459)**	**(1,459)**	**-**	**(1,459)**
1,497,598	**-**	**(1,459)**	**1,496,139**	**143,837**	**1,639,976**
(9,252)	**-**	**-**	**-**	**-**	**-**
(714,550)	**714,550**	**-**	**-**	**-**	**-**
-	**(368,800)**	**-**	**(368,800)**	**-**	**(368,800)**
(317,170)	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(2,651)**	**(2,651)**
-	**-**	**-**	**-**	**18,012**	**18,012**
7,547,657	**714,550**	**(1,896)**	**15,827,101**	**1,087,573**	**16,914,674**
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

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**2,641,606**	1,053,615
Adjustment for:			
Other gains or losses, net	8	**3,587**	(54,256)
Finance income	9	**(372,708)**	(272,632)
Finance costs	10	**50,559**	75,987
Share of (profits)/losses of joint ventures	22	**(717)**	405
Share of profits of associates	23	**(2,600)**	(824)
Gains on deemed disposal of a joint venture	22	**(67,036)**	-
Gains on disposal of a subsidiary	39	**(68,707)**	-
Gains on disposal of an associates	39	**(455,103)**	-
Impairment losses	11	**304,326**	-
Depreciation and amortisation	11	**557,739**	648,251
Release of government grants	35	**(26,464)**	(29,784)
Change in fair value of financial assets at fair value through profit or loss		**(6,122)**	-
Write-down/(reversal of write-down) of inventories		**49,838**	(1,596)
Operating profit before working capital changes		**2,608,198**	1,419,166
(Increase)/decrease in inventories		**(279,878)**	110,810
Net decrease/(increase) in trade receivables, bills receivable, contract assets, prepayments, deposits and other receivables and other long-term prepayments for property, plant and equipment		**454,188**	(176,689)
Net increase in trade payables, contract liabilities, other payables and accruals and other long-term liabilities		**842,060**	71,502
Decrease in benefits liability		**(25,215)**	(11,181)
Cash generated from operations		**3,599,353**	1,413,608
Income tax paid		**(660,645)**	(150,403)
Net cash flows generated from operating activities		**2,938,708**	1,263,205

Consolidated Statement of Cash Flows - Continued

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
INVESTING ACTIVITIES			
Interest received		197,784	144,484
Dividend received		2,005	500
Deposit received	39	-	719,066
Purchases of property, plant and equipment		(1,059,497)	(372,850)
Proceeds from disposal of property, plant and equipment		327,634	43,805
Purchases of intangible assets		(20,421)	(2,413)
Purchases of prepaid lease payments		(2,190)	-
Proceeds from disposal of prepaid lease payments		647	-
Purchased of financial assets at fair value through profit or loss		(3,450,000)	(3,300,000)
Disposal of financial assets at fair value through profit or loss		712,508	6,255,411
Government grants received	35	28,794	23,132
Placement of time deposits with original maturity over three months		(5,400,000)	(2,400,000)
Withdrawal of time deposits with original maturity over three months		5,000,000	-
Net cash flow (used in)/generated from investing activities		(3,662,736)	1,111,135
FINANCING ACTIVITIES			
Bank borrowings raised		2,249,117	1,917,275
Repayment of bank borrowings		(3,180,347)	(1,977,275)
Increase in pledged bank deposits		(5,869)	(3,221)
Interest paid		(49,334)	(74,974)
Dividends paid		(368,800)	(350,360)
Dividends paid to non-controlling interests		(2,651)	(58,937)
Contribution from non-controlling interest	45(i)(iii)	-	147,000
Payment of lease liabilities		(2,172)	(5,829)
Other finance charges		(6,662)	(9,540)
Net cash flows used in financing activities		(1,366,718)	(415,861)
Net (decrease)/increase in bank balances and cash		(2,090,746)	1,958,479
Cash and cash equivalents at 1 January		2,765,441	824,096
Effect of foreign exchange rate changes		(246)	(17,130)
Cash and cash equivalents at 31 December		674,449	2,765,445
Represented by:			
Cash and cash equivalents in the consolidated statement of financial position	31	674,449	2,765,441
Bank balance and cash under a disposal group classified as held for sale	39	-	4
		674,449	2,765,445

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. General information

China BlueChemical Ltd. (the "**Company**") was established in thePRC 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 2021:

Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

The Group also elected to adopt the following amendment early:

Amendments to IFRS 16	COVID-19 – Related Rent Concessions beyond 30 June 2021

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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

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

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

Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[1]
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to 2018-2020 cycle[1]
Amendments to IAS 16	Proceed before Intended Use[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[1]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
IFRS 17	Insurance Contracts[2]
Amendments to IAS 8	Definition of Accounting Estimates[2]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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

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

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

The directors of the Company do not anticipate that the applications of the amendments and revision in the future will have significant impacts on the financial statements.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(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.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(c) Property, plant and equipment – Continued

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.

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 recognisedso 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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(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.

(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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(g) Intangible assets

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

Computer software

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

Patents and licences

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

(h) Financial Instruments

(i) Financial assets

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

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

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

<u>Debt instruments</u>

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(h) Financial Instruments – Continued

(i) Financial assets – Continued

Debt instruments – Continued

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.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(h) Financial Instruments – Continued

(ii) Impairment loss on financial assets – Continued

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.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(h) Financial Instruments – Continued

(iii) Financial liabilities – Continued

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.

(vi) Derecognition – Continued

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.

(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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(j) Revenue recognition – Continued

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 fertilisersand 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.

(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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(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.

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(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.

(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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(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.

(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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(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.

  (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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

4. Significant accounting policies – Continued

(t) Related parties – Continued

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 willhave an impact to profit or loss in the year in which such estimate is revised or when actual write-off occur.

(b) Deferred tax assets

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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

(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 2021 is disclosed in Note 17.

(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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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, POMand 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 gains/losses, other gains and losses, net, other expenses, share of results of associates and joint ventures, gains on disposal of a subsidiary and an associate, gain on deemed disposal of a joint venture, 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 2021

6. Operating segment information – Continued

Operating segments

	Urea RMB'000	Methanol RMB'000	Phosphorus and compound fertiliser RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2021						
Segment revenue:						
Sales to external customer	4,352,870	3,213,056	2,814,900	3,017,182	-	13,398,008
Inter-segment sales	-	-	-	140,019	(140,019)	-
Total	4,352,870	3,213,056	2,814,900	3,157,201	(140,019)	13,398,008
Segment profit/(loss) before income tax	1,020,731	1,056,594	322,411	(14,152)	-	2,385,584
Interest and unallocated income						375,243
Corporate and other unallocated expenses						(713,747)
Exchange gains, net						363
Share of profits of joint ventures						717
Share of profits of associates						2,600
Gains on deemed disposal of a joint venture						67,036
Gains on disposal of a subsidiary						68,707
Gains on disposal of an associate						455,103
Profit before income tax						2,641,606
As at 31 December 2021						
Total segment assets	4,562,104	2,265,553	1,909,417	12,698,582	(366,143)	21,069,513
Unallocated						362,065
Total assets						21,431,578
Total segment liabilities	318,034	369,160	790,947	3,371,516	(366,143)	4,483,514
Unallocated						33,390
Total liabilities						4,516,904
Other segment information						
Depreciation and amortisation	295,731	78,411	127,818	55,779	-	557,739
Impairment loss of property, plant and equipment	264,444	36,259	-	-	-	300,703
Impairment loss of investment properties	-	-	1,867	-	-	1,867
Capital expenditure*	165,900	66,246	85,794	989,424	-	1,307,364

* 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 2021

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 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 2021

6. Operating segment information – Continued

Operating segments – Continued

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 deferred tax liabilities and benefits liability.

Geographic information

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

	2021 RMB'000	2020 RMB'000
Sales to external customers		
– PRC	12,181,247	9,762,177
– Others	1,216,761	655,316
	13,398,008	10,417,493

(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 2021 and 2020.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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:

	2021 RMB'000	2020 RMB'000
Revenue		
Sale of goods, recognsied at a point in time*	13,021,629	10,018,754
Render of services, recognised overtime*	376,379	398,739
	13,398,008	10,417,493
Other income		
Income from sale of other materials, recognised at a point in time*	10,281	29,611
Income from render of other services, recognised overtime*	6,294	8,508
Gross rental income	579	5,743
Government grants	26,464	29,784
Indemnities received	24,680	2,980
Sundry income	41,684	49,199
	109,982	125,825

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

8. Other gains and losses, net

	2021 RMB'000	2020 RMB'000
Gain on maturity of financial assets at FVTPL	12,508	56,960
Reversal of impairment losses on trade and other receivables	5,157	-
Loss on disposal of property, plant and equipment	(21,252)	(2,854)
Dividend income	-	150
	(3,587)	54,256

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

9. Finance income

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

10. Finance costs

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	49,334	74,611
Interest on lease liabilities	1,225	1,376
	50,559	75,987

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

11. Profit before income tax

Profit before income tax is arrived at after charging:

	2021 RMB'000	2020 RMB'000
Cost of inventories sold	10,085,796	8,785,262
Write-down/(reversal of write-down) of inventories	49,838	(1,596)
Cost of services provided	325,965	300,099
Cost of sales recognised as expenses	10,461,599	9,083,765
Depreciation and amortisation:		
Depreciation of property, plant and equipment		
- Owned property, plant and equipment	522,611	616,832
- Right-of-use assets included:		
- Buildings	2,006	2,030
- Plant and machinery	2,991	2,788
Amortisation of mining rights	1,583	1,882
Amortisation of prepaid lease payments	15,103	15,214
Amortisation of investment properties	5,437	5,945
Amortisation of intangible assets	8,008	3,560
	557,739	648,251
Impairment losses:		
Impairment loss of property, plant and equipment (Note 17)	300,703	-
Impairment loss of investment properties (Note 20)	1,867	-
Impairment loss of investment in an associate (Note 23)	1,756	-
	304,326	-
Other expenses*	358,862	28,367
Auditors' remuneration	2,303	4,252
Employee benefit expense (including directors' and supervisors' remunerations explained in Note 12)		
- Wages and salaries	855,677	706,066
- Defined contribution pension scheme	101,405	30,985
- Early retirement benefits and post-employment allowances	490	761
- Medical benefit costs	54,414	43,960
- Housing fund	77,906	71,945

* Included in other expenses were severance payments of RMB308,442,000 related to the layoff of certain labours and employees upon the suspension of urea and methanol operations of a subsidiary. Details of the severance payment are disclosed in Note 33 to the consolidated financial statements.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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	
	2021	2020
	RMB'000	RMB'000
Fee	**-**	-
Other emoluments		
Salaries and other allowances	**1,527**	1,269
Discretionary bonuses	**3,369**	1,774
Pension scheme contributions	**384**	227
	5,280	3,270

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2021 was set out below:

	Fee	Salaries and other allowances	Discretionary bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Non-executive directors					
Guo Xinjun (Note 1)	**-**	**-**	**-**	**-**	**-**
Liu Zhenyu (Note 2)	**-**	**-**	**-**	**-**	**-**
Zhao Baoshun (Note 3)	**-**	**189**	**698**	**73**	**960**
Huang Hulong (Note 4)	**-**	**-**	**-**	**-**	**-**
	-	**189**	**698**	**73**	**960**

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

	Fee	Salaries and other allowances	Discretionary bonuses	Pension scheme contributions	Total
Executive directors					
Wang Weimin	**-**	**287**	**825**	**101**	**1,213**
Hou Xiaofeng	**-**	**250**	**844**	**97**	**1,191**
Li Zhi (Note 5)	**-**	**82**	**494**	**25**	**601**
	-	**619**	**2,163**	**223**	**3,005**

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

12. Key management personnel remuneration – Continued

	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 (Note 6)	-	105	-	-	105
Lee Kwan Hung (Note 7)	-	105	-	-	105
Yu Changchun	-	130	-	-	130
Lin Feng (Note 8)	-	143	-	-	143
Xie Dong (Note 9)	-	72	-	-	72
	-	555	-	-	555

The independent non-executive 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 2021 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	-	99	508	88	695
Li Xiaoyu	-	65	-	-	65
Liu Jianyao	-	-	-	-	-
	-	164	508	88	760

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

Total	-	1,527	3,369	384	5,280

Notes:

1 Guo Xinjun resigned as Non-executive director on 23 December 2021.

2 Liu Zhenyu resigned as Non-executive director on 23 December 2021.

3 Zhao Baoshun being appointed as Non-executive director on 23 December 2021.

4 Huang Hulong being appointed as Non-executive director on 23 December 2021.

5 Li Zhi being appointed as Executive director on 23 December 2021.

6 Lee Kit Ying resigned as Independent non-executive director on 27 May 2021.

7 Lee Kwan Hung resigned as Independent non-executive director on 27 May 2021.

8 Lin Feng being appointed as Independent non-executive director on 27 May 2021.

9 Xie Dong being appointed as Independent non-executive director on 27 May 2021.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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-executive directors' remunerations shown above were for their services as directors of the Company.

	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.

	Fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Total	-	1,269	1,774	227	3,270

Notes:

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

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

3 Hou Xiaofeng being 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 2021

13. Five highest paid employees

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

	2021 Number	2020 Number
Directors and supervisors	2	1
Non-director and non-supervisor employees	3	4
	5	5

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

	2021 RMB'000	2020 RMB'000
Salaries and other allowances	695	941
Discretionary bonuses	2,140	2,568
Pension scheme contributions	289	367
	3,124	3,876

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

	2021 Number	2020 Number
RMBNil to RMB1,000,000	1	4
RMB1,000,001 to RMB1,500,000	2	-

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

14. Income tax expenses

	2021 RMB'000	2020 RMB'000
Current tax		
PRC Enterprise Income Tax	**560,997**	237,374
Deferred tax (Note 25)	**446,174**	30,707
	1,007,171	268,081
(Over)/under-provision in prior year	**(7,000)**	6,377
	1,000,171	274,458

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:

	2021 RMB'000	2020 RMB'000
Profit before income tax	**2,641,606**	1,053,615
Tax at the statutory tax rate of 25%	**660,402**	263,404
Income tax on concessionary rate	**(75,124)**	(6,579)
(Over)/under-provision in respect of prior year	**(7,000)**	6,377
Tax effect of share of profits of joint ventures and associates	**(829)**	(105)
Tax effect of tax losses not recognised	**111,962**	9,570
Utilisation of tax losses not recognised	**(56,434)**	-
Tax effect of deductible temporary differences not recognised	**387,747**	17,918
Utilisation of deductible temporary differences not recognised	**(2,327)**	(2,446)
Income not taxable for tax	**(22,227)**	(14,595)
Expenses not deductible for tax	**4,001**	914
Income tax expenses	**1,000,171**	274,458
The Group's effective income tax rate	**38%**	26%

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

15. Proposed dividends

	2021 RMB'000	2020 RMB'000
Proposed dividends – RMB0.155 (2020: RMB0.080) per ordinary share	**714,550**	368,800

The proposed final dividend for the year ended 31 December 2020 was approved at the annual general meeting on 27 May 2021. Proposed final dividend for the year ended 31 December 2021 is subject to the approval of the Company's shareholders at the forthcoming 2021 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

	2021 RMB'000	2020 RMB'000
Earnings		
Profits for the year attributable to owners of the Company	**1,497,598**	745,485

	Number of shares	
	2021 '000	2020 '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 2021

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 2021, net of accumulated depreciation and impairment	2,332,540	3,327,677	45,312	57,235	246,375	523,625	6,532,764
Additions	458	6,752	266	3,024	30,679	1,245,764	1,286,943
Disposals	(47,540)	(36,569)	(1,759)	(2,340)	(482)	(160,196)	(248,886)
Transfer	45,611	167,132	6,723	8,376	344	(228,186)	-
Depreciation	(137,978)	(344,788)	(10,591)	(10,095)	(24,156)	-	(527,608)
Impairment losses (Note)	(45,358)	(168,820)	-	(7,962)	-	(78,563)	(300,703)
Costs at 31 December 2021, net of accumulated depreciation and impairment	2,147,733	2,951,384	39,951	48,238	252,760	1,302,444	6,742,510
At 31 December 2021							
Cost	5,951,679	13,751,750	166,483	1,088,423	605,519	1,448,554	23,012,408
Accumulated depreciation and impairment	(3,803,946)	(10,800,366)	(126,532)	(1,040,185)	(352,759)	(146,110)	(16,269,898)
Net carrying amounts	2,147,733	2,951,384	39,951	48,238	252,760	1,302,444	6,742,510
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

The Group has no capitalised borrowing costs on qualifying assets during the year (2020: RMBNil).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

17. Property, plant and equipment – Continued

Security

As at 31 December 2020, property, plant and equipment of RMB901,218,000 were pledged as securities for the Group's interest-bearing bank borrowings. The details are disclosed in Note 34.

Note:

Impairment assessment

During the year ended 31 December 2021, the Group has suspended its operations of the urea and methanol plants of CNOOC Tianye (the "Suspended Plants"), each of the plants represented one of the cash-generating units ("CGUs") of urea and methanol segments respectively. In order to comply with relevant environmental protection laws of the PRC, certain upgrades and renovations should be made to the Suspended Plants prior to their operations. The management of the Company considers it is not worth for incurring the capital expenditures on the upgrades and renovations given that the financial performance of the Suspended Plants in the past was strongly affected by the unstable supply of natural gas. As a result, the management of the Company identifies the suspension of operations of the Suspended Plants as an impairment indicator and carried out an impairment review on the CGUs' non-current assets.

Since the Suspended Plants have ceased their operations, the management of the Company assessed the recoverable amounts of the non-current assets, property, plant and equipment, of the Suspended Plants with reference to their estimated fair value less costs of disposal using the market approach and categorised as Level 3 measurement under the fair value hierarchy. Given the non-current assets of the Suspended Plants are specified to the Group's operations with no available market value, the estimated fair value was determined based on the market price on sales of scrap metal minus the estimated demolition and disposal costs after the demolition of the property, plant and equipment of the Suspended Plants. Impairment losses on property, plant and equipment of RMB300,703,000 was recognised in the consolidated statement of profit or loss for the year.

Right-of-Use assets

	Plant and machinery RMB'000	Buildings RMB'000	Prepaid lease payments RMB'000	Total RMB'000
At 1 January 2021	**17,895**	**10,883**	**546,770**	**575,548**
Additions	**9,250**	**-**	**2,190**	**11,440**
Depreciation	**(2,991)**	**(2,006)**	**(15,103)**	**(20,100)**
Disposal	**(9,048)**	**-**	**(647)**	**(9,695)**
At 31 December 2021	**15,106**	**8,877**	**533,210**	**557,193**
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 a disposal group classified as held for sale (Note 39)	-	-	(9,237)	(9,237)
At 31 December 2020	17,895	10,883	546,770	575,548

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

18. Mining rights

	2021 RMB'000	2020 RMB'000
Cost as at 1 January, net of accumulated amortisation	**131,862**	133,744
Amortisation for the year	**(1,583)**	(1,882)
Cost as at 31 December, net of accumulated amortisation	**130,279**	131,862
As at 31 December		
Cost	**158,665**	158,665
Accumulated amortisation	**(28,386)**	(26,803)
Net carrying amount	**130,279**	131,862

19. Prepaid lease payments

	2021 RMB'000	2020 RMB'000
Carrying amount as at 1 January	**546,770**	571,221
Addition	**2,190**	-
Amortisation for the year	**(15,103)**	(15,214)
Disposals	**(647)**	-
	533,210	556,007
Transfer to a disposal group classified as held for sale (Note 39)	**-**	(9,237)
Carrying amount as at 31 December	**533,210**	546,770

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

20. Investment properties

	Total RMB'000
Cost	
At 1 January 2020, 31 December 2020, 1January 2021 and 31 December 2021	**124,491**
Depreciation and impairment	
At 1 January 2020	25,046
Depreciation for the year	5,945
At 31 December 2020 and 1 January 2021	**30,991**
Depreciation for the year	**5,437**
Impairment loss for the year	**1,867**
At 31 December 2021	**38,295**
Carrying amounts	
At 31 December 2021	**86,196**
At 31 December 2020	**93,500**

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".

	Fair value measurement categorised into significant unobservable inputs (level 3)	
	2021 RMB'000	2020 RMB'000
Recurring fair value measurement		
Investment properties	**86,633**	93,625

As at 31 December 2021, the carrying value of the aforesaid investment properties was RMB86,196,000, 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 Beijing Guorongxinghua 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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

21. Intangible assets

	Computer Software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2021, net of accumulated amortisation	**8,325**	**19,102**	**27,427**
Additions	**20,327**	**94**	**20,421**
Amortisation for the year	**(5,098)**	**(2,910)**	**(8,008)**
Cost as at 31 December 2021, net of accumulated amortisation	**23,554**	**16,286**	**39,840**
As at 31 December 2021			
Cost	**89,188**	**163,108**	**252,296**
Accumulated amortisation	**(65,634)**	**(146,822)**	**(212,456)**
Net carrying amounts	**23,554**	**16,286**	**39,840**
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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

22. Investment in joint ventures

	2021 RMB'000	2020 RMB'000
Cost of investment in joint ventures	265,299	265,299
Share of post-acquisition profits/(losses) and other comprehensive income, net of dividends received	24,225	(41,749)
	289,524	223,550

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

The Group's trade receivables, other receivables and other payables with its joint ventures are disclosed in Notes 27, 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 2021 %	2020 %	Principal ctivities
貴州錦麟化工有限責任公司 (transliterated as Guizhou Jinlin Chemical Co., Ltd.) (Notes i and iii)	PRC 12 April 2007	RMB584,221	Direct Indirect	33.99 –	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 –	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	– 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.

(iii) On 15 November 2021, the joint venture has entered into capital contribution agreement with a new investor, pursuant to the agreement, the new investor has contributed RMB300,000,000 to the joint venture, in which RMB102,823,000 was paid as the registered capital and representing 17.60% of equity interest of the joint venture and the remaining RMB197,177,000 was recognised as capital reserve of the joint venture. As a result of the capital contribution agreement, the equity interest attributed to the Group has decreased from 41.26% to 33.99% and gain on deemed disposal of a joint venture of RMB67,036,000 was recognised in the consolidated statement of profit or loss for the year.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

22. Investment in joint ventures – Continued

The following table illustrates the summarised financial information of Guizhou Jinlin Chemical Co., Ltd., that are material to the Group and are accounted for using equity method:

	Guizhou Jinlin Chemical Co., Ltd.	
	2021	2020
	RMB'000	RMB'000
As 31 December		
Current assets	**304,085**	65,998
Non-current assets	**491,060**	426,369
Current liabilities	**(12,735)**	(9,980)
Non-current liabilities	**(4,870)**	(4,870)
Year ended 31 December		
Revenue	**-**	-
Profit/(loss) for the year	**23**	(70)
Reconciled to the Group's interests in the joint venture		
Gross amounts of net assets of the joint venture	**777,540**	477,517
Group's effective equity interest	**33.99%**	41.26%
Group's share of net assets of the joint venture	**264,286**	197,024
Carrying amount in the consolidated financial statements	**264,286**	197,024

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2021	2020
	RMB'000	RMB'000
The Group's share of losses and other comprehensive income	**(1,035)**	(4,340)
Aggregate carrying amounts of the Group's investment in joint ventures	**25,238**	26,526

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

23. Investment in associates

	2021 RMB'000	2020 RMB'000
Cost of investment in associates	**33,031**	670,031
Share of post-acquisition profits/(losses) and other comprehensive income, net of dividends received	**3,149**	(453,115)
Transfer to a non-current asset classified as held for sale (Note 39)	**-**	(181,897)
Impairment loss for the year	**(1,756)**	-
	34,424	35,019

The above associates are accounted for using equity method in the consolidated financial statements.

The Group's trade receivables, contract liabilities, other receivables and trade payables with its associates are disclosed in Notes 27, 29, 30 and 36 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 2021 %	2020 %	Principal activities
山西華鹿陽坡泉煤礦有限公司 (transliterated as Shanxi HualuYangpoquan 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**	– 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.) (Note iv)	PRC 9 December 1999	RMB3,297	Direct Indirect	**–** **45.21**	– 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** **–**	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) As at 31 December 2020, investment in Yanpoguan has been transferred to a non-current asset classified as held for sale. Details of the transaction were stated in Note 39 to these consolidated financial statements.

(iv) The associate's principal activity was the manufacture and sale of woven plastic bags to CNOOC Tianye. Upon the suspension of urea and methanol operations of CNOOC Tianye (Note 17), the associate ceased its operation accordingly. Investment in the associate was fully impaired with impairment loss of RMB1,756,000 during the year.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

23. Investment in associates – Continued

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

	2021 RMB'000	2020 RMB'000
The Group's share of profits and other comprehensive income	**2,548**	679
Aggregate carrying amount of the Group's investment in associates	**34,424**	35,019

24. Other financial assets

	2021 RMB'000	2020 RMB'000
Non-current		
Financial asset at FVOCI	**600**	600
Current		
Financial assets at FVTPL	**2,756,122**	-

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. Gain on maturity of financial assets at FVTPL of RMB12,508,000 (2020: RMB56,960,000) was recognised during the year. The wealth management products will mature on 16 March 2022, 4 April 2022 and 18 April 2022 (2020: all wealth management products matured during the year).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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:

	2021	2020
	RMB'000	RMB'000
Deferred tax assets	**37,517**	470,816
Deferred tax liabilities	**(27,331)**	(14,456)
	10,186	456,360

The following are the major deferred tax liabilities and assets recognised and movements 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 2020	17,134	445,094	14,315	(19,382)	22,153	5,444	484,758
(Charge)/credit to profit or loss	822	(16,098)	(14,315)	2,617	(11,252)	7,519	(30,707)
Transfer to liabilities associate to a disposal group classified as held for sale (Note 39)	-	-	-	2,309	-	-	2,309
As at 31 December 2020 and 1 January 2021	**17,956**	**428,996**	**-**	**(14,456)**	**10,901**	**12,963**	**456,360**
(Charge)/credit to profit of loss	**(559)**	**(426,458)**	**-**	**(12,875)**	**(10,901)**	**4,619**	**(446,174)**
As at 31 December 2021	**17,397**	**2,538**	**-**	**(27,331)**	**-**	**17,582**	**10,186**

As at 31 December 2021, the Group has unused tax losses of RMB1,429,008,000 (2020: RMB1,538,368,000) of available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2020: deferred tax assets of RMB43,604,000), due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB1,429,008,000 (2020: RMB1,494,764,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB2,260,250,000 (2020: RMB709,261,000) 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 2021

26. Inventories

	2021 RMB'000	2020 RMB'000
Raw materials and spare parts	601,907	522,564
Work in progress	227,699	145,064
Finished goods	455,027	337,175
	1,284,633	1,004,803
Write-down	(53,088)	(3,250)
Transfer to a disposal group classified as held for sale (Note 39)	-	(48)
Net realisable value	1,231,545	1,001,505

27. Trade receivables

Sales of the Group's fertilisersand 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.

	2021 RMB'000	2020 RMB'000
Trade receivables	35,409	25,844
Less: impairment loss	-	(762)
Net carrying amounts	35,409	25,082

An aging analysis of trade receivablesat the end of the reporting year, based on the invoice date and net of impairment of trade receivables of the Group, was as follows:

	2021 RMB'000	2020 RMB'000
Within one year	35,409	25,082

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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 RMBNil (2020: RMB762,000).

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

	2021 RMB'000	2020 RMB'000
Neither past due nor impaired	35,409	25,082

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:

	2021 RMB'000	2020 RMB'000
Balance at beginning of the year	762	762
Reversal of impairment loss	(762)	-
Balance at end of the year	-	762

The Group recognised impairment loss based on the accounting policy stated in Note 4(h)(ii) for the years ended 31 December 2021 and 2020. 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 2021, 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 joint ventures 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:

	2021 RMB'000	2020 RMB'000
CNOOC group companies	13,288	5,632
Associates	2,166	3,206
Joint ventures	325	-
	15,779	8,838

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

28. Bills receivable

The bills receivable of the Group as at 31 December 2021 and 2020 are all mature within twelve months.

At 31 December 2021, 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 RMB213,757,000 (2020: RMB168,086,000). 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 2021, 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 RMB213,757,000 (2020: RMB168,086,000).

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.

	2021	2020
	RMB'000	RMB'000
Contract assets arising from:		
Provision of port operation and transportation services	**7,259**	13,157

The expected timing of recovery or settlement for contract assets as at 31 December 2021 is as follows:

	2021	2020
	RMB'000	RMB'000
Within one year	**7,259**	13,157

As at 31 December 2021, the amount due from CNOOC group companies included in the above contract assets amounted to RMB4,982,000 (2020: RMB13,157,000).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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.

	2021 RMB'000	2020 RMB'000
Contract liabilities arising from:		
Sale of goods	**811,122**	677,766

The expected timing of recognising as revenue for contract liabilities as at 31 December 2021 is as follows:

	2021 RMB'000	2020 RMB'000
Within one year	**810,058**	673,614
1 – 2 years	**590**	3,183
2 – 3 years	**66**	969
Over 3 years	**408**	-
	811,122	677,766

As at 31 December 2021, the amounts due to the ultimate holding company, 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 contract liabilities can be analysed as follow:

	2021 RMB'000	2020 RMB'000
Ultimate holding company	**4,717**	-
CNOOC group companies	**38,848**	7,770
Associate	**26,622**	9,351
Other Related Parties	**-**	39
	70,187	17,160

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

30. Prepayments, deposits and other receivables

	2021 RMB'000	2020 RMB'000
Prepayments	**98,616**	162,160
Deposits and other receivables	**234,824**	285,665
Less: impairment loss	**(1,065)**	(15,153)
	332,375	432,672
Transfer to a disposal group classified as held for sales (Note 39)	**-**	(6,153)
	332,375	426,519

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

	2021 RMB'000	2020 RMB'000
Balance at beginning of the year	**15,153**	15,153
Reversal of impairment loss	**(4,395)**	-
Written off of impairment loss recognised	**(9,693)**	-
Balance at end of the year	**1,065**	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 and joint venture included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	2021 RMB'000	2020 RMB'000
Ultimate holding company	**-**	31
CNOOC group companies	**12,165**	20,832
Associates	**1,202**	3,175
Joint venture	**101**	342
	13,468	24,380

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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

	2021 RMB'000	2020 RMB'000
Cash and bank and financial institution balances	**8,487,668**	10,172,791
Less: Pledged bank deposits	**(13,219)**	(7,350)
Time deposits with original maturity over three months	**(7,800,000)**	(7,400,000)
Cash and cash equivalents in the consolidated statement of cash flows	**674,449**	2,765,441

The Group's cash and bank balances were denominated in RMB as at 31 December 2021 and 2020, except for (i) RMB1,723,000 (2020: RMB27,751,000) which was translated from US$270,000 (2020: US$4,253,000) and (ii) RMB7,000 (2020: RMB6,000) which was translated from HK$9,000 (2020: HK$7,000).

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 2021, included in the Group's cash and cash equivalents were RMB399,500,000 (2020: RMB143,007,000) 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 2021 and 2020	**4,610,000**	**4,610,000**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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.

	2021 RMB'000	2020 RMB'000
Post-employment allowances	-	10,907
Early retirement benefits	6,059	20,367
Total benefits liability	6,059	31,274

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 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 and 1 January 2021	10,907	20,367
Net interest cost	-	201
Benefits paid	(2,147)	(9,549)
Actuarial gains	-	289
Reversal of benefits liability	(8,760)	(5,249)
At 31 December 2021	-	6,059

The principal assumptions used in determining post-employment allowances and early retirement benefits of the Group as at 31 December 2021 are shown below:

	Post-employment allowances		Early retirement benefits	
	2021	2020	2021	2020
Discount rate				
- CNOOC Tianye*	N/A	3.25%	N/A	3.25%
- Hainan Basuo Port	N/A	N/A	2.50%	3.00%
Annual growth rate of employee benefits				
- CNOOC Tianye*	N/A	0.00%	N/A	7.00%
- Hainan Basuo Port	N/A	N/A	7.00%	7.00%

* Upon the suspension of Urea and Methanol operations of CNOOC Tianye, the employees and labours have been laid off or replacement to other company, severance payments of RMB308,442,000, which were performed by an independent actuary service provider, were recognised as other expenses during the year. No actuarial valuation on post-employment allowances and early retirement benefits for CNOOC Tianye were performed at the end of the reporting period.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

33. Benefits liability - Continued

The directors of the Company have reviewed the actuarial valuation as at 31 December 2021 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 2021. The directors of the Group do not expect significant changes in principal assumptions.

34. Interest-bearing bank borrowings

	2021 RMB'000	2020 RMB'000
Within one year	447,750	1,940,971
More than one year, but not more than two years	-	10,000
More than five years	571,991	-
	1,019,741	1,950,971
Analysed for reporting purposes as:		
Current	447,750	1,940,971
Non-current	571,991	10,000

As at 31 December 2021, bank borrowings of RMB1,019,741,000 (2020: RMB1,073,103,000) were unsecured with effective interest rate of 3.40%-4.41% per annum (2020: 3.37%-4.41%), payable within 2021 to 2029 (2020: 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, bank borrowing of RMB877,868,000 were due to CNOOC International Financial Leasing Limited ("**CNOOC Leasing**") with interest rates of 4.30% per annum and secured by certain property, plant and equipment amounted to RMB901,218,000 (Note 17).

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.

	2021 RMB'000	2020 RMB'000
Balance at beginning of the year	123,474	130,126
Additions	28,794	23,132
Credited to consolidated statement of profit or loss	(26,464)	(29,784)
Balance at end of the year	125,804	123,474

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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:

	2021 RMB'000	2020 RMB'000
Within one year	1,286,545	729,489
Over one year but within two years	45,865	7,018
Over two years but within three years	1,704	1,560
Over three years	1,174	2,346
	1,335,288	740,413

As at 31 December 2021, the amounts due to CNOOC group companies, associates 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:

	2021 RMB'000	2020 RMB'000
CNOOC group companies	518,770	364,102
Associate	421	1,413
Other Related Parties	5,651	-
	524,842	365,515

37. Other payables and accruals

	2021 RMB'000	2020 RMB'000
Accrued payroll	162,788	142,350
Other payables	249,361	273,678
Dividends payable	-	13,445
Payable to government	18,603	18,603
Other tax payables	42,401	41,934
Port construction fee payable	158,773	158,773
Payables in relation to the construction and purchase of property, plant and equipment	36,023	89,103
Deposits received (Note 39)	-	719,066
	667,949	1,456,952
Transfer to liabilities associated with a disposal group classified as held for sale (Note 39)	-	(206)
	667,949	1,456,746

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

37. Other payables and accruals - Continued

The amounts due to the ultimate holding company, CNOOC group companies, 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:

	2021 RMB'000	2020 RMB'000
Ultimate holding company	**4**	180
CNOOC group companies	**59,684**	35,444
Joint venture	**306**	-
Other Related Parties	**2,830**	5,148
	62,824	40,772

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:

	2021 RMB'000	2020 RMB'000
Ownership interests in leasehold land, carried at amortised cost (Note 19)	**533,210**	546,770
Other properties leased for own use, carried at depreciated cost (Note 17)	**8,877**	10,883
Plant and machinery, carried at depreciated cost (Note 17)	**15,106**	17,895

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

38. Leases - Continued

LEASE LIABILITIES

	Plant and machinery RMB'000	Land and buildings RMB'000	Total RMB'000
For the year ended 31 December 2021			
At 1 January 2021	**17,779**	**8,983**	**26,762**
Interest expense	**773**	**452**	**1,225**
Lease payments	**-**	**(2,172)**	**(2,172)**
At 31 December 2021	**18,552**	**7,263**	**25,815**
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

Future lease payments are due as follows:

		2021	
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	**9,665**	**970**	**8,695**
After one but within two years	**5,493**	**774**	**4,719**
After two but within five years	**12,652**	**1,139**	**11,513**
More than 5 years	**1,026**	**138**	**888**
	19,171	**2,051**	**17,120**
	28,836	**3,021**	**25,815**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

38. Leases - Continued

	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

The present value of future lease payments areanalysed as:

	2021 RMB'000	2020 RMB'000
Current liabilities	**8,695**	5,126
Non-current liabilities	**17,120**	21,636
	25,815	26,762

	2021 RMB'000	2020 RMB'000
Short-term lease expense	**14,925**	16,612

39. DISPOSAL OF A SUDSIDIARY AND AN ASSOCIATE

The Group has entered into 2 equity transaction agreements dated on 18 June 2020 with HequTaiyang Coal Industry Co., Ltd. (the"Purchaser") to dispose (i) the Group's 51% of equity interest in a subsidiary, CNOOC Hualu, which under other segment; and (ii) 49% of equity interest in an associate, Yangpoquan Coal, at considerations of RMB102,066,000 and RMB637,000,000 respectively.

As at 31 December 2020, assets and liabilities of CNOOC Hualu and investment in an associate, Yangpoquan Coal, were classified as "A disposal group and a non-current asset classified as held for sales" and "liabilities associated with a disposal group classified as held for sale" 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.

On 21 January 2021, the Group transferred the equity interests of CNOOC Hualu and Yangpoquan to the Purchaser.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

39. DISPOSAL OF A SUBSIDIARY AND AN ASSOCIATE - Continued

(a) Disposal of a subsidiary

The net assets of CNOOC Hualu at the date of disposal were as follow:

	2021 RMB'000
Net assets disposed of:	
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
Other payables and accruals	(206)
Interest-bearing bank borrowings	(182)
Deferred tax liabilities	(3,000)
	15,347
Non-controlling interests	18,012
Consideration	(102,066)
Gain on disposal of a subsidiary	(68,707)
Satisfied by:	
Deposit received	82,066
Cash consideration received during the year	20,000
Cash and cash equivalents disposed of	(4)
Net cash inflow arising on disposal	102,062

(b) Disposal of an associate

	2021 RMB'000
Investment in an associate	181,897
Consideration	(637,000)
Gain on disposal of an associate	(455,103)
Net cash inflow arising on disposal satisfied by:	
Deposit received	637,000

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

39. DISPOSAL OF A SUBSIDIARY AND AN ASSOCIATE - Continued

(c) A disposal group classified as held for sale

As at 31 December 2020, 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.

	2020 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 a disposal group 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 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.

(d) A non-current asset classified as held for sale

As at 31 December 2020, the following non-current asset relating to Yangpoquan Coal was reclassified as held for sale in the consolidated statement of financial position.

	2020 RMB'000
Assets classified as held for sale	
Investment in an associate	181,897

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for acquisition of plant and machinery	1,824,979	105,653

41. Related party transactions

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

(1) Recurring

	2021 RMB'000	2020 RMB'000
(A) Included in revenue and other income		
(i) CNOOC group companies		
Sale of goods	469,811	352,601
Provision of packaging and assembling services	102,998	111,669
Provision of transportation services	221	94
Provision of logistics services	26,132	25,497
Lease of property and land	6,861	6,014
(ii) Other Related Parties		
Sale of goods	261,968	201,738
Provision of transportation services	423	14,085
(B) Included in cost of sales and other expenses		
(i) CNOOC group companies		
Purchase of raw materials	2,764,152	2,815,993
Labour service	259,349	217,535
Construction and installation services	24,766	42,840
Lease of offices	23,847	23,894
Logistics services	4,625	9,856
Transportation services	1,510	1,702
Network service	18,021	10,017
(ii) Other Related Parties		
Purchase of raw materials	-	17,969

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

41. Related party transactions - Continued

(1) Recurring - Continued

	2021 RMB'000	2020 RMB'000
(C) Included in finance income/costs		
(i) CNOOC Finance		
Finance income	**4,675**	4,279
Fees and charges	**1,341**	980
(ii) CNOOC Leasing		
Fees and charges	**12,520**	9,523
Interests on bank borrowings	**13,108**	28,648
Loan received	**996,000**	1,082,000
Loan repaid	**1,677,868**	1,091,132

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	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Ultimate holding company	**-**	31	**4,721**	180
CNOOC group companies	**30,435**	39,621	**617,302**	407,316
Associates	**3,368**	6,381	**27,043**	10,764
Joint venture	**426**	342	**306**	-
CNOOC Leasing	**-**	-	**-**	877,868
Other Related Parties	**-**	-	**8,481**	5,187

In addition, as at 31 December 2021, the deposits placed by the Group with CNOOC Finance were amounted to RMB399,500,000 (2020:RMB143,007,000), as detailed in Note 31.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

41. Related party transactions - Continued

(3) Compensation of key management personnel of the Group

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	11,447	8,773
Post-employment benefits	225	161
Total compensation paid to key management personnel	11,672	8,934

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

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. Certain specific and major raw materials provided by SOE suppliers are from Heilongjiang Longmei Hegang Mining Co., Ltd. (the "**Longmei**") and Longmeimainly supplied coal to CNOOC Huahe Coal Chemical Limited. As of 31 December 2021, the Group made a total procurement of RMB674,080,000 from Longmei (2020: 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 2021, the Group made a total procurement of RMB266,864,000 from WNG). 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 2021, the sales amounted to RMB718,978,000 (2020: RMB620,071,000). 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 2021, as summarised below:

	2021 RMB'000	2020 RMB'000
Cash and cash equivalents	674,435	2,765,302
Pledged bank deposits	13,219	7,350
Time deposits	7,800,000	7,400,000
	8,487,654	10,172,652
Interest-bearing bank borrowings	1,019,741	1,950,971

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 2021

42. Financial instruments

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

	2021		2020	
	Carrying amounts RMB'000	Fair value RMB'000	Carrying amounts RMB'000	Fair value RMB'000
Financial assets at FVTPL				
- Wealth management products	-	**2,756,122**	-	-
Financial assets at FVOCI				
- Unlisted equity investment	-	**600**	-	600
- Bills receivable	-	**176,853**	-	610,794
Financial assets at amortised cost				
- Trade receivables	**35,409**	-	25,082	-
- Contract assets	**7,259**	-	13,157	-
- Deposits and other receivables	**233,759**	-	270,512	-
- Pledged bank deposits	**13,219**	-	7,350	-
- Time deposits	**7,800,000**	-	7,400,000	-
- Cash and cash equivalents	**674,449**	-	2,765,441	-
Financial liabilities at amortised cost				
- Trade payables	**1,335,288**	-	740,413	-
- Other payables and accruals	**667,949**	-	737,680	-
- Lease liabilities	**25,815**	-	26,762	-
- Interest-bearing bank borrowings	**1,019,741**	-	1,950,971	-
- Other long-term liabilities	**326,560**	-	16,080	-

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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 2020 was realised during the year. Bills receivable as at 31 December 2021 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 2021

43. Fair value and fair value hierarchy - Continued

(b) Financial instruments measured at fair value - Continued

	31 December 2021		
	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL			
- Wealth management products	**2,756,122**	**-**	**2,756,122**
Financial assets at FVOCI			
- Unlisted equity investment	**-**	**600**	**600**
- Bills receivable	**-**	**176,853**	**176,853**

	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

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 toitscarrying 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 2021

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 leasesliabilities with floating interest rates.

As at 31 December 2021, the Group's interest-bearing bank borrowings and lease liabilities bear variable interest rates amounted to RMB1,045,556,000 (2020: RMB1,977,733,000).

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 2021 would be decreased/increased by approximately RMB3,921,000 (2020: decreased/increased by RMB7,416,000).

(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	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States dollar ("**USD**")	**1,723**	-	**-**	-
HKD	**7**	6	**-**	-

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 9% (2020: 6%) 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 and HKD. The Group was exposed to foreign currency risk arising from the changes in the exchange rates of USD and HKD 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 2021

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 and HKD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and HKD respectively. 5% (2020: 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 and HKD. For a 5% (2020: 5%) weakening of the RMB against USD and HKD, there would be an equal and opposite impact on the loss/profit or equity.

	Impact of USD		Impact of HKD	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Sensitivity rate	**5%**	5%	**5%**	5%
Profit or loss	**(72)**	-	**-***	-
Equity	**(72)**	-	**-***	-

* Less than RMB1,000.

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% (2020: 0.1%), while the ECLs rate for past due within one year is assessed to be 0.5% (2020: 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 2021

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 2021, the balance of the Group's interest-bearing bank borrowings was RMB1,019,741,000 (2020: RMB1,950,971,000).

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:

	2021					
	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	**1,019,741**	**1,045,857**	**452,417**	**-**	**-**	**593,440**
Trade payables	**1,335,288**	**1,335,288**	**1,335,288**	**-**	**-**	**-**
Other payables and accruals	**667,949**	**667,949**	**667,949**	**-**	**-**	**-**
Lease liabilities	**25,815**	**28,836**	**9,665**	**5,493**	**12,652**	**1,026**
Other long-term liabilities	**326,560**	**326,560**	**191**	**191**	**326,178**	**-**
	3,375,353	**3,404,490**	**2,465,510**	**5,684**	**338,830**	**594,466**

	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

In addition to the amounts shown in the above table as at 31 December 2021, 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 RMB213,757,000 (2020:RMB168,086,000) in aggregate.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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 2021 and 2020.

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:

	2021 RMB'000	2020 RMB'000
Interest-bearing debts (Note)	1,045,556	1,977,733
Net assets	16,914,674	15,628,137
Net assets plus Interest-bearing debts	17,960,230	17,605,870
Gearing ratio	5.82%	11.23%

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 2021

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 and methanol
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) (Notes (i) and (iv))	PRC 29 November 2005	RMB61,224	Direct Indirect	- -	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 2021

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

(iv) The Company was disposed on 21 January 2021. Details of the transaction are stated in Note 39 to the consolidated financial statements.

(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	
	2021	2020	**2021**	2020	**2021**	2020
			RMB'000	RMB'000	**RMB'000**	RMB'000
CNOOC Kingboard	**40.00%**	40.00%	**144,865**	(3,020)	**459,685**	314,820
Hainan Basuo Port	**26.89%**	26.89%	**7,320**	14,540	**205,339**	198,019
CNOOC Tianye	**7.73%**	7.73%	**(70,575)**	(236)	**(33,860)**	36,714
Hubei Dayukou	**20.02%**	20.02%	**54,289**	7,725	**271,191**	216,912

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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	2021 RMB'000	2020 RMB'000
Current assets	680,442	757,246
Non-current assets	637,471	174,615
Current liabilities	(168,700)	(139,357)
Non-current liabilities	-	(5,453)
Net assets	1,149,213	787,051
Non-controlling interests	459,685	314,820
Revenue	1,314,831	881,984
Expenses	(952,669)	(889,533)
Profit/(loss) and total comprehensive income	362,162	(7,549)
Profit/(loss) and total comprehensive income attributable to:		
Owners of the Company	217,297	(4,529)
Non-controlling interests	144,865	(3,020)
Profit/(loss) and total comprehensive income	362,162	(7,549)
Dividends paid to non-controlling interests	-	45,488
Net cash inflow/(outflow) from operating activities	463,311	(43,195)
Net cash (outflow)/inflow from investing activities	(429,211)	157,263
Net cash outflow from financing activities	-	(113,720)
Net cash inflow	34,100	348

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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	2021 RMB'000	2020 RMB'000
Current assets	148,621	272,388
Non-current assets	899,706	927,398
Current liabilities	(184,882)	(361,013)
Non-current liabilities	(16,207)	(18,757)
Net assets	847,238	820,016
Non-controlling interests	205,339	198,019
Revenue	339,858	329,552
Expenses	(312,636)	(275,480)
Profit and total comprehensive income	27,222	54,072
Profit and total comprehensive income attributable to:		
Owners of the Company	19,902	39,532
Non-controlling interests	7,320	14,540
Profit and total comprehensive income	27,222	54,072
Dividends paid to non-controlling interests	-	13,445
Net cash inflow from operating activities	50,795	109,271
Net cash inflow/(outflow) from investing activities	86,031	(76,693)
Net cash outflow from financing activities	(159,665)	(13,445)
Net cash (outflow)/inflow	(22,839)	19,133

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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	2021 RMB'000	2020 RMB'000
Current assets	**64,673**	190,833
Non-current assets	**486,313**	1,118,771
Current liabilities	**(937,976)**	(765,881)
Non-current liabilities	**(51,045)**	(68,762)
Net assets	**(438,035)**	474,961
Non-controlling interests	**(33,860)**	36,714
Revenue	**463,063**	1,354,312
Expenses	**(1,376,059)**	(1,357,360)
Loss and total comprehensive income	**(912,996)**	(3,048)
Loss and total comprehensive income attributable to:		
Owners of the Company	**(842,421)**	(2,812)
Non-controlling interests	**(70,575)**	(236)
Loss and total comprehensive income	**(912,996)**	(3,048)
Dividends paid to non-controlling interests	**-**	-
Net cash (outflow)/inflow from operating activities	**(92,066)**	161,071
Net cash outflow from investing activities	**(19,058)**	(17,895)
Net cash inflow/(outflow) from financing activities	**111,123**	(145,136)
Net cash outflow	**(1)**	(1,960)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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	**2021** RMB'000	2020 RMB'000
Current assets	**878,959**	857,115
Non-current assets	**1,266,588**	1,320,880
Current liabilities	**(765,436)**	(1,086,684)
Non-current liabilities	**(25,510)**	(7,842)
Net assets	**1,354,601**	1,083,469
Non-controlling interests	**271,191**	216,912
Revenue	**2,834,292**	2,082,996
Expenses	**(2,563,160)**	(2,044,417)
Profit and total comprehensive income	**271,132**	38,579
Profit and total comprehensive income attributable to:		
Owners of the Company	**216,843**	30,854
Non-controlling interests	**54,289**	7,725
Profit and total comprehensive income	**271,132**	38,579
Dividends paid to non-controlling interests	**-**	-
Net cash inflow from operating activities	**261,445**	289,070
Net cash outflow from investing activities	**(86,563)**	(174,517)
Net cash outflow from financing activities	**(170,869)**	(112,036)
Effect of foreign exchange rate changes	**(65)**	(1,573)
Net cash inflow	**3,948**	944

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

46. Statement of financial position and reserves of the company

	2021 RMB'000	2020 RMB'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	**36,141**	44,977
Investment properties	**43,210**	44,374
Prepaid lease payments	**6,568**	7,434
Intangible assets	**15,576**	1,868
Investment in subsidiaries	**7,659,080**	7,659,080
Investment in joint ventures	**213,487**	213,487
Deferred tax assets	**39,585**	164,446
Other long-term prepayment	**470**	486
	8,014,117	8,136,152
CURRENT ASSETS		
Trade receivables	**13,090**	-
Prepayments, deposits and other receivables	**372,281**	161,133
Loans receivable	**1,992,766**	857,661
Financial assets at FVTPL	**1,102,752**	-
Time deposits with original maturity over three months	**7,300,000**	4,610,586
Cash and cash equivalents	**557,072**	2,491,715
	11,337,961	8,121,095
Assets classified as held for sale	**-**	181,897
	11,337,961	8,302,992
TOTAL ASSETS	**19,352,078**	16,439,144
EQUITY		
CAPITAL AND RESERVES		
Issued capital	**4,610,000**	4,610,000
Reserves	**11,393,649**	8,935,158
Proposed dividends	**714,550**	368,800
TOTAL EQUITY	**16,718,199**	13,913,958
LIABILITIES		
NON-CURRENT LIABILITIES		
Deferred revenue	**6,518**	2,768
Deferred tax liabilities	**14,329**	-
Other long-term liabilities	**321,442**	12,999
	342,289	15,767

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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

	2021 RMB'000	2020 RMB'000
CURRENT LIABILITIES		
Trade payables	12,221	135
Other payables and accruals	2,260,765	2,493,486
Income tax payable	18,604	15,798
	2,291,590	2,509,419
TOTAL LIABILITIES	2,633,879	2,525,186
TOTAL EQUITY AND LIABILITIES	19,352,078	16,439,144

Movement in Company's reserves

The Company's movement in reserves and proposed dividends for the years ended 31 December 2021 and 2020 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 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 and 1 January 2021		1,366,392*	1,446,559*	69*	6,122,138*	368,800	9,303,958
Total comprehensive income for the year		-	-	-	3,173,041	-	3,173,041
Transfer from retained profits		-	317,170	-	(317,170)	-	-
2021 proposed final dividends	15	-	-	-	(714,550)	714,550	-
2020 final dividends declared		-	-	-	-	(368,800)	(368,800)
At 31 December 2021		1,366,392*	1,763,729*	69*	8,263,459*	714,550	12,108,199

* These reserve accounts comprise the Company's reserves of RMB11,393,649,000 (2020: RMB8,935,158,000) in the Company's statement of financial position.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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 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

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000	Dividends payable RMB'000
At 1 January 2021	**1,950,971**	**26,762**	**13,445**
Changes from cash flow:			
Dividend paid	**-**	**-**	**(384,896)**
Bank borrowings raised	**2,249,117**	**-**	**-**
Repayment of bank Borrowings	**(3,180,347)**	**-**	**-**
Interest paid	**(49,334)**	**-**	**-**
Payment of lease liabilities	**-**	**(2,172)**	**-**
Other changes:			
Dividend declared to non-controlling interests	**-**	**-**	**2,651**
2020 final dividend declared	**-**	**-**	**368,800**
Finance costs (Note 10)	**49,334**	**1,225**	**-**
At 31 December 2021	**1,019,741**	**25,815**	**-**

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2021

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 30 March 2022.

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	Hou Xiaofeng 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
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