



中海石油化学股份有限公司
China BlueChemical Ltd.

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

ANNUAL REPORT 2022

HKSE CODE: 3983



COMPANY PROFILE

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

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



The production facilities in Hainan



The production facilities in Inner Mongolia



The production facilities in Hubei



The production facilities in Heilongjiang

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Financial Highlights

Selected consolidated income statement data

For the year ended 31 December, RMB'million

Financial Highlights	2018	2019	2020	2021	2022
Revenue	11,259.6	10,858.4	10,417.5	13,398.0	14,279.0
Cost of sales	(8,501.3)	(8,937.1)	(9,083.8)	(10,461.6)	(11,742.4)
Gross profit	2,758.3	1,921.4	1,333.7	2,936.4	2,536.6
Other income and other gains and losses	434.7	253.2	180.1	106.4	150.9
Selling and distribution costs	(418.5)	(440.9)	(183.1)	(118.5)	(113.8)
Administrative expenses	(455.6)	(489.1)	(432.6)	(542.3)	(551.5)
Other expenses	(161.6)	(30.3)	(28.4)	(358.9)	(47.4)
Finance income	11.2	231.3	272.6	372.7	314.8
Finance costs	(104.6)	(103.1)	(76.0)	(50.6)	(29.4)
Exchange (losses)/gains, net	13.3	(0.6)	(13.2)	0.4	9.4
Share of losses of joint ventures	(0.2)	(3.1)	(0.4)	0.7	2.7
Share of gains/(losses) of associates	1.2	(3.2)	0.8	2.6	2.7
Impairment losses	(0.9)	(4.8)	-	(304.3)	(15.7)
Change in fair value of financial assets at fair value through profit or loss	-	48.4	-	6.1	11.5
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	-
Profit/(loss) before tax	2,140.2	1,379.1	1,053.6	2,641.6	2,270.8
Income tax (expenses)/benefits	(611.9)	(624.1)	(274.5)	(1,000.2)	(472.0)
Profit/(loss) for the year	1,528.3	755.0	779.2	1,641.4	1,798.7
Profit/(loss) for the year attributable to Owners of the Company	1,378.9	703.2	745.5	1,497.6	1,642.6
Basic Earnings/(loss) per share attributable to ordinary owners of the Company (RMB)	0.3	0.15	0.16	0.32	0.36

Selected consolidated statement of financial position data

As at 31 December, RMB'million

Financial Highlights	2018	2019	2020	2021	2022
Assets					
Non-current assets	9,207.8	8,534.6	8,062.3	7,970.0	8,012.9
Current assets	10,741.4	10,885.0	12,685.5	13,461.6	15,484.8
Total assets	19,949.2	19,419.6	20,747.8	21,431.6	23,497.7
Equity and liabilities					
Total equity	15,127.6	15,117.1	15,628.1	16,914.7	17,776.6
Non-current liabilities	1,089.4	666.0	216.9	1,074.9	1,618.6
Current liabilities	3,732.2	3,636.5	4,902.7	3,442.0	4,102.5
Total equity and liabilities	19,949.2	19,419.6	20,747.8	21,431.6	23,497.7

Operational Highlights

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

		For the year ended 31 December					
		Production volume (tonnes)			Utilisation rate (%)		
		2022	2021	Change %	2022	2021	Change
Chemical fertilisers							
	Fudao Phase I	579,906	611,846	(5.2)	111.5	117.7	(5.3)
	Fudao Phase II	778,602	817,405	(4.7)	97.3	102.2	(4.8)
Urea	CNOOC Tianye	-	-	-	-	-	-
	CNOOC Huahe	603,583	599,629	0.7	116.1	115.3	(0.7)
	Group total	1,962,091	2,028,880	(3.3)	83.1	86.0	(3.4)
Phosphate fertilisers and compound fertilisers	DYK MAP	78,822	67,834	16.2	52.5	45.2	16.2
	DYK DAP Phase I (Note 1)	318,296	311,678	2.1	90.9	89.1	2.0
	DYK DAP Phase II	535,875	595,458	(10.0)	107.2	119.1	(10.0)
	Group total	932,993	974,970	(4.3)	93.3	97.5	(4.3)
Chemical products							
	Hainan Phase I	656,906	583,430	12.6	109.5	97.2	12.7
Methanol	Hainan Phase II	863,135	814,818	5.9	107.9	101.9	5.9
	CNOOC Tianye	-	-	-	-	-	-
	Group total	1,520,041	1,398,248	8.7	95.0	87.4	8.7
POM	CNOOC Tianye	20,685	30,967	(33.2)	51.7	77.4	(33.2)
	Group total	20,685	30,967	(33.2)	51.7	77.4	(33.2)

Note 1: In 2022, DYK DAP Phase I Plant produced 8,465 tonnes of DAP and 309,831 tonnes of compound fertilisers, respectively, amounting to 318,296 tonnes in total. 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.

Sales volume of the Group's various plants

Unit: tonne

		For the year ended 31	For the year ended 31	Change %
		December 2022	December 2021	
Chemical fertilisers				
	Fudao Phase I	560,956	581,631	(3.6)
	Fudao Phase II	780,479	808,207	(3.4)
Urea	CNOOC Tianye	1,799	1,703	5.6
	CNOOC Huahe	615,568	596,842	3.1
	Group total	1,958,802	1,988,383	(1.5)
Phosphate fertilisers and compound fertilisers	DYK MAP	77,850	63,948	21.7
	DYK DAP Phase I	309,899	297,044	4.3
	DYK DAP Phase II	535,594	610,735	(12.3)
	Group total	923,343	971,727	(5.0)
Chemical products				
	Hainan Phase I	652,682	576,012	13.3
Methanol	Hainan Phase II	853,592	790,569	8.0
	CNOOC Tianye	-	-	-
	Group total	1,506,274	1,366,581	10.2
POM	CNOOC Tianye	20,685	31,033	(33.3)
	Group total	20,685	31,033	(33.3)





CEO's Report

Dear shareholders,

In 2022, amidst the ongoing outbreak of COVID-19 pandemic and regional conflicts and the evolving epoch-making changes, the external environment became more complex and full of uncertainty. Certain factors such as geopolitical tensions, rising energy and food prices had brought a profound impact on the fertiliser industry and chemical industry. Under the leadership of the Board, the Company adhered to the concept of “addressing the three rural issues, creating lasting benefits for society”, thereby constantly improving its corporate governance efficiency, stabilising fertilizer production and providing efficient fertilisation solutions, ensuring food safety, recording a new high of methanol production and creating both social and economic benefits.

Hou Xiaofeng / CEO & President

RMB **14,279** million

The Group realised a revenue of RMB14,279 million

RMB **2,537** million

Gross profit of RMB2,537 million

RMB **1,643** million

with a net profit attributable to owners of the Company of RMB1,643 million

Review of 2022

Bearing the concept of green development in mind, in 2022, the Company continued to strengthen the safe production management, strived to improve sales efficiency, solidly advanced quality improvement, cost reduction and efficiency enhancement, endeavoured to push forward the completion of the milestone targets of key projects, and actively explored technological empowerment. Benefiting from this, the Company made progress in transformation and upgrading towards high-quality development. In 2022, the Group realised a revenue of RMB14,279 million and a gross profit of RMB2,537 million, with a net profit attributable to owners of the Company of RMB1,643 million recorded, representing an increase of 9.7% over 2021, which was the best performance of the Company since 2012. In view of the sound financial position of the Company and to reward the shareholders, the Board has

recommended a payment of final dividend for 2022 in the amount of RMB0.178 per share (tax inclusive), representing a payout ratio of about 50%.

In respect of production management, the Company continued to strengthen its management and control over production operation by carrying out large-scale safety inspections and hidden danger investigations and treatments, and maintained safe and stable operation of all plants through various measures such as eliminating hidden dangers, special improvement, and tackling bottlenecks. The Hainan Phase I and Hainan Phase II methanol plants recorded a long-term operation period of over 400 days. As a result, Fudao's annual methanol production volume increased significantly and hit a record high. In 2022, the Company produced 1,962 thousand tonnes of urea, 933 thousand tonnes of phosphate and compound fertilisers, 1,520 thousand tonnes of methanol and 21 thousand tonnes of POM.

In respect of sales management, the Company grasped the market opportunities by strengthening its market study and analysis capabilities supported with scientific pricing through big data, which significantly enhanced the Company's market competitiveness. Through scientific and reasonable pricing and improving channel influence, adapting to market trends, studying and adopting policies, adjusting product mix and creating innovative B2C e-commerce direct sales models, the Company was able to ensure the balance between production and sales under the situation of significant decrease in exports, and managed to achieve higher sales at high prices and raise profit through increased output volume. In 2022, the Company sold 1,959 thousand tonnes of urea, 1,506 thousand tonnes of methanol, 624 thousand tonnes of phosphate fertilisers, 299 thousand tonnes of compound fertilisers and 21 thousand tonnes of POM. During the year, the Company exported a total of 91 thousand tonnes of urea and 66 thousand tonnes of DAP.

In respect of high-quality development, the Company continued to promote the industrial layout of new chemical materials while actively carrying out preliminary research on high-end



● CNOOC Fudao plant

and new chemical material projects. Our key project made a substantial progress, and the acrylonitrile project overcame numerous challenges such as the pandemic and achieved mechanical completion successfully (Note: The project was successfully put into operation in one time in February 2023, which was the shortest record of the construction period of similar projects in China). The kick off of the operation of the project marks the Company's entry into organic chemicals from inorganic chemicals. Technological collaboration helped the Company achieve goals in stages. Breakthroughs were made in the industrial utilisation technology of carbon-rich natural gas in the South China Sea (increasing the original 22% CO₂ content of the natural gas for utilization to 35% content), and strategic partnerships were established with Chinese Academy of Agricultural Sciences, BASF, Chinese Academy of Sciences, etc. to foster the high-end development of the industrial chain and value chain. The Company saw its industrial advantages in various aspects being uplifted to a certain extent. Leveraging the strong foundation of ranking dual tops in both production capacity and output among all Central enterprises in the field of fertilisers, the Company has been advancing forward to create efficiency from the technology of "solutions to plant nutrition". In the field of chemicals, the acrylonitrile project ahas symbolized the Company's entry to organic chemicals from inorganic chemicals, whereas in the field of new materials, the Company has accelerated the establishment research of the PMMA project to promote the high-end extension of the industrial chain and value chain. Reforms or removals were made to production facilities with inferior capacities.

The Company continued to press ahead with its green and low-carbon development strategy and maintained its leading position in energy efficiency. Its methanol production facilities have been honoured as the "Leader in Energy Efficiency" for 11 consecutive years by the China Petroleum and Chemical Industry Federation and its synthetic ammonia production facilities have been honoured as the "Leader in Water Efficiency" for three consecutive years by the China Nitrogen Fertilizer Industry Association. With the Company actively promoting the

concept of "green methanol", the impact of production activities on the climate has also been reduced.

It is delightful to see the continued growth of the Group's brand value. In the "2022 China Brand Development Forum", China BlueChemical was admitted to the official 2022 China Brand Value Evaluation List with a brand value of RMB3.971 billion, increasing by RMB772 million compared with 2021.

Outlook for 2023

With the recovery of the domestic economy and the return of logistics to normal, it is expected that export and industrial demand will recover to a certain degree and the demand for agriculture will remain in a seasonal cycle. There is still a relatively strong support for the urea market, so it will be relatively limited room for urea price to go down, and its trend in the first half of the year may be stronger than that in the second half. The price of ammonium phosphate may remain firm at a high level, and may fluctuate downward in the low season of fertilisers in the second half of the year. In respect of methanol, the release of new methanol production capacity will slow down, and the demand for methanol-to-olefins and traditional downstream methanol products will be relatively stable, while the impact of cost posed on methanol and downstream products will be more obvious. The demand for POM for new energy vehicles is expected to increase.

In 2023, the Group will further enhance our HSE and refined production management to attain the safe and smooth operation of all production plants. Continued efforts will be made to further enhance our marketing capabilities, increase the proportion of direct sales of products, strengthen lean management and strictly control costs as well as ensure success in commercial operation of the acrylonitrile project. The Group will also grasp the opportunities arising from the construction of Hainan Free Trade Port and push forward high-quality investment projects, such as the construction of wharf and logistics. While promoting technology research and innovation, the Group strives to master core technologies such as carbon-rich natural gas chemical utilization through self-initiated research and development and also external technology sourcing. In addition, the enhanced digital empowerment capabilities and increasing efforts in exploring opportunities for corporate development will contribute to the Group's high-quality growth.

In 2023, the management team of the Company together with all staff members will, under the guidance of the Board, endeavour ourselves to further enhance operational efficiency, effectively respond to market changes, vigorously explore new growth drivers, and strive to break a new ground for the Company's transformation and upgrade towards high-quality development, with the aim of generating desirable returns for the shareholders.

Hou Xiaofeng

Chief Executive Officer (CEO), President

Management Discussion and Analysis

Sector Review

Chemical fertiliser industry

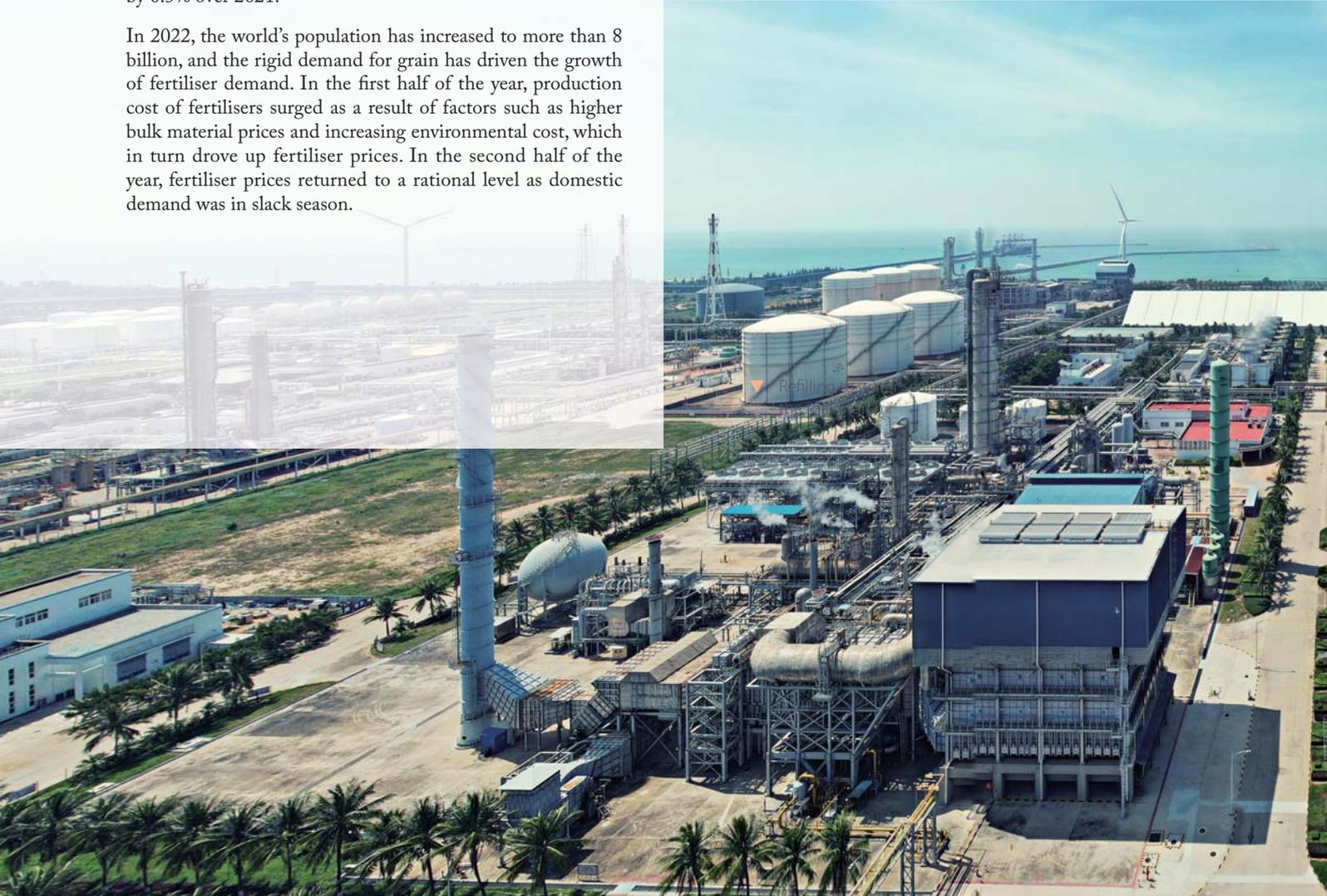
In 2022, the international energy and grain markets were disturbed by the pandemic and geopolitical conflicts, and international bulk commodity prices rose rapidly. There was a general phenomenon of increasing stockpiling of grain across the countries, which led to an upward trend in international grain prices and a high inflation trend globally. 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 2022, China remained as the largest grain producer in the world, with national total grain output of 686.53 million tonnes, up by 0.5% over 2021.

In 2022, the world's population has increased to more than 8 billion, and the rigid demand for grain has driven the growth of fertiliser demand. In the first half of the year, production cost of fertilisers surged as a result of factors such as higher bulk material prices and increasing environmental cost, which in turn drove up fertiliser prices. In the second half of the year, fertiliser prices returned to a rational level as domestic demand was in slack season.

(I) Urea

According to industry statistics, the domestic production volume of urea amounted to approximately 57.09 million tonnes (in kind) in 2022, representing a year-on-year increase of 2.6%. Meanwhile, the statistics from General Administration of Customs of the PRC (“GACC”) showed that China exported a total of approximately 2.83 million tonnes of urea in 2022, representing a year-on-year decrease of 46.5% over 2021.

In 2022, the overall domestic urea price showed a trend of huge fluctuation. In the first half of the year, under the influence of factors such as the significant increase in global energy prices, the recovery of domestic urea demand, and the regional supply and demand tension caused by the repeated pandemic, the urea price continued to rise and reached the highest point of the year in June, hitting a new record high. In the second half of the year, the domestic urea price has plummeted since July. The average ex-factory price continued to fall from the highest of RMB3,200 per tonne to below RMB2,300 per tonne, and the price dropped by nearly RMB1,000 per tonne for more than one month. Since September, under the influence of favourable factors such as strong cost support, favourable demand expectations, significant increase in international prices and increase in export volume, the urea price has gradually recovered. In December, the average monthly price of urea reached RMB2,714 per tonne.



(II) Phosphate and compound fertilisers

According to industry statistics, the domestic annual output of ammonium phosphate was approximately 22.50 million tonnes (in kind) in 2022, representing a year-on-year decrease of approximately 21.9% over 2021. Meanwhile, the statistics from GACC showed that the export volume of DAP of China was approximately 3.58 million tonnes in 2022, representing a decrease of 42.8% as compared to the same period of last year.

In 2022, the price trend of DAP showed an “N” shape. In the first half of the year, under the combined effect of factors such as the international situation, production costs and increased demand, the price trend was generally upward, reaching RMB4,100 per tonne in June. In the second half of the year, the market price of DAP began to decline from a high level due to the weakened support of raw materials and sluggish demand, and the market price dropped significantly, with a decrease of approximately RMB1,400 per tonne during the period. After September, with the increasing domestic demand from storage for winter, the fertiliser market showed a steady development trend, and maintained an upward trend driven by costs. At the end of December, the price of DAP has rebounded to RMB3,800 per tonne, representing a year-on-year increase of approximately 8.6% over last year.



Analytical laboratory personnel sampling on site

In the first half of 2022, with the rising prices of three major raw materials, namely urea, MAP and potassium chloride, and the concentrated release of demand, the market price of compound fertilisers showed a continuous upward trend, once rising to a high level of RMB4,200 per tonne; in the second half of the year, the demand side showed a weak trend, and the oversupply led to a decline in prices. Overall, the average price of domestic compound fertilisers in 2022 was RMB3,725 per tonne, representing a year-on-year increase of 31%.

CNOOC Fudao plant





Hainan Phase I methanol plant

Chemical industry

In 2022, the impact of macro factors on the chemical market increased significantly due to the complex economic situation at home and abroad, playing an important “role” in the process of price fluctuation. Energy prices had increased under the impact of the Russia-Ukraine conflict in the first half of the year, which kept the prices of chemical products at a high level. In the second half of the year, the consumption was in the slack season, with superimposed weak expectations and poor performance of demand side, resulting in the weak operation of the chemical market with volatility.

(I) Methanol

According to JLC statistics, the cumulative domestic production volume of methanol was approximately 69.83 million tonnes in 2022, representing a year-on-year increase of approximately 3.5%. China's import volume of methanol increased in 2022. The annual import volume for 2022 increased by 970 thousand tonnes or 8.6% compared with last year to approximately 12.19 million tonnes.

In 2022, the domestic price of methanol suffered a plunge after soaring high in the first and second half of the year, respectively. The Russia-Ukraine conflict led to a sharp rise in oil prices, which led to a continuous rise in methanol prices during the first quarter of the year, bringing the market price to a peak of RMB3,280 per tonne at the end of the first quarter. Due to the decline in domestic market demand, the global economic recession and the rising expectation of demand contraction, as well as the prices of bulk commodities such as crude oil falling sharply, the price of methanol dropped significantly in the second quarter. In the third quarter, affected by the overhaul of multiple sets of methanol plants at home and abroad, the supply decreased and the cost support was relatively strong, resulting in a price surge again. In the fourth quarter, due to the new production capacity and the increase in inventory, the price dropped again and was adjusted to RMB2,600 per tonne at the end of the year.

(II) POM

According to industry statistics, China recorded a POM output of 350 thousand tonnes in 2022, representing a year-on-year increase of 3%, indicating a slightly strengthened supply capacity.

In 2022, the annual average price of POM in China was RMB19,316 per tonne, representing a year-on-year increase of 7%. The price initially rose up and ended with a fall throughout the year. In the first half of the year, the price remained at the high level from the previous year, with the average price of above RMB22,000 per tonne. In the second half of the year, the price of POM decreased to approximately RMB16,000 per tonne due to the decline of raw materials price.



➤ CNOOC Tianye POM plant

➤ The operator of the main control room is carrying out routine inspection





➤ Hainan Phase I methanol plant pipe rack

Business Review

Production Management

In 2022, the Company continued to strengthen its management and control over production operation by carrying out large-scale safety inspections and hidden danger investigations and treatments. The Company maintained safe and stable operation of all plants through various measures such as eliminating hidden dangers, special improvement and tackling bottlenecks. The Hainan Phase I and Hainan Phase II methanol plants recorded a long-term operation period of over 400 days. As a result, the Company's annual methanol production volume increased significantly. In 2022, the Company produced 1,962 thousand tonnes of urea, 933 thousand tonnes of phosphate and compound fertilisers, 1,520 thousand tonnes of methanol and 21 thousand tonnes of POM.

➤ Production control





➤ A corner of workshop in DYK Chemical

Details of production of the Group's plants in 2022 are set out as follows:

	For the year ended 31 December			
	2022		2021	
	Production (tonnes)	Utilisation rate (%)	Production (tonnes)	Utilisation rate (%)
Chemical fertilisers				
Urea				
Fudao Phase I	579,906	111.5	611,846	117.7
Fudao Phase II	778,602	97.3	817,405	102.2
CNOOC Tianye	-	-	-	-
CNOOC Huahe	603,583	116.1	599,629	115.3
Group total	1,962,091	83.1	2,028,880	86.0
Phosphate Fertilisers and Compound Fertilisers				
DYK MAP	78,822	52.5	67,834	45.2
DYK DAP Phase I (Note)	318,296	90.9	311,678	89.1
DYK DAP Phase II	535,875	107.2	595,458	119.1
Group total	932,993	93.3	974,970	97.5
Chemical products				
Methanol				
Hainan Phase I	656,906	109.5	583,430	97.2
Hainan Phase II	863,135	107.9	814,818	101.9
CNOOC Tianye	-	-	-	-
Group total	1,520,041	95.0	1,398,248	87.4
POM				
CNOOC Tianye POM	20,685	51.7	30,967	77.4
Group total	20,685	51.7	30,967	77.4

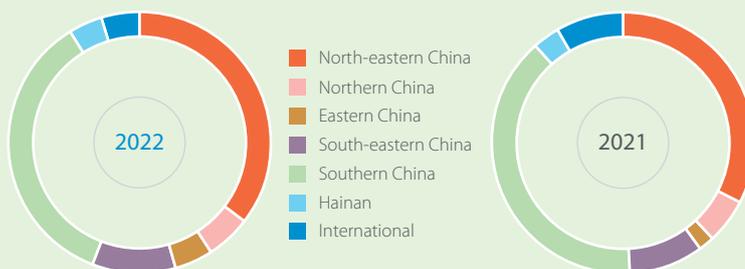
Note: In 2022, DYK DAP Phase I Plant produced 8,465 tonnes of DAP and 309,831 tonnes of compound fertilisers, amounting to 318,296 tonnes in total. In 2021, DYK DAP Phase I Plant produced 30,686 tonnes of DAP and 280,992 tonnes of compound fertilisers, amounting to 311,678 tonnes in total.



Sales Management

In 2022, the fertiliser and chemical product markets have experienced unprecedented historical market conditions for many years. The Company grasped the market opportunities and strengthened its market research and judgement capabilities. Through scientific and reasonable pricing, improving channel management and control, grasping the market rhythm, research and utilisation of policies, product mix adjustments and marketing model innovation, the Company ensured the balance between production and sales under the situation of significant decrease in exports, and achieved higher sales at high prices and increased volume and profits. In 2022, the Company sold 1,959 thousand tonnes of urea, 1,506 thousand tonnes of methanol, 624 thousand tonnes of phosphate fertilisers, 299 thousand tonnes of compound fertilisers and 21 thousand tonnes of POM. During the year, the Company exported a total of 91 thousand tonnes of urea and 66 thousand tonnes of DAP.

🌱 Epidemic prevention and control to ensure spring ploughing



Urea

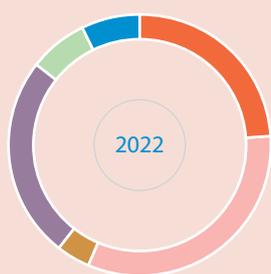
The following table sets out the Group's urea sales volumes by final sales destinations of products during the preceding two financial years:

Sales region	For the year ended 31 December			
	2022		2021	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
North-eastern China	694,591	35.5	650,438	32.7
Northern China	106,463	5.4	107,872	5.4
Eastern China	93,500	4.8	37,688	1.9
South-eastern China	201,289	10.3	182,760	9.2
Southern China	690,372	35.2	779,779	39.2
Hainan	81,809	4.2	66,016	3.3
International	90,778	4.6	163,831	8.3
Total	1,958,802	100.0	1,988,384	100.0

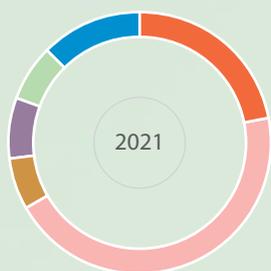
Phosphate Fertilisers and Compound Fertilisers

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

Sales region	For the year ended 31 December			
	2022		2021	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
North-eastern China	222,630	24.1	214,042	22.0
Northern China	298,913	32.4	435,523	44.8
Eastern China	39,276	4.3	62,382	6.4
South-eastern China	231,247	25.0	73,573	7.6
Southern China	65,467	7.1	65,897	6.8
International	65,810	7.1	120,310	12.4
Total	923,343	100.0	971,727	100.0



- North-eastern China
- Northern China
- Eastern China
- South-eastern China
- Southern China
- International



Urea lading



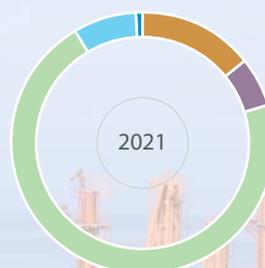
Methanol

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

Sales region	For the year ended 31 December			
	2022		2021	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
Eastern China	217,402	14.4	198,145	14.5
South-eastern China	106,882	7.1	81,772	6.0
Southern China	1,070,858	71.1	979,357	71.7
Hainan	111,133	7.4	105,316	7.7
International	-	-	1,991	0.1
Total	1,506,275	100.0	1,366,581	100.0



- Eastern China
- South-eastern China
- Southern China
- Hainan
- International



Methanol lading



Construction of Acrylonitrile project in Hainan

BB Fertilisers

In 2022, the Group produced a total of 30,055 tonnes of BB fertilisers and achieved a sales volume of 25,136 tonnes.

Sea-land logistics services

In 2022, Basuo Port in Hainan completed a volume of throughput of 11.81 million tonnes.

Welding on site





Restricted space gas analysis is conducted on the plant site

分析化驗部

Financial Review

Revenue

During the reporting period, the Group's revenue was RMB14,279.1 million, representing an increase of RMB881.1 million, or 6.6%, from that of RMB13,398.0 million in the same period of 2021. This was primarily attributable to the year-on-year significant increase in the selling prices of urea and phosphate and compound fertilisers of the Group.

During the reporting period, the Group realised an external revenue from urea of RMB4,968.6 million, representing an increase of RMB615.7 million, or 14.1%, from that of RMB4,352.9 million in the same period of 2021. This was primarily attributable to (1) an increase of RMB347.4 per tonne in the selling price of urea, which resulted in an increase in revenue of RMB680.5 million; and (2) a decrease of 29,581 tonnes in the sales volume of urea, which resulted in a decrease in revenue of RMB64.8 million that partially offset the above increase.

During the reporting period, the Group realised an external revenue from phosphate and compound fertilisers of RMB3,267.9 million, representing an increase of RMB453 million, or 16.1%, from that of RMB2,814.9 million in the same period of 2021. This was primarily attributable to (1) an increase of RMB642.4 per tonne in the selling price of phosphate and compound fertilisers, which resulted in an increase in revenue of RMB593.1 million; and (2) a decrease of 48,384 tonnes in the sales volume of phosphate and compound fertilisers, which resulted in a decrease in revenue of RMB140.1 million that partially offset the above increase.

During the reporting period, the Group realised an external revenue from methanol of RMB3,511.3 million, representing an increase of RMB298.2 million, or 9.3%, from that of RMB3,213.1 million in the same period of 2021. This was primarily attributable to (1) an increase of 139,693 tonnes in the sales volume of methanol, which resulted in an increase in revenue of RMB328.4 million; and (2) a decrease of RMB20.1 per tonne in the selling price of methanol, which resulted in a decrease in revenue of RMB30.2 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 RMB2,531.3 million, representing a decrease of RMB485.9 million, or 16.1%, from that of RMB3,017.2 million in the same period of 2021. This was primarily attributable to (1) the combined effect of the decrease in selling price and sales volume of POM during this year, which resulted in a decrease in revenue of RMB150.3 million; (2) the decrease in trading volume of the marketing company and Guangxi Fudao, which resulted in a decrease in revenue of RMB283.7 million from the trading business this year as compared to last year; (3) a decrease of RMB9.6 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 RMB22.8 million in revenue due to the throughput of Basuo Port; and (5) a decrease of

RMB19.5 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 RMB11,742.4 million, representing an increase of RMB1,280.8 million, or 12.2%, from that of RMB10,461.6 million in 2021.

During the reporting period, the Group's cost of sales for urea was RMB3,993.8 million, representing an increase of RMB777.9 million, or 24.2%, from that of RMB3,215.9 million in 2021. This was primarily attributable to (1) factors including the increase in raw material prices, which resulted in a year-on-year increase of RMB825.7 million in the cost of sales; (2) a year-on-year decrease of 29,581 tonnes in the sales volume this year, which resulted in a decrease in cost of RMB47.9 million.

During the reporting period, the Group's cost of sales for phosphate and compound fertilisers was RMB3,068.3 million, representing an increase of RMB643.6 million, or 26.5%, from that of RMB2,424.7 million in 2021. 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 RMB764.4 million in the cost of sales; and (2) a decrease of 48,384 tonnes in the sales volume of phosphate and compound fertilisers, which resulted in a decrease of RMB120.8 million in the cost of sales.

During the reporting period, the Group's cost of sales for methanol was RMB2,320.4 million, representing an increase of RMB227.1 million, or 10.8%, from that of RMB2,093.3 million in 2021. This was primarily attributable to (1) an increase of 139,693 tonnes in the sales volume of methanol, which resulted in an increase of RMB214.0 million in the cost of sales; and (2) the slight increase in natural gas prices during the year, which resulted in an increase of RMB13.1 million in the cost of sales.

During the reporting period, the Group's cost of sales for other segments was RMB2,359.9 million, representing a decrease of RMB367.8 million, or 13.5%, from that of RMB2,727.7 million in 2021. This was primarily attributable to (1) a decrease of RMB256.2 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 a decrease of RMB83.6 million in the cost of sales; (3) a decrease of RMB23.3 million in the cost of sales due to the throughput of Basuo Port; and (4) a year-on-year decrease of RMB4.7 million in the cost of sales for BB fertilisers, liquid ammonia, etc.

Gross profit

During the reporting period, the Group's gross profit was RMB2,536.6 million, representing a decrease of RMB399.8 million, or 13.6%, from that of RMB2,936.4 million in 2021. This was primarily attributable to (1) a decrease of RMB190.7 million in gross profit of phosphate and compound fertilisers due to the significant increase in raw material prices of phosphate and compound fertilisers in 2022 which resulted in the increase in costs exceeding the increase in sales prices; (2) a decrease of RMB162.1 million in gross profit of urea due to a significant increase in raw material prices of urea in 2022 which resulted

in the increase in costs exceeding the increase in sales prices; (3) an increase of RMB71.1 million in gross profit of methanol due to rising in the production and sales volume of methanol; (4) a decrease of RMB66.6 million in gross profit of POM due to the increase in cost of POM and the decrease in sales prices; (5) a decrease of RMB27.5 million in the gross profit from the trading business; (6) an increase of RMB0.5 million in the gross profit from Basuo Port due to the decrease in costs of Basuo Port outweighing the decrease in revenue; and (7) a decrease of RMB24.5 million in gross profit of BB fertilisers, liquid ammonia and other businesses.

Other income

During the reporting period, the Group's other income was RMB76.7 million, representing a decrease of RMB33.3 million, or 30.3%, from that of RMB110.0 million in 2021. This was primarily attributable to (1) an increase of RMB7.4 million in profit from sales of materials this year; and (2) the penalty interest of RMB18.3 million received from Hualu Yangpoquan and RMB27.0 million from the payables waived in the previous year.

Other gains and losses, net

During the reporting period, the Group's other gains and losses, net amounted to RMB74.2 million, representing an increase of RMB77.8 million, or 2,161.1%, from RMB-3.6 million in 2021. This was primarily attributable to (1) a year-on-year increase of RMB69.1 million in interest on maturity of wealth management products; (2) a year-on-year increase of RMB21.7 million in the gain on disposal of fixed assets; and (3) a year-on-year decrease of RMB12.9 million in gains due to the credit impairment losses.

Selling and distribution expenses

During the reporting period, the Group's selling and distribution expenses amounted to RMB113.8 million, representing a decrease of RMB4.7 million, or 4.0% from that of RMB118.5 million in 2021. This was primarily attributable to (1) a year-on-year decrease of RMB4.5 million in loading and unloading fees, storage fees, railway operation fees and other direct selling expenses during the year; and (2) a year-on-year decrease of RMB0.2 million in sales agent fees.

Administrative expenses

During the reporting period, the Group's administrative expenses amounted to RMB551.5 million, representing an increase of RMB9.2 million, or 1.7%, from that of RMB542.3 million in 2021. This was primarily attributable to (1) an increase of RMB6.1 million in staff costs; (2) an increase of RMB16.9 million in depreciation and amortisation charges; (3) a year-on-year decrease of RMB15.3 million in rental fees, property management fees, consultation fees, health, safety and environmental protection fees and other fees; and (4) a year-on-year increase of RMB2.1 million in property tax, land use tax and other taxes.

Other expenses

During the reporting period, the Group's other expenses amounted to RMB47.4 million, representing a decrease of

RMB311.5 million, or 86.8%, from that of RMB358.9 million in 2021. This was primarily attributable to (1) a year-on-year decrease of RMB300.2 million for the employee severance costs of CNOOC Tianye; (2) a decrease of RMB5.0 million in bank handling fees and interest expenses on discounting bills; (3) a decrease of RMB17.5 million in the expenses incurred for the retirement and disposal of inefficient and ineffective assets; and (4) a year-on-year increase of RMB18.5 million in donation.

Finance income and finance costs

During the reporting period, the Group's finance income amounted to RMB314.8 million, representing a decrease of RMB57.9 million, or 15.5%, from that of RMB372.7 million in 2021. This was primarily attributable to the decrease of RMB600.0 million in the principal amount of large-denomination certificate of deposits and fixed deposits and the decrease in the yield rate by the Group in 2022, which resulted in a decrease of RMB52.1 million in finance income.

During the reporting period, the Group's finance costs were RMB29.4 million, representing a decrease of RMB21.2 million, or 41.9%, from that of RMB50.6 million in 2021. This was primarily attributable to the scaling down of annual average size of working capital loans and the decrease in financing interest rate, which resulted in a decrease in finance costs.

Exchange gains, net

During the reporting period, the Group recorded a net exchange gain of RMB9.4 million, as compared to a net exchange gain of RMB0.4 million in 2021, representing a difference of RMB9.0 million. This was primarily attributable to the increase of exchange gains arising from the foreign exchange transactions, which was due to the increase of foreign currency receipts in the Group's export business and the adoption of spot settlement policy for foreign exchange collection in 2022.

Impairment loss on assets

During the reporting period, the Group recognised an asset impairment of RMB15.7 million, representing a decrease of RMB288.6 million, or 94.8% from that of RMB304.3 million in 2021. This was primarily attributable to (1) the recognition of asset impairment of RMB302.4 million of CNOOC Tianye last year; and (2) a year-on-year increase of RMB13.8 million from the recognition of impairment on the investment properties of DYK Chemical.

Share of profit of associates and joint ventures

During the reporting period, the Group's share of profit of associates and joint ventures was RMB5.4 million, representing an increase of RMB2.1 million as compared to the share of profit of associates and joint ventures of RMB3.3 million in 2021. This was primarily attributable to (1) a year-on-year increase of RMB4.2 million in the share of profit of CBC (Canada) Holding Corp. recognised during the year; (2) a year-on-year increase of RMB0.5 million in the share of profit of Hainan Basuo Port Overseas Shipping Agency Co., Ltd., Hainan Basuo Port Labour Service Limited and Inner Mongolia Hong Feng Packaging Co., Ltd. recognised during the year; (3) a year-on-year decrease of RMB2.1 million in the share of profit of Guizhou Jinlin Chemical Co., Ltd. recognised during the year;

and (4) a decrease of RMB0.5 million in the share of profit of United Wealthfert Co., Ltd. recognised during the year.

Income tax expenses

During the reporting period, the Group's income tax expenses were RMB472.0 million, representing a decrease of RMB528.2 million, or 52.8% from that of RMB1,000.2 million in 2021. This was primarily attributable to (1) a corresponding decrease of RMB82.3 million in income tax expenses for the current period as the Group recorded a year-on-year decrease in profit before tax for the year; and (2) a year-on-year decrease in deferred income tax of RMB445.8 million as a result of the reversal, in the last year, of deferred income tax assets provided of CNOOC Tianye and Hualu Yangpoquan in prior years.

Net profit for the year

During the reporting period, the Group's net profit was RMB1,798.7 million, representing an increase of RMB157.3 million as compared to that of RMB1,641.4 million in 2021.

Dividends

The board of directors of the Company (the "Board") recommended the payment of a final dividend for 2022 in the amount of RMB820.6 million, or RMB0.178 per share. The proposed final dividend for 2022 will be subject to the approval by the shareholders of the Company at the 2022 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 2022 (calculated as interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities) was 10.5%, representing an increase of 4.7% compared to 5.8% as at 31 December 2021, which was primarily attributable to the increase in the Company's capital by RMB861.9 million during the reporting period and the increase in its lease liabilities and interest-bearing bank borrowings by RMB1,032.8 million as compared to last year.

Cash and cash equivalents

At the beginning of 2022, the Group had cash and cash equivalents of RMB674.4 million. In 2022, the net cash inflow from operating activities was RMB2,142.5 million, the net cash outflow from investing activities was RMB2,353.7 million, the net cash inflow from financing activities was RMB65.4 million, and the increase from the effect of foreign exchange rate changes on cash and cash equivalents was RMB0.2 million. As at 31 December 2022, the Group's cash and cash equivalents were RMB528.8 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 2022, the Group had 4,191 employees. The aggregate of employees' wages and allowances for 2022 was approximately RMB893.3 million. The Group has a comprehensive remuneration system and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Group effectively provides incentive to its staff. The Group determines staff remuneration according to their positions, performance and capability.

As at 31 December 2022, during the reporting period, the Company strictly implemented its annual training plan and recorded a total of 104,025 enrollments with a total of 565,891.59 training hours (including online training). The Company also organised 11,117 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 104,111 enrollments and 239,098 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.



Adjusting refill valve of ammonia pump tank

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 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 6.3014 and 7.2555. 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 2022, the balance of the Group's deposits in USD was US\$0.53 million.

Inflation and currency risk

According to data of National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.0% 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 2022, based on the carrying amount of borrowings as shown in the financial statements, the Group's borrowings in the amount of RMB869.0 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 report, 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

During the reporting period, the Group had no completed acquisitions and disposals.

On 28 November 2022, the Company initiated a listing-for-sales process to dispose of 67% equity interest in CNOOC Tianye on China Beijing Equity Exchange ("CBEX"). On 26 December 2022, the project of the Company of disposal of 67% equity interest in CNOOC Tianye through listing-for-sales on CBEX was accepted by PetroChina Company Limited and the equity acquisition contract was signed on 28 December 2022. On 22 February 2023, CBEX issued the transaction certificate of state-owned assets, and the Company received the total transaction price of RMB207.233546 million. Please refer to the announcement of the Company dated 28 November 2022 for details of the disposal.

On 27 June 2022, the Company initiated a listing-for-sales process to dispose of approximately 79.98% equity interest in Hubei Dayukou on CBEX. As at the date of this report, the final transferee is still uncertain, and no equity transaction agreement has been entered into by the Company. Please refer to the announcements of the Company dated 27 June 2022 and 2 August 2022 for the latest progress of the potential disposal.

On 30 June 2022, the Company entered into a conditional equity transfer agreement with CNOOC Oil & Petrochemicals Co., Ltd. for a proposed acquisition of 100% equity interests in CNOOC Orient Petrochemical Co., Ltd. (中海石油東方石化有限責任公司). The proposed acquisition has been terminated. Please refer to the announcement of the Company dated 28 March 2023 for details.

Sector Outlook

In 2023, with the recovery of the domestic economy and the return of logistics to normal, it is expected that export and industrial demand will recover to a certain degree. Ensuring the safety of fertilisers and grain is still the main policy tone. There is still a relatively strong support for the urea market, and the declining rate of urea price is relatively limited. The price trend in the first half of the year may be stronger than that in the second half of the year. The market of ammonium phosphate will continue to stand firm at the current high price level in the coming spring, and the price of fertilisers in the low season may fluctuate downward in the second half of the year.

In respect of methanol, with the slowdown of new methanol production capacity, it is expected to present a relatively stable demand in the methanol-to-olefins and traditional downstream methanol industries, an increasing demand from wider applications of new energy-related fine chemicals, a more obvious impact of cost posed on methanol and downstream products, and a price fluctuation in market prices; POM is expected to increase in demand for new energy vehicles.

● DYK Chemical plant

Our Key Tasks in 2023

1. To further enhance our HSE and refined production management to attain the safe and smooth operation of all production plants;
2. To further enhance our marketing capabilities and increase the proportion of direct sales of products;
3. To further strengthen lean management and strictly control costs;
4. To ensure commercial operation of the acrylonitrile project;
5. To seize the opportunities arising from the construction of Hainan Free Trade Port and push forward the construction of wharf and logistics;
6. To promote technology research and innovation, and strive to master core technologies through independent research and development and technology sourcing;
7. To further enhance digital empowerment capabilities, and
8. To increase efforts in exploring opportunities for corporate development and promote the high-quality development of the Company.





为实现中华民族伟大复兴的中国梦不懈奋斗

贯彻总书记“从根本上消除事故隐患”重要指示 深入开展安全生产专项整治三年行动计划工作



Corporate Governance Report

In 2022, 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, except for the deviation from code provision C.2.1 of the Corporate Governance Code. The Company continued to pursue professional governance standards and further strengthened the authority and duties of the Board. The Company organized and convened general meetings, Board meetings and Supervisory Committee meetings in a compliant manner. 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, 19 proposals in relation to, among other things, the 2021 annual financial report, the report of Directors, the report of the Supervisory Committee, profit distribution plan, the 2022 budget proposal of the Company, and the grant of general mandate to the Board to repurchase H Shares, were considered and passed. In 2022, each of Mr. Hou Xiaofeng, Mr. Huang Hulong, Mr. Zhao Baoshun, Mr. Li Zhi, Mr. Yu Changchun, Mr. Lin Feng and Mr. Xie Dong, being the then Directors, had an attendance rate at the general meetings of 100%.

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 appoint or 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 2022, the Board consisted of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. There was no relationship (including financial, business, family or other material or relevant relationship(s)) among the members of the Board. Biographical details of the Directors are set out on pages 33 to 35 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 (i.e. before 31 December 2024) to ensure the diversity of the Board members based on the above considerations. Prior to that, the Company will develop a pipeline of potential successors to the Board based on the Company's director nomination policy to achieve gender diversity of the Board.

For the gender composition of the senior management of the Company, please refer to the section headed Directors, Supervisors and Senior Management of this annual report. Details of the gender ratio of the existing employees of the Company have been disclosed in 2022 Environmental, Social and Governance Report published by the Company on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.chinabluechem.com.cn.

Currently, the gender ratio of the Company's senior management and employees is at the same level as that of other companies in the same industry. In the future, it is expected that the gender ratio of senior management and employees will remain at a similar level as the current level.

As at 31 December 2022, the members of the sixth session of the Board were as follows:

Board member	Position(s)	Date of appointment
Hou Xiaofeng	Executive Director, CEO and President (Act as Chairman)	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. Hou Xiaofeng, Mr. Yu Changchun, Mr. Lin Feng and Mr. Xie Dong 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, of which Mr. Li Zhi resigned as a Director of the Company on 28 March 2023. 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 Company has adopted the following mechanisms to ensure independent views and input are available to the Board, and the Board reviews such mechanisms annually to ensure its effectiveness: (1) three out of seven Directors are independent non-executive Directors, which is in compliance with the requirements under the Listing Rules that the Board must have at least three independent non-executive Directors and the independent non-executive Directors appointed must represent at least one-third of the

Board; (2) the independent non-executive Directors have sufficient time to effectively perform their duties; (3) where required by the Listing Rules, the Company shall establish an independent board committee to give opinions on relevant transactions; (4) external independent professional advice can be obtained if required by a Director; (5) all Directors are encouraged to freely express their independent opinions and constructive questions at Board/Board Committee meetings.

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 regular meetings and, according to the actual work needs, held seven interim meetings by way of written resolution in lieu of holding a physical meeting. Attendance of each member of the Board at the regular Board meetings during the year ended 31 December 2022 was as follows:

Director	Number of meetings attended/held	Attendance rate (%)
Hou Xiaofeng	5/5	100
Huang Hulong	5/5	100
Zhao Baoshun	5/5	100
Li Zhi (Note 1)	5/5	100
Yu Changchun	5/5	100
Lin Feng	5/5	100
Xie Dong	5/5	100
Wang Weimin (Note 2)	0/1	0

Note 1: Due to other work commitment, Mr. Li Zhi ceased to be the executive Director on 28 March 2023.

Note 2: Due to other work arrangements, Mr. Wang Weimin ceased

to be the executive Director on 30 March 2022. One Board meeting was held during the period from 1 January 2022 to 30 March 2022.

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 Directors (namely Mr. Hou Xiaofeng, Mr. Huang Hulong, Mr. Zhao Baoshun, Mr. Li Zhi, Mr. Yu Changchun, Mr. Lin Feng and Mr. Xie Dong) attended the on-site training organised by the Company on 27 May 2022 to learn about the latest regulatory trends of listed companies and other related topics. In addition, the Company circulated written materials to Directors by mail on 30 November 2022, which included five 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.

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 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 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 held two interim meetings by way of written resolutions in lieu of holding a physical meeting according to actual work needs. The tasks it performed are summarised as follows:

- reviewed the 2021 consolidated financial statements and the 2022 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 2023 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 2022;

- 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 2022 and approved the internal audit plan for 2023 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)	4/4	100
Huang Hulong	4/4	100
Zhao Baoshun	4/4	100
Yu Changchun	4/4	100
Lin Feng	4/4	100

Remuneration Committee

The Remuneration Committee 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 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 the Company's remuneration system, and reviewing and/or approving matters relating to share scheme as described in Chapter 17 of the Listing Rules. In discharging its duties, the Remuneration Committee may consult the Chairman, the President and other executive Remuneration policy.

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 2022 are set out in Note 12 to the consolidated financial statements.

During the reporting period, three meetings of the Remuneration Committee were held at which the committee passed the selection and appointment, performance appraisal and remuneration management system of the senior management, and determined the remuneration of the newly appointed joint company secretaries with the authorization of the Board.

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)	3/3	100
Huang Hulong	3/3	100
Xie Dong	3/3	100

Nomination Committee

The Nomination Committee currently consists of three members, including executive Director namely Mr. Hou Xiaofeng, and independent non-executive Directors namely Mr. Yu Changchun and Mr. Lin Feng, and the duties and responsibilities of the chairman of the Nomination Committee were performed by Mr. Hou Xiaofeng.

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 assesses and reviews the independence of each

independent non-executive Director. It is also responsible for reviewing the Board diversity policy 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.

The Company adopted the Board diversity policy on 31 May 2013 and believed that the Board diversity policy is beneficial for enhancing the quality of the Company's performance. The Board diversity policy aims to set out the approach to achieve diversity on the Board. 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, educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision shall be based on merit and the possible contributions to the Board of the candidates. The Nomination Committee has reviewed the Board diversity policy to ensure its effectiveness. The Board of the Company will appoint a female member by the timeline stipulated in the Listing Rules to ensure that the diversity of the Board members based on the above considerations.

During the reporting period, the Nomination Committee held three meetings to make recommendations on candidates for senior management in accordance with the above nomination policy and procedures, and to review the structure, size and composition (including skills, knowledge and experience) of the Board and its special committees. Attendance of each member of the Nomination Committee at the committee meetings was as follows:

Nomination Committee member	Number of meetings attended/held	Attendance rate (%)
Hou Xiaofeng (Act as Chairman) (Note 1)	2/2	100
Yu Changchun	3/3	100
Lin Feng	3/3	100
Wang Weimin (Note 2)	0/1	

Note 1: Mr. Hou Xiaofeng was appointed as a member of the Nomination Committee of the company on 30 March 2022. Two meetings of the Nomination Committee of the company were held during the period from 30 March 2022 to 31 December 2022.

Note 2: Due to other work arrangements, Mr. Wang Weimin ceased to be the chairman of the Nomination Committee on 30 March 2022. The Nomination Committee held one meeting during the period from 1 January 2022 to 30 March 2022.

Investment Review Committee

The Investment Review Committee 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 three meetings and held four interim meetings by way of written resolutions in lieu of holding a physical meeting according to actual work needs. The Investment Review Committee reviewed the investment projects and equity transfer 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)	3/3	100
Huang Hulong	3/3	100
Zhao Baoshun	3/3	100
Lin Feng	3/3	100
Xie Dong	3/3	100

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 52 to 53 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 provides 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 Technology and Network Informatisation 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 2022 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

From 1 January 2022 to 30 March 2022, Mr. Wang Weimin served as the chairman of the Company and Mr. Hou Xiaofeng served as the chief executive officer/president. The chairman is responsible for providing leadership over the effective operation of the Board, while the chief executive officer/president is responsible for the day-to-day business operation of the Group and reports to the Board on the overall operation of the Company, which is in accordance with the code provisions in the Corporate Governance Code contained in Appendix 14 to 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 is identifying suitable candidate to fill up the vacancy of the chairman of the Board to comply with the requirements under C.2.1 of the Corporate Governance Code.

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.

Ms. Wu Xiaoxia has resigned as the Company Secretary due to other work commitment with effect from 5 January 2023. The Board has appointed Mr. Kuang Xiaobing and Ms. Ng Sau Mei as the joint company secretaries with effect from 5 January 2023. Mr. Kuang Xiaobing is also the chief financial officer and vice president of the Company. The major contact of Ms. Ng Sau Mei, the external service provider from TMF Hong Kong Limited, in the Company is Mr. Kuang Xiaobing.

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.

The Company reviews the Administrative Measures for Information Disclosure and the Administrative Rules for Information Disclosure in the Capital Market on an annual basis. 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. The Company is of the view that the relevant policies in relation to communication with investors have been properly implemented during the reporting period and are effective.

During the reporting period, the Company made amendments to some provisions of the Articles to update the legal names of a promoter, and add provisions on the conversion of non-listed foreign shares into H shares. The amendments are conducive to enhancing corporate governance and in the interests of the Company and its Shareholders as a whole. For details, please refer to the circular dated 12 April 2022 and the Articles dated 27 May

2022 published by the Company.

10 Risk management and internal control

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

The Company has developed an internal control system and a comprehensive risk management system as well as internal systems such as comprehensive risk management measures. The Company has set up a three-tier risk management structure consisting of the Risk Management Committee, the risk management department and the subsidiaries, 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, by focusing on revising corporate governance, internal control and laws, financial funds, sales and trading systems, the Company continued to prevent and control risks, strengthen internal control and promote compliance. With the goal of building an authorisation system of “equal rights with corresponding responsibility”, the Company optimised the responsibility list of the business approval process in the field of procurement and marketing, and incorporated it into the assessment system to enhance the responsibility consciousness of employees at all levels. 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 2022, (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 2022, the audit fees amounted to RMB2.97 million, which has been approved by the Audit Committee. In addition, the Company paid BDO a fee of RMB109,800 for the provision of year-end final accounts advisory service, and RMB1,885,000 for the provision of services of mergers and acquisitions of Orient Petrochemical and 630 special audit of CNOOC Tianye.

The responsibility statement of the Company’s external auditor on the consolidated financial statements is set out on pages 54 to 57 of this annual report.

12 2022 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 27 March 2023, the Company and CNOOC held the 2022 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.



Directors, Supervisors and Senior Management

Executive Directors

① Mr. **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 and the chairman of Hubei Dayukou Chemical Co., Ltd. in August 2020. He was appointed as a director of CBC (Canada) Holding Corp. in August 2020 and the chairman in April 2022. He was appointed as a director of CNOOC Kingboard Chemical Limited in August 2020 and the chairman in January 2022. From March 2021 to July 2021, he studied in the 49th young cadre training course of Party School of the Central Committee of the CPC. He has acted as the Chairman of the Company and presided over the work since March 2022.

Non-executive Directors

② Mr. **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 a non-executive Director of the company in December 2021.

③ Mr. **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



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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

④ Mr. **Yu Changchun**, born in 1969, graduated with a bachelor's degree from Sichuan Normal College majoring in chemistry in 1990. He obtained a master's degree of physical chemistry from Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1993, and a doctor's degree of physical chemistry from the OSSO State Key Lab (OSSO國家重點實驗室) of Lanzhou Institute of Chemical Physics, Chinese Academy of Sciences in 1997 and obtained the assistant professor title afterward. From April 1997 to December 2002, Mr. Yu Changchun worked as a teacher in the Chemical Industry Institute of China University of Petroleum (Beijing). He was a visiting scholar in University of British Columbia, Canada from January 2003 to January 2004; From February 2004 to February

2012, he worked as a secretary to Academic Committee of China National Petroleum Corporation Catalyst Key Lab of China University of Petroleum (Beijing) and a teacher of the School of Chemical Engineering of China University of Petroleum (Beijing). He is a member of the Committee for Affairs of New Energy Research Center in China University of Petroleum (Beijing) and a teacher of this institute from March 2012 to December 2018. He is a teacher of College of New Energy and Materials in China University of Petroleum (Beijing) since January 2019. Mr. Yu Changchun's main research areas include conversion and utilisation of natural gas, catalytic conversion of light hydrocarbons, Fischer-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.

⑤ Mr. **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 acting dean of the School of Law of the City University of Hong Kong, and the chairman of the Centre for Judicial Education and Research cum Identification of Hong Kong Law. He is a practising barrister in Hong Kong, a councilor of the China Law Society, a councilor of the Chinese Judicial Studies Association, a councilor of the Hong Kong Mental Health Foundation, and a member of the Independent Police Complaints Council. 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-in-chief of Asia Pacific Law Review, a member of the Law Reform Commission of Hong Kong, a council member of the Bar Council of the Hong Kong Bar Association, 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.

⑥ Mr. **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 17 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



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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. He has served as the chief financial officer and the director of QuantaSing Group Limited (NASDAQ: QSG) since January 2021 and June 2022, respectively. He was appointed as an independent non-executive Director of the company in May 2021.

Supervisors

⑦ Mr. **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 from March 2020 to September 2022. He has been full-time dispatched director of CNOOC since September 2022. He was appointed as a supervisor representing the shareholders of the Company and the chairman of the Supervisory Committee of the Company in May 2020.

⑧ Mr. **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.

⑨ Ms. **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



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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 from October 2014 to February 2023. 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责任公司)

Senior management

⑩ Mr. **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 preparation team for the Datong coal-based gas project. He has served as the vice president of the Company since March 2022.

⑪ Mr. **Kuang Xiaobing**, born in 1967, obtained a master's degree from Beijing Business College in 1997, majoring in enterprise management. He was qualified as a senior economist. From September 1986 to August 1991, he studied in the department of engineering physics of Tsinghua University, majoring in nuclear and thermal energy utilization. From August 1991 to September 1994, Mr. Kuang served as an assistant engineer at the No. 2 Institute of Nuclear Industrial Research and Design. From September 1994 to June 1997, he studied at Beijing Business College, majoring in enterprise management, and obtained a master's degree. From June 1997 to May 1998, he worked as an economist in the financial department of China National Offshore Oil Corporation. From May 1998 to December 2000, he served as financial economist of Nanhai petrochemical project team of CNOOC. From December 2000 to August 2005, he served as the financing director of the finance department of CNOOC and Shell Petrochemical Company Limited. From August 2005 to December 2011, he successively served as the director of corporate financial analysis and management, the senior director of investment and financing and debt risk management, and the head of financing and capital market division of the capital financing department of CNOOC China Limited. From December 2011 to October 2016, he successively served as the head of the financing division, the head of the limited financing and capital market division, and the deputy head of the financing division of the capital department of China National Offshore Oil Corporation. From October 2016 to November 2022, he served as the deputy general manager of the capital department of China National Offshore Oil Corporation (CNOOC Limited). In November 2022, Mr. Kuang was appointed as the Company's vice president, chief financial officer, chief legal adviser and chief compliance officer. In January 2023, Mr. Kuang was appointed as the Joint Company Secretary of the Company.

⑫ Mr. **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



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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 to February 2021. 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.

⑬ Mr. **Tang Xiangyang**, born in 1970, graduated from Shenyang University of Chemical Technology majoring in inorganic chemical engineering from chemical engineering in July 1992. He graduated from Zhongnan University of Economics and Law with a bachelor's degree in business administration and a master's degree in management in December 2007. He was qualified as a professional and technical of senior engineer. From August 1992 to June 1999, he successively served as an operator, deputy team leader and team leader of urea department of Hainan Fudao Chemical Industry Corporation. From June 1999 to December 2001, he successively served as a technician and deputy director of ammonia processing department, and deputy manager of urea department of Hainan Fudao Chemical Industry Co., Ltd. (海南富島化工有限公司). From January 2002 to November 2004, he successively served as a deputy director and director of urea workshop of CNOOC Fudao Limited. From November 2004 to April 2010, he successively served as an office general manager and director of CNOOC Chemical limited. From April 2010 to August 2015, he successively served as the deputy general manager, office director, deputy secretary of the Party Committee, secretary of disciplinary committee, chairman of the labor union and secretary of the Party Committee of Hainan

Base and CNOOC Fudao limited. From August 2015 to August 2020, He served as the secretary of the Party Committee and general manager of CNOOC Huahe Coal Chemical Limited. He served as the secretary of the Party Committee and general manager of Hubei Dayukou Co., Ltd. (湖北大峪口有限責任公司) in August 2020. He was appointed as a vice president of the Company in March 2023.

⑭ Ms. **Ng Sau Mei**, born in 1977, graduated with a bachelor's degree from City University of Hong Kong in 2001 majoring in laws and obtained a master's degree in laws from University of London in the United Kingdom in 2017. She became an associate member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom in 2007 and a fellow member in 2019. She is a director of the Listing Services Department of TMF Hong Kong Limited and is responsible for provision of corporate secretarial and compliance services to listed company clients. She currently serves as the joint company secretary for various companies listed on the Main Board of the Stock Exchange, including China Reinsurance (Group) Corporation (stock code: 1508), The People's Insurance Company (Group) of China Limited (stock code: 1339) and China Oilfield Services Limited (stock code: 2883). She was appointed as the Joint Company Secretary of the Company in January 2023.

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 2022.

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 2022 and the financial position of the Company and the Group as at that date are set out on pages 58 to 65 of the consolidated financial statements for the year ended 31 December 2022.

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 54 to 57, respectively. Particulars of the important events affecting the Company that have occurred since the end of the financial year of 2022 are set out in the Management Discussion and Analysis on pages 6 to 21 and Note 49 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 2022 Environmental, Social, and Governance Report separately issued by the company; 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, the 2022 Environmental, Social, and Governance Report separately issued by the company, 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 RMB820.6 million for the year of 2022, in aggregate RMB0.178 per share (tax inclusive). The proposed dividend for the year will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

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

The Company has adopted the dividend policy (the "Dividend Policy"), whereby the shareholders of the Company are entitled to the dividends declared by the Company. The payment and any amount of dividends shall be formulated at the discretion of the Board. Any dividend distribution is subject to the approval by the general meeting of the Company. Pursuant to the Company Law of the PRC and the Articles of Association of the Company, all shareholders of the Company shall be equally entitled to dividends and distribution. Dividends paid to holders of Domestic Shares, if any, shall be calculated and declared and payable in Renminbi. Cash dividends paid to holders of 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 2022 are set out in Note 46 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 2022, 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 and the remaining 1,796,000,122 shares were H shares, accounting for approximately 61.04% and 38.96% respectively of the total issued share capital of the Company.

On 30 December 2022, the Company completed the conversion of 25,000,122 Unlisted Foreign Shares into H Shares (the "Completion of the Conversion"). Immediately before Completion of the Conversion, the total issued share capital of the Company comprised 2,813,999,878 Domestic Shares, 25,000,122 Unlisted Foreign Shares and 1,771,000,000 H Shares. Upon Completion of the Conversion, the total issued share capital of the Company comprised 2,813,999,878

Domestic Shares and 1,796,000,122 H Shares.

Details of the share capital structure of the Company as at 31 December 2022 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 2022.

Equity-linked agreements

No equity-linked agreements were entered into by the Group during the year ended 31 December 2022.

Permitted indemnity provision

The Company has arranged appropriate liability insurance to indemnify our Directors and senior officers of the Group and the persons who served as the Directors of the Group in 2022 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 2022.

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 2022, the reserves available for distribution of the Company was RMB13,547.68 million.

Charitable donations

During the year, the Group made charitable donations of RMB20.3 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's top five customers accounted for 9.02% of the total sales of the year and sales to the largest customer included therein amounted to 3.28% of the total sales of the year. Purchases from the Group's top five suppliers accounted for 8.21% of the total purchases for the year and purchases from the largest supplier accounted for 4.91% 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 2022 were (Note 1):

Executive Director:	
Hou Xiaofeng	Re-appointed on 27 May 2021
Li Zhi (Note 2)	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.

Note 2: Mr. Li Zhi ceased to be the executive Director of the Company with effect on 28 March 2023 due to other work commitment.

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 33 to 37 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. Mr. Li Zhi has resigned from his position as an executive Director due to other work commitment with effect on 28 March 2023.

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 2022 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 2022, 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 2022, 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.

- Mr. Huang Hulong and Mr. Zhao Baoshun, the non-executive Directors, also serve as full-time despatched directors by CNOOC.
- 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 2022, no person (other than Directors, Supervisors and chief executive of the Company or their respective associates) had any interests and short positions in the shares and underlying shares (as the case may be) of the Company which were required to be entered into the register kept pursuant to Section 336 of the SFO.

Management contract

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

Connected transactions

Connected transaction

Details of the connected transactions of the Group in 2022 are as follows:

1. Proposed acquisition of Oriental petrochemical

On 30 June 2022, the Company entered into an equity transfer agreement (the “Equity Transfer Agreement”) with CNOOC Oil & Petrochemicals Co., Ltd.* (中海石油煉化有限責任公司) (“CNOOC Oil & Petrochemicals”), pursuant to which, the Company has agreed to purchase, and CNOOC Oil & Petrochemicals has agreed to sell, 100% equity interests in CNOOC Orient Petrochemical Co., Ltd.* (中海石油東方石化有限責任公司) (“Orient Petrochemical”), at a cash consideration of RMB1,305,407,610.25. Upon the Completion, Orient Petrochemical will become a wholly-owned subsidiary of the Company. Orient Petrochemical is located in the Hainan Dongfang Chemical Industry Park (海南東方化工園區), an important base for development of downstream industries of oil and gas industry of the CNOOC Group. With the crude oil supplied by the CNOOC Group, Orient Petrochemical produces refined products and chemicals

CNOOC Oil & Petrochemicals is a wholly-owned subsidiary of CNOOC, which is the controlling shareholder of the Company. As such, CNOOC Oil & Petrochemicals is a connected person of the Company by virtue of being an associate of the controlling shareholder of the Company. As such, the Equity Transfer Agreement and the Acquisition of Orient Petrochemical contemplated thereunder also constitute a connected transaction of the Company.

As at the date of this report, the proposed acquisition has been terminated and the Company does not hold any equity interests in Orient Petrochemical. For details of the connected transaction, please refer to the announcements of the Company dated 30 June 2022, 21 July 2022, 4 August 2022, 30 August 2022, 29 September 2022, 29 November 2022 and 28 March 2023.

2. Fudao Chemical Capital Increase Agreement

On 9 December 2022, CNOOC Fudao Limited* (海洋石油富島有限公司) (“CNOOC Fudao”), Orient Petrochemical

and CNOOC Fudao (Hainan) Chemical Ltd.* (中海油富島(海南)化工有限公司) (“Fudao Chemical”) entered into the Capital Increase Agreement, pursuant to which, the registered capital of Fudao Chemical will increase from RMB300 million to RMB720 million in proportion to the Original Shareholders’ respective shareholding in Fudao Chemical, comprising of (i) RMB214.2 million subscribed by CNOOC Fudao in cash and (ii) RMB205.8 million subscribed by Orient Petrochemical in cash and assets. The shareholding in Fudao Chemical held by the Original Shareholders will remain unchanged upon completion of the Capital Increase.

The consideration of the Capital Increase to be subscribed by Orient Petrochemical is RMB205.8 million, in cash and assets (for the part in assets, the “Asset Injection”). As Fudao Chemical is a subsidiary of the Company, the Asset Injection by Orient Petrochemical into Fudao Chemical constitutes an asset acquisition of the Company.

As (i) CNOOC is the controlling shareholder of the Company; (ii) Orient Petrochemical is a wholly-owned subsidiary of CNOOC; (iii) CNOOC Fudao, a wholly-owned subsidiary of the Company, holds 51% equity interests in Fudao Chemical and Orient Petrochemical holds 49% equity interests in Fudao Chemical. Orient Petrochemical is a connected person of the Company under Rule 14A.07 of the Listing Rules and Fudao Chemical is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules. Therefore, the Capital Increase by CNOOC Fudao constitutes a connected transaction of the Company, and the Asset Injection by Orient Petrochemical to Fudao Chemical is deemed as an acquisition of assets by the Group from a connected person, which is also a connected transaction of the Group.

As of the date of this report, the connected transaction has been completed.

For details and progress of the connected transaction, please refer to the announcements of the Company dated 9 December 2022 and 24 February 2023.

Continuing connected transactions

Details of the continuing connected transactions of the Group which required reporting and annual review in 2022 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.

CNOOC International Trade Co, Limited* (中海油國際貿易有限責任公司) ("CNOOC International Trade") 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.

3 Fudao Chemical

The Company indirectly holds 51% equity interests in Fudao Chemical; and CNOOC, the Company's controlling shareholder, indirectly holds 49% equity interests in Fudao Chemical. Therefore, Fudao Chemical is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules, and a connected person of the Company pursuant to Rule 14A.07(5) of the Listing Rules.

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 2022, the annual expenses paid by the Group for the properties leasing and management services from CNOOC Group were RMB31,377,000 and the annual revenue for the properties leasing and management services provided by the Group to CNOOC Group was RMB6,669,000.

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.

As mentioned in the announcement of the Company dated 11 November 2022, due to the internal arrangement of CNOOC, the business entity engaging in the sales of natural gas within CNOOC changed from CNOOC China Limited, a subsidiary of CNOOC, to CNOOC International Trade, another subsidiary of CNOOC. Based on such arrangement, the above-mentioned parties (as suppliers) of Natural Gas Sale and Purchase Agreements have also been changed from CNOOC China Limited to CNOOC International Trade. Such arrangement has no adverse impact on the supply of natural gas to the Group as the source of natural gas is still within CNOOC. In addition, other terms and conditions (including the pricing terms) of the Natural Gas Sale and Purchase Agreements as mentioned in “Natural Gas Sale and Purchase Agreements” set out in the circular of the Company dated 13 November 2020 remain unchanged. Considering the abovementioned factors, the Directors are of the view that such change to the Natural Gas Sale and Purchase Agreements does not constitute the material change to the terms under the Rule 14A.54(2) of the Listing Rules.

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 International Trade 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 International Trade or CNOOC China Limited (If applicable), 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 International Trade or CNOOC China Limited (If applicable) 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 or CNOOC International Trade (If applicable), 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 International Trade or CNOOC China Limited (If applicable) 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 2022, the aggregate costs of the Group on purchases of natural gas from CNOOC International Trade amounted to RMB3,255,157,000.

3 Comprehensive Services and Product Sales Agreement

On 23 October 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 2022 pursuant to the Comprehensive Services and Product Sales Agreement amounted to RMB476,866,000. The annual revenue from services, supplies and sales of products provided by the Group to CNOOC Group amounted to RMB595,173,000.

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 2022, the maximum daily balance of the Group's deposits placed in CNOOC Finance was RMB399,774,000.

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 2022, 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 RMB0.

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 2022, the aggregate revenue of the Group from Kingboard and its associates for sales of products and provision of related services amounted to RMB257,002,000.

7 Comprehensive Services and Product Sales Agreement with Fudao Chemical

The Company and Fudao Chemical had entered into the Comprehensive Services and Product Sales Agreement with Fudao Chemical on 18 November 2022, pursuant to which:

- a. The Group has agreed to provide services and supplies to Fudao Chemical (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, equipment leasing, equipment maintenance, materials/equipment procurement services and material supplies for utility system); and
- b. The Group has agreed to sell products (methanol, liquid ammonia, etc.) to Fudao Chemical and Fudao Chemical has agreed to sell products (including but not limited to acrylonitrile, acetonitrile, MMA, etc.) to the Group.

The term of the Comprehensive Services and Product Sales Agreement with Fudao Chemical commenced on 28 December 2022 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 Proposed Continuing Connected Transactions with Fudao Chemical under the Comprehensive Services and Product Sales Agreement with Fudao Chemical, 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 Fudao Chemical and (ii) the sale of products by Fudao Chemical to the Group.

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

1. As to provision of services and supplies and sale of products by the Group to Fudao Chemical
 - 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 service providers or suppliers.

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

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

In 2022, the Group's revenue from the provision of services and supply and sales of products to Fudao Chemical amounted to RMB48,308,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2022 are set out below:

	Annual cap amount for 2022 (RMB'000)	Actual transaction amounts for 2022 (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	31,377
(2) Properties Leasing Agreement: Lease of properties by CNOOC Group from the Group	7,486	6,669
(3) Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC International Trade (Note 1)	3,300,000	3,255,157
(4) Comprehensive Services and Product Sales Agreement		
(a) Provision of services, supplies and sales of products by CNOOC Group to the Group	900,221	476,866
(b) Provision of services, supplies and sales of products by the Group to CNOOC Group	795,696	595,173
(5) Financial Services Agreement: Deposits placed in CNOOC Finance by the Group (Note 2)	400,000	399,774
(6) Finance Lease Agreement: Provision of finance lease services by CNOOC Leasing to the Group	1,108,000	0
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	336,929	257,002
C. Continuing connected transactions with Fudao Chemical		
Comprehensive Services and Product Sales Agreement with Fudao Chemical		
(1) Provision of services and supplies and sale of products by the Group to Fudao Chemical (Note 3)	70,000	48,308
(2) Sale of products by Fudao Chemical to the Group	NA	NA

Note 1: The Company convened an extraordinary general meeting on 28 December 2022 to consider and approve the Proposed Revised Annual Caps for the purchase of natural gas by the Group from CNOOC International Trade under the Natural Gas Sale and Purchase Agreements for the two financial years from 1 January 2022 to 31 December 2023. The annual caps for 2022 were revised from RMB2,879,788,000 to RMB3,300,000,000.

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

Note 3: The Company and Fudao Chemical had entered into the Comprehensive Services and Product Sales Agreement with Fudao Chemical on 18 November 2022, pursuant to which the annual cap for the provision of services and supplies and sale of products by the Group to Fudao Chemical for 2022 is RMB70,000,000.

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 42 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 2022 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 2022, 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 2022 Environmental, Social, and Governance Report separately issued by the company.

Audit Committee

The 2022 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 2022 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 2022, BDO Limited and BDO China Shu Lun Pan CPAs were appointed as the overseas and domestic auditors of the Company respectively on the 2021 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 2022 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 Companies, 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

Shenzhen the PRC, 28 March 2023

Report of the Supervisory Committee

In 2022, 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 2022, the Supervisory Committee held two meetings. These meetings were all convened in compliance with requirements of relevant laws and regulations and the Articles. Specifically:

- (1) On 29 March 2022, the Supervisory Committee held the first meeting for 2022 in Beijing, at which the committee considered and approved the Report of the Supervisory Committee for 2021, reviewed the annual financial report of the Company for 2021, and discussed the main tasks of the Supervisory Committee for 2022.
- (2) On 25 August 2022, the Supervisory Committee held the second meeting for 2022 in Beijing, at which the committee reviewed the interim financial report of the Company for 2022, and discussed the prioritized tasks for the second half of 2022.

2 Principal inspection and supervision work carried out by the Supervisory Committee in 2022

- (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. Ms. Liu Lijie,

the Supervisor Representing the Employees 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 2022, members of the Supervisory Committee visited CNOOC Huahe in Heilongjiang Province and marketing companies 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 2022 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 2023, 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.

The Supervisory Committee

Shenzhen, the PRC, 27 March 2023



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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 58 to 139 which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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.

Independent Auditor's Report - Continued

Key Audit Matters – Continued

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of carrying amounts of certain non-current assets</p> <p>As at 31 December 2022, the carrying amounts of property, plant and equipment, mining rights, prepaid lease payments and intangible assets of approximately RMB7,037,734,000, RMB129,176,000, RMB359,510,000 and RMB32,856,000 respectively, represented about 94% of the total non-current assets of the Group.</p> <p>Management performed assessment at the end of each reporting period on whether there is any indicator that the non-current assets may be impaired. Should indication of impairment exists, an impairment assessment will be performed accordingly.</p> <p>The recoverable amounts of the non-current assets are assessed by value-in-use calculations which are based on future discounted cash flows on a cash generating unit basis.</p> <p>Management has concluded that there was no impairment in respect of the non-current assets as at 31 December 2022.</p> <p>This area is significant to our audit because of the significance of the carrying amounts of the non-current assets and the significant management judgment involved in determining the value-in-use prepared based on future discounted cash flows. The judgment focuses on revenue growth rates, gross and operating margins and discount rates. All these factors are with estimation uncertainties and may impact the results of the impairment assessments.</p>	<p>Our procedures in relation to recoverability of carrying amounts of certain non-current assets included:</p> <ul style="list-style-type: none"> • evaluated the internal sources and external sources of information to identify impairment indications, if any; • evaluated the appropriateness of the value-in-use model adopted for the impairment assessments; • compared the current year's actual results with prior year's budgets to consider whether any past forecast including any assumptions, with hindsight, had been aggressive; • assessed the reasonableness of key assumptions such as revenue growth rates and gross/operating margins by comparing to commercial contracts, available market reports and historical trend analyses; • assessed the discount rates used by considering and recalculating the weighted average cost of capital for the non-current assets and comparable companies within the same industry, as well as considering territory specific factors; • reconciled input data to supporting evidence, such as approved budgets, inflation rates, strategic plans and market data, where applicable; and • evaluated management's sensitivity analysis around the key assumptions, to ascertain the extent of change in those assumptions that either individually or collectively would be required for the non-current assets to be impaired, where applicable.

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, 28 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	7	14,279,054	13,398,008
Cost of sales		(11,742,407)	(10,461,599)
Gross profit		2,536,647	2,936,409
Other income	7	76,656	109,982
Other gains and losses, net	8	74,218	(3,587)
Selling and distribution costs		(113,843)	(118,507)
Administrative expenses		(551,493)	(542,300)
Other expenses	11	(47,396)	(358,862)
Change in fair value of financial assets at fair value through profit or loss		11,450	6,122
Finance income	9	314,822	372,708
Finance costs	10	(29,394)	(50,559)
Impairment losses	11	(15,688)	(304,326)
Exchange gains, net		9,360	363
Gain on disposal of a subsidiary	39	-	68,707
Gain on disposal of an associate	39	-	455,103
Gain on deemed disposal of a joint venture	22	-	67,036
Share of profits of joint ventures	22	2,712	717
Share of profits of associates	23	2,718	2,600
Profit before income tax	11	2,270,769	2,641,606
Income tax expenses	14	(472,037)	(1,000,171)
Profit for the year		1,798,732	1,641,435
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		184	(246)
Remeasurement loss on benefits liability	33	(11,968)	-
Share of other comprehensive income of joint ventures	22	3,591	(1,161)
Share of other comprehensive income of associates	23	204	(52)
		(7,989)	(1,459)
Total comprehensive income for the year		1,790,743	1,639,976

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

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Profit attributable to:			
Owners of the Company		1,642,578	1,497,598
Non-controlling interests		156,154	143,837
		1,798,732	1,641,435
 Total comprehensive income attributable to:			
Owners of the Company		1,634,589	1,496,139
Non-controlling interests		156,154	143,837
		1,790,743	1,639,976
 Earnings per share attributable to owners of the Company			
- Basic for the year (RMB per share)	16	0.36	0.32

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	7,037,734	6,742,510
Mining rights	18	129,176	130,279
Prepaid lease payments	19	359,510	533,210
Investment properties	20	65,194	86,196
Intangible assets	21	32,856	39,840
Investment in joint ventures	22	295,244	289,524
Investment in associates	23	34,423	34,424
Financial asset at fair value through other comprehensive income	24	600	600
Deferred tax assets	25	53,356	37,517
Other long-term prepayment for property, plant and equipment		4,810	75,867
		8,012,903	7,969,967
CURRENT ASSETS			
Inventories	26	1,189,994	1,231,545
Trade receivables	27	284,584	35,409
Bills receivable	28	136,817	176,853
Contract assets	29	11,612	7,259
Prepayments, deposits and other receivables	30	588,240	332,375
Financial assets at fair value through profit or loss	24	3,617,572	2,756,122
VAT recoverable		164,006	434,380
Pledged bank deposits	31	4,203	13,219
Time deposits with original maturity over three months	31	8,400,000	7,800,000
Cash and cash equivalents	31	528,777	674,449
		14,925,805	13,461,611
A disposal group classified as held for sale	40	558,951	-
		15,484,756	13,461,611
TOTAL ASSETS		23,497,659	21,431,578
EQUITY			
CAPITAL AND RESERVES			
Issued capital	32	4,610,000	4,610,000
Reserves		11,316,560	10,502,551
Proposed dividends	15	820,580	714,550
		16,747,140	15,827,101
Equity attributable to owners of the Company		16,747,140	15,827,101
Non-controlling interests		1,029,450	1,087,573
TOTAL EQUITY		17,776,590	16,914,674

Consolidated Statement of Financial Position - Continued

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Benefits liability	33	294,377	6,059
Interest-bearing bank and other borrowings	34	1,185,762	571,991
Lease liabilities	38	6,458	17,120
Deferred tax liabilities	25	14,217	27,331
Deferred revenue	35	112,000	125,804
Other long-term liabilities		5,736	326,560
		1,618,550	1,074,865
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	34	869,149	447,750
Trade payables	36	1,346,483	1,335,288
Contract liabilities	29	782,618	811,122
Other payables and accruals	37	628,066	667,949
Lease liabilities	38	16,986	8,695
Income tax payable		125,555	171,235
		3,768,857	3,442,039
Liabilities associated with a disposal group classified as held for sale	40	333,662	-
		4,102,519	3,442,039
TOTAL LIABILITIES		5,721,069	4,516,904
TOTAL EQUITY AND LIABILITIES		23,497,659	21,431,578
TOTAL CURRENT ASSETS		11,382,237	10,019,572
TOTAL ASSETS LESS CURRENT LIABILITIES		19,395,140	17,989,539
NET ASSETS		17,776,590	16,914,674

On behalf of the Board

Hou Xiaofeng
Director

Xie Dong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	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 2022	4,610,000	1,109,316	1,766,468	81,006
Profit for the year	-	-	-	-
Exchange differences on translating of foreign operations	-	-	-	-
Share of other comprehensive income of joint ventures and associates	-	-	-	-
Remeasurement loss on benefits liability (Note 33)	-	-	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Appropriation and utilisation of safety fund, net	-	-	-	(6,358)
2022 proposed dividends (Note 15)	-	-	-	-
2021 final dividends declared	-	-	-	-
Transfer from retained earnings	-	-	40,086	-
Dividends paid to non-controlling interests	-	-	-	-
Balance at 31 December 2022	4,610,000	1,109,316	1,806,554	74,648
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

Note:

- 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.
- 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.
- 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
7,547,657	714,550	(1,896)	15,827,101	1,087,573	16,914,674
1,642,578	-	-	1,642,578	156,154	1,798,732
-	-	184	184	-	184
-	-	3,795	3,795	-	3,795
(11,968)	-	-	(11,968)	-	(11,968)
(11,968)	-	3,979	(7,989)	-	(7,989)
1,630,610	-	3,979	1,634,589	156,154	1,790,743
6,358	-	-	-	-	-
(820,580)	820,580	-	-	-	-
-	(714,550)	-	(714,550)	-	(714,550)
(40,086)	-	-	-	-	-
-	-	-	-	(214,277)	(214,277)
8,323,959	820,580	2,083	16,747,140	1,029,450	17,776,590
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

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		2,270,769	2,641,606
Adjustment for:			
Other gains or losses, net	8	(74,218)	3,587
Finance income	9	(314,822)	(372,708)
Finance costs	10	29,394	50,559
Share of profits of joint ventures	22	(2,712)	(717)
Share of profits of associates	23	(2,718)	(2,600)
Gain on deemed disposal of a joint venture	22	-	(67,036)
Gain on disposal of a subsidiary	39	-	(68,707)
Gain on disposal of an associates	39	-	(455,103)
Impairment losses	11	15,688	304,326
Depreciation and amortisation	11	566,827	557,739
Release of government grants	35	(32,084)	(26,464)
Change in fair value of financial assets at fair value through profit or loss		(11,450)	(6,122)
Write-down of inventories		20,654	49,838
Operating profit before working capital changes		2,465,328	2,608,198
Increase in inventories		(3,844)	(279,878)
Net (increase)/decrease in trade receivables, bills receivable, contract assets, prepayments, deposits and other receivables and other long-term prepayments for property, plant and equipment		(248,460)	454,188
Net (decrease)/increase in trade payables, contract liabilities, other payables and accruals and other long-term liabilities		(100,304)	842,060
Increase/(decrease) in benefits liability		276,350	(25,215)
Cash generated from operations		2,389,070	3,599,353
Income tax paid		(246,593)	(660,645)
Net cash flows generated from operating activities		2,142,477	2,938,708

Consolidated Statement of Cash Flows - Continued

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
INVESTING ACTIVITIES			
Interest received		314,822	197,784
Dividend received		3,506	2,005
Purchases of property, plant and equipment		(1,335,781)	(1,059,497)
Proceeds from disposal of property, plant and equipment		11,098	327,634
Purchases of intangible assets		(3,263)	(20,421)
Purchases of prepaid lease payments		-	(2,190)
Proceeds from disposal of prepaid lease payments		479	647
Purchased of financial assets at fair value through profit or loss		(12,700,000)	(3,450,000)
Disposal of financial assets at fair value through profit or loss		11,931,590	712,508
Government grants received	35	23,852	28,794
Placement of time deposits with original maturity over three months		(600,000)	(5,400,000)
Withdrawal of time deposits with original maturity over three months		-	5,000,000
Net cash flow used in investing activities		(2,353,697)	(3,662,736)
FINANCING ACTIVITIES			
Bank and other borrowings raised		2,017,776	2,249,117
Repayment of bank and other borrowings		(982,606)	(3,180,347)
Decrease/(increase) in pledged bank deposits		9,016	(5,869)
Interest paid		(27,623)	(49,334)
Dividends paid		(714,550)	(368,800)
Dividends paid to non-controlling interests		(214,277)	(2,651)
Payment of lease liabilities		(16,454)	(2,172)
Other finance charges		(5,912)	(6,662)
Net cash flows generated from/(used in) financing activities		65,370	(1,366,718)
Net decrease in bank balances and cash		(145,850)	(2,090,746)
Cash and cash equivalents at 1 January		674,449	2,765,441
Effect of foreign exchange rate changes		184	(246)
Cash and cash equivalents at 31 December		528,783	674,449
Represented by:			
Cash and cash equivalents in the consolidated statement of financial position	31	528,777	674,449
Bank balance and cash under a disposal group classified as held for sale	40	6	-
		528,783	674,449

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. General information

China BlueChemical Ltd. (the “**Company**”) was established in the PRC on 3 July 2000 as a limited liability. The registered office of the Company is located at NO.3 Park Third Road, Basuo Town, Dongfang City, Hainan Province, PRC.

In September and October 2006, the Company issued an aggregate 1,610,000,000 new H shares at a price of Hong Kong dollar (“**HKD**”) 1.90 per share to the public, which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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

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

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

2. Adoption of International Financial Reporting Standards (“**IFRSs**”)

(a) Adoption of new or revised IFRSs

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to 2018-2020 cycle
Amendments to IAS 16	Proceed before Intended Use
Amendments to IFRS 3	Reference to the Conceptual Framework

None of the above new or 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 2022

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.

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction ¹
Amendments to IFRS 16	Lease liability in a Sale and Leaseback ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current Liabilities with Covenants 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 2023

² Effective for annual periods beginning on or after 1 January 2024

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 2022

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 2022

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 2022

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 recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The principal annual rates used for depreciation purpose are 4.67% to 5%.

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

4. Significant accounting policies – Continued

(e) Mining rights

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

(f) Leasing

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

(i) Right-of-use asset

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

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under IAS 40 (see accounting policy (d)) and held for own use under IAS 16 (see accounting policy (c)) are carried at cost less accumulated depreciation and impairment losses. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its 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 2022

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 entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

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

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

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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 2022

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 2022

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.

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 2022

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 fertilisers and compounded fertiliser

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

(ii) Provision of port operation and transportation services

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

(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 2022

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 2022

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.

The Company and the non-wholly owned subsidiaries of the Company, 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”), 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 2022

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 2022

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 2022

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

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

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

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

(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 2022

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 2022 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 44) 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 2022

6. Operating segment information

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 4. Segment performance is evaluated based on segment result and is measured consistently with profit before income tax in the consolidated financial statements. However, the Group's finance income, finance costs, exchange gains, 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 2022

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 2022						
Segment revenue:						
Sales to external customers	4,968,600	3,511,267	3,267,883	2,531,304	-	14,279,054
Inter-segment sales	-	-	-	170,729	(170,729)	-
Total	4,968,600	3,511,267	3,267,883	2,702,033	(170,729)	14,279,054
Segment profit/(loss) before income tax	841,482	1,103,042	123,100	(119,657)	-	1,947,967
Interest and unallocated income						400,490
Corporate and other unallocated expenses						(92,478)
Exchange gains, net						9,360
Share of profits of joint ventures						2,712
Share of profits of associates						2,718
Profit before income tax						2,270,769
As at 31 December 2022						
Total segment assets	3,558,691	1,887,482	1,848,073	15,895,353	(634,514)	22,555,085
Unallocated						942,574
Total assets						23,497,659
Total segment liabilities	1,135,824	470,343	810,390	3,296,770	(634,514)	5,078,813
Unallocated						642,256
Total liabilities						5,721,069
Other segment information						
Depreciation and amortisation	287,418	72,939	138,127	68,343	-	566,827
Impairment loss of investment properties	-	-	15,688	-	-	15,688
Capital expenditure*	134,562	45,397	62,250	969,680	-	1,211,889

* 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 2022

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 2021						
Segment revenue:						
Sales to external customers	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
Gain on deemed disposal of a joint venture						67,036
Gain on disposal of a subsidiary						68,707
Gain 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 2022

6. Operating segment information - Continued

Operating segments - Continued

- 1 Inter-segment revenues are eliminated on consolidation.
- 2 Segment assets do not include a disposal group classified as held for sale, deferred tax assets, financial asset at FVOCI and investments in joint ventures and associates.
- 3 Segment liabilities do not include liabilities associated with a disposal group classified as held for sale, deferred tax liabilities and benefits liability.

Geographic information

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

	2022	2021
	RMB'000	RMB'000
Sales to external customers		
- PRC	13,844,634	12,181,247
- Others	434,420	1,216,761
	<u>14,279,054</u>	<u>13,398,008</u>

(b) Non-current assets

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

Information about major customer

No single customer contributed 10% or more to the Group's revenue for both 2022 and 2021.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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:

	2022	2021
	RMB'000	RMB'000
Revenue		
Sale of goods, recognised at a point in time*	13,925,441	13,021,629
Render of services, recognised overtime*	353,613	376,379
	<u>14,279,054</u>	<u>13,398,008</u>
Other income		
Income from sale of other materials, recognised at a point in time*	20,942	10,281
Income from render of other services, recognised overtime*	4,638	6,294
Gross rental income	1,053	579
Government grants	32,084	26,464
Indemnities received	3,053	24,680
Sundry income	14,886	41,684
	<u>76,656</u>	<u>109,982</u>

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

8. Other gains and losses, net

	2022	2021
	RMB'000	RMB'000
Gain on maturity of financial assets at FVTPL	81,590	12,508
(Provision for)/reversal of impairment losses on trade and other receivables	(7,792)	5,157
Gain/(loss) on disposal of property, plant and equipment	420	(21,252)
	74,218	(3,587)

9. Finance income

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

10. Finance costs

	2022	2021
	RMB'000	RMB'000
Interest on bank and other borrowings	27,623	49,334
Interest on lease liabilities	1,771	1,225
	29,394	50,559

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

11. Profit before income tax

Profit before income tax is arrived at after charging:

	2022	2021
	RMB'000	RMB'000
Cost of inventories sold	11,421,107	10,085,796
Write-down of inventories	20,654	49,838
Cost of services provided	300,646	325,965
Cost of sales recognised as expenses	11,742,407	10,461,599
Depreciation and amortisation:		
Depreciation of property, plant and equipment		
- Owned property, plant and equipment	517,249	522,611
- Right-of-use assets included:		
- Buildings	15,739	2,006
- Plant and machinery	2,789	2,991
Amortisation of mining rights	1,103	1,583
Amortisation of prepaid lease payments	15,118	15,103
Amortisation of investment properties	5,314	5,437
Amortisation of intangible assets	9,515	8,008
	566,827	557,739
Impairment losses:		
Impairment loss of property, plant and equipment (Note 17)	-	300,703
Impairment loss of investment properties (Note 20)	15,688	1,867
Impairment loss of investment in an associate (Note 23)	-	1,756
	15,688	304,326
Other expenses*	47,396	358,862
Auditors' remuneration	3,435	2,303
Employee benefit expense (including directors' and supervisors' remunerations explained in Note 12)		
- Wages and salaries	925,907	855,677
- Defined contribution pension scheme	105,339	101,405
- Early retirement benefits and post-employment allowances	17,563	490
- Medical benefit costs	56,273	54,414
- Housing fund	79,241	77,906

* As at 31 December 2021, 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 payments are disclosed in Note 33 to the consolidated financial statements.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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	
	2022	2021
	RMB'000	RMB'000
Fee	-	-
Other emoluments		
Salaries and other allowances	1,432	1,527
Discretionary bonuses	1,971	3,369
Pension scheme contributions	423	384
	3,826	5,280

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2022 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					
<i>Non-executive directors</i>					
Zhao Baoshun	-	221	580	104	905
Huang Hulong	-	-	-	-	-
	-	221	580	104	905

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

Executive directors

Wang Weimin (Note 1)	-	55	60	17	132
Hou Xiaofeng	-	231	633	106	970
Li Zhi	-	260	583	101	944
	-	546	1,276	224	2,046

The executive directors' remunerations shown above were for their services in connection with the management of the affairs of the Company and the Group.

Independent non-executive directors

Yu Changchun	-	130	-	-	130
Lin Feng	-	252	-	-	252
Xie Dong	-	126	-	-	126
	-	508	-	-	508

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

12. Key management personnel remuneration – Continued

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2022 was set out below – Continued:

	Fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Supervisors					
Liu Lijie	-	92	115	95	302
Li Xiaoyu	-	65	-	-	65
Liu Jianyao	-	-	-	-	-
	-	157	115	95	367

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

Total	-	1,432	1,971	423	3,826
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Notes:

1 Wang Weimin resigned as executive director on 30 March 2022.

The remuneration of each of the directors and 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
Directors					
<i>Non-executive directors</i>					
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.

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 directors' remunerations shown above were for their 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 2022

12. Key management personnel remuneration – Continued

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

	Fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
<i>Independent non-executive directors</i>					
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.

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
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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 2022

13. Five highest paid employees

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

	2022 Number	2021 Number
Directors and supervisors	3	2
Non-director and non-supervisor employees	2	3
	5	5

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

	2022 RMB'000	2021 RMB'000
Salaries and other allowances	406	695
Discretionary bonuses	1,095	2,140
Pension scheme contributions	207	289
	1,708	3,124

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

	2022 Number	2021 Number
RMBNil to RMB1,000,000	2	1
RMB1,000,001 to RMB1,500,000	-	2

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

14. Income tax expenses

	2022	2021
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax	475,136	560,997
Deferred tax (Note 25)	355	446,174
	<u>475,491</u>	<u>1,007,171</u>
Over-provision in prior year	(3,454)	(7,000)
	<u>472,037</u>	<u>1,000,171</u>

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which 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:

	2022	2021
	RMB'000	RMB'000
Profit before income tax	2,270,769	2,641,606
Tax at the statutory tax rate of 25%	567,692	660,402
Income tax on concessionary rate	(63,444)	(75,124)
Over-provision in respect of prior year	(3,454)	(7,000)
Tax effect of share of profits of joint ventures and associates	(1,358)	(829)
Tax effect of tax losses not recognised	47,586	111,962
Utilisation of tax losses not recognised	(48,487)	(56,434)
Tax effect of deductible temporary differences not recognised	-	387,747
Utilisation of deductible temporary differences not recognised	-	(2,327)
Income not taxable for tax	(31,641)	(22,227)
Expenses not deductible for tax	5,143	4,001
Income tax expenses	<u>472,037</u>	<u>1,000,171</u>
The Group's effective income tax rate	<u>21%</u>	<u>38%</u>

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

15. Proposed dividends

	2022	2021
	RMB'000	RMB'000
Proposed dividends – RMB0.178 (2021: RMB0.155) per ordinary share	820,580	714,550

The proposed final dividend for the year ended 31 December 2021 was approved at the annual general meeting on 27 May 2022. Proposed final dividend for the year ended 31 December 2022 is subject to the approval of the Company's shareholders at the forthcoming 2022 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

	2022	2021
	RMB'000	RMB'000
Earnings		
Profits for the year attributable to owners of the Company	1,642,578	1,497,598
	Number of shares	
	2022	2021
	'000	'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 2022

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 2022, net of accumulated depreciation and impairment	2,147,733	2,951,384	39,951	48,238	252,760	1,302,444	6,742,510
Additions	32,770	14,692	1,482	6,788	2,451	1,150,443	1,208,626
Disposals	(2,963)	(285)	(489)	(1,043)	(114)	(6,270)	(11,164)
Transfer	16,507	242,621	1,086	14,423	2,227	(276,864)	-
Depreciation	(175,515)	(323,149)	(12,252)	(20,927)	(3,934)	-	(535,777)
Transfer to a disposal group classified as held for sales (Note 40)	(120,776)	(233,837)	(1,164)	-	-	(10,684)	(366,461)
Costs at 31 December 2022, net of accumulated depreciation and impairment	1,897,756	2,651,426	28,614	47,479	253,390	2,159,069	7,037,734
At 31 December 2022 Cost	4,523,812	9,286,107	150,144	1,095,829	609,839	2,226,617	17,892,348
Accumulated depreciation and impairment	(2,626,056)	(6,634,681)	(121,530)	(1,048,350)	(356,449)	(67,548)	(10,854,614)
Net carrying amounts	1,897,756	2,651,426	28,614	47,479	253,390	2,159,069	7,037,734
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

The Group has no capitalised borrowing costs on qualifying assets during the year (2021: RMBNil).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

17. Property, plant and equipment – Continued

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 ended 31 December 2021.

Right-of-Use assets

	Plant and machinery RMB'000	Buildings RMB'000	Prepaid lease payments RMB'000	Total RMB'000
At 1 January 2022	15,106	8,877	533,210	557,193
Additions	-	33,473	-	33,473
Depreciation	(2,789)	(15,739)	(15,118)	(33,646)
Disposal	-	(478)	(479)	(957)
Transfer to a disposal group classified as held for sale (Note 40)	(12,317)	(1,764)	(158,103)	(172,184)
At 31 December 2022	-	24,369	359,510	383,879
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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

18. Mining rights

	2022	2021
	RMB'000	RMB'000
Cost as at 1 January, net of accumulated amortisation	130,279	131,862
Amortisation for the year	(1,103)	(1,583)
Cost as at 31 December, net of accumulated amortisation	<u>129,176</u>	<u>130,279</u>
As at 31 December		
Cost	158,665	158,665
Accumulated amortisation	(29,489)	(28,386)
Net carrying amount	<u>129,176</u>	<u>130,279</u>

19. Prepaid lease payments

	2022	2021
	RMB'000	RMB'000
Carrying amount as at 1 January	533,210	546,770
Addition	-	2,190
Amortisation for the year	(15,118)	(15,103)
Disposals	(479)	(647)
Transfer to a disposal group classified as held for sale (Note 40)	(158,103)	-
Carrying amount as at 31 December	<u>359,510</u>	<u>533,210</u>

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

20. Investment properties

	Total RMB'000
Cost	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>124,491</u>
Depreciation and impairment	
At 1 January 2021	30,991
Depreciation for the year	5,437
Impairment loss for the year	<u>1,867</u>
At 31 December 2021 and 1 January 2022	<u>38,295</u>
Depreciation for the year	<u>5,314</u>
Impairment loss for the year	<u>15,688</u>
At 31 December 2022	<u>59,297</u>
Carrying amounts	
At 31 December 2022	<u>65,194</u>
At 31 December 2021	<u>86,196</u>

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)	
	2022	2021
	RMB'000	RMB'000
Investment properties	<u>65,194</u>	86,633

Recurring fair value measurement

Investment properties	<u>65,194</u>	86,633
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As at 31 December 2022, the carrying value of the aforesaid investment properties was RMB65,194,000, 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 2022

21. Intangible assets

	Computer Software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2022, net of accumulated amortisation	23,554	16,286	39,840
Additions	3,263	-	3,263
Amortisation for the year	(6,588)	(2,927)	(9,515)
Transfer to a disposal group classified as held for sale (Note 40)	(712)	(20)	(732)
Cost as at 31 December 2022, net of accumulated amortisation	<u>19,517</u>	<u>13,339</u>	<u>32,856</u>
As at 31 December 2022			
Cost	83,204	36,824	120,028
Accumulated amortisation	<u>(63,687)</u>	<u>(23,485)</u>	<u>(87,172)</u>
Net carrying amounts	<u>19,517</u>	<u>13,339</u>	<u>32,856</u>
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	<u>23,554</u>	<u>16,286</u>	<u>39,840</u>
As at 31 December 2021			
Cost	89,188	163,108	252,296
Accumulated amortisation	<u>(65,634)</u>	<u>(146,822)</u>	<u>(212,456)</u>
Net carrying amounts	<u>23,554</u>	<u>16,286</u>	<u>39,840</u>

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

22. Investment in joint ventures

	2022	2021
	RMB'000	RMB'000
Cost of investment in joint ventures	265,299	265,299
Share of post-acquisition profits and other comprehensive income, net of dividends received	29,945	24,225
	295,244	289,524

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

The Group's trade receivables, other receivables, trade payables and other payables with its joint ventures are disclosed in Notes 27, 30, 36 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	Direct Indirect	Percentage of equity interest attributable to the Company		Principal activities
				2022	2021	
				%	%	
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 -	33.99 -	Phosphorus mining and processing, manufacturing 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 during the year ended 31 December 2021.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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.	
	2022	2021
	RMB'000	RMB'000
As 31 December		
Current assets	322,567	304,268
Non-current assets	495,943	491,060
Current liabilities	(40,090)	(12,735)
Non-current liabilities	(5,160)	(4,870)
Year ended 31 December		
Revenue	1,336	-
(Loss)/profit and total comprehensive income	(4,464)	23
Reconciled to the Group's interests in the joint venture		
Gross amounts of net assets of the joint venture	773,260	777,723
Group's effective equity interest	33.99%	33.99%
Group's share of net assets of the joint venture	262,831	264,348
Carrying amount in the consolidated financial statements	262,831	264,348
The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:		
	2022	2021
	RMB'000	RMB'000
The Group's share of profits/(losses) and other comprehensive income	7,820	(1,035)
Aggregate carrying amounts of the Group's investment in joint ventures	32,413	25,176

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

23. Investment in associates

	2022	2021
	RMB'000	RMB'000
Cost of investment in associates	33,031	33,031
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,148	3,149
Accumulated impairment	(1,756)	(1,756)
	34,423	34,424

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	Direct Indirect	Percentage of equity interest attributable to the Company		Principal activities
				2022	2021	
				%	%	
中國八所外輪代理有限公司 (transliterated as China Basuo Overseas Shipping Agency Co., Ltd.)	PRC 16 October 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 iii)	PRC 9 December 1999	RMB3,297	Direct Indirect	- 45.21	- 45.21	Manufacturing and sale of woven plastic bags
聯合惠農農資(北京)有限公司 (transliterated as United Agricultural 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) 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 ended 31 December 2021.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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.

	2022	2021
	RMB'000	RMB'000
The Group's share of profits and other comprehensive income	2,922	2,548
Aggregate carrying amount of the Group's investment in associates	34,423	34,424

24. Other financial assets

	2022	2021
	RMB'000	RMB'000
Non-current		
Financial asset at FVOCI	600	600
Current		
Financial assets at FVTPL	3,617,572	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 RMB81,590,000 (2021: RMB12,508,000) was recognised during the year. The wealth management products will mature on 15 May 2023, 18 May 2023 and 26 June 2023 (2021: the wealth management products will mature on 16 March 2022, 4 April 2022 and 18 April 2022).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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:

	2022 RMB'000	2021 RMB'000
Deferred tax assets	53,356	37,517
Deferred tax liabilities	(14,217)	(27,331)
	39,139	10,186

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	Fair value adjustment on acquisition of subsidiaries RMB'000	Unused tax losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2021	17,956	428,996	(14,456)	10,901	12,963	456,360
(Charge)/credit to profit or loss	(559)	(426,458)	(12,875)	(10,901)	4,619	(446,174)
As at 31 December 2021 and 1 January 2022	17,397	2,538	(27,331)	-	17,582	10,186
(Charge)/credit to profit or loss	(30,822)	34,959	-	-	(4,492)	(355)
Transfer to a disposal group classified as held for sale (Note 40)	2,808	-	26,500	-	-	29,308
As at 31 December 2022	(10,617)	37,497	(831)	-	13,090	39,139

Represented by:

Deferred tax assets	2,722	37,497	-	-	13,137	53,356
Deferred tax liabilities	(13,339)	-	(831)	-	(47)	(14,217)

As at 31 December 2022, the Group has unused tax losses of RMB189,086,000 (2021: RMB1,429,008,000) of available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2021: no deferred tax asset has been recognised in respect of such losses), due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB189,086,000 (2021: RMB1,429,008,000) that will expire in 5 years.

At the end of the reporting period, the Group has deductible temporary differences of RMB416,550,000 (2021: RMB2,260,250,000) 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 2022

26. Inventories

	2022	2021
	RMB'000	RMB'000
Raw materials and spare parts	535,196	601,907
Work in progress	253,008	227,699
Finished goods	495,464	455,027
	1,283,668	1,284,633
Write-down	(68,933)	(53,088)
Transfer to a disposal group classified as held for sale (Note 40)	(24,741)	-
Net realisable value	1,189,994	1,231,545

27. Trade receivables

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

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

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

	2022	2021
	RMB'000	RMB'000
Within one year	284,434	35,409
Over one year but within two years	150	-
	284,584	35,409

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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 (2021: RMBNil).

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

	2022	2021
	RMB'000	RMB'000
Neither past due nor impaired	284,584	35,409

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:

	2022	2021
	RMB'000	RMB'000
Balance at beginning of the year	-	762
Reversal of impairment loss	-	(762)
Balance at end of the year	-	-

The Group recognised impairment loss based on the accounting policy stated in Note 4(h)(ii) for the years ended 31 December 2022 and 2021. Further details on the group's credit policy and credit risk arising from trade receivables are set out in Note 45(iii).

As at 31 December 2022, 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, joint venture and the Company's subsidiaries' non-controlling shareholders and the non-controlling shareholders' subsidiaries (the “**Other Related Parties**”) included in the above balances, which are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group, can be analysis as follow:

	2022	2021
	RMB'000	RMB'000
CNOOC group companies	42,130	13,288
Associates	1,089	2,166
Joint venture	344	325
Other Related Parties	1,200	-
	44,763	15,779

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

28. Bills receivable

The bills receivable of the Group as at 31 December 2022 and 2021 are all mature within twelve months.

At 31 December 2022, 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 RMB152,116,000 (2021: RMB213,757,000). 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 2022, 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 RMB152,116,000 (2021: RMB213,757,000).

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.

	2022	2021
	RMB'000	RMB'000

Contract assets arising from:

Provision of port operation and transportation services	11,612	7,259
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The expected timing of recovery or settlement for contract assets as at 31 December 2022 is as follows:

	2022	2021
	RMB'000	RMB'000
Within one year	11,612	7,259

As at 31 December 2022, the amount due from CNOOC group companies included in the above contract assets amounted to RMB 8,708,000(2021: RMB4,982,000).

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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.

	2022	2021
	RMB'000	RMB'000

Contract liabilities arising from:

Sale of goods	782,618	811,122
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The expected timing of recognising as revenue for contract liabilities as at 31 December 2022 is as follows:

	2022	2021
	RMB'000	RMB'000
Within one year	775,327	810,058
1 – 2 years	7,170	590
2 – 3 years	121	66
Over 3 years	-	408
	782,618	811,122

As at 31 December 2022, the amounts due to the ultimate holding company, CNOOC group companies and associates included in the above contract liabilities can be analysed as follow:

	2022	2021
	RMB'000	RMB'000
Ultimate holding company	4,717	4,717
CNOOC group companies	93,441	38,848
Associate	6,628	26,622
	104,786	70,187

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

30. Prepayments, deposits and other receivables

	2022	2021
	RMB'000	RMB'000
Prepayments	108,685	98,616
Deposits and other receivables	497,320	234,824
Less: impairment loss	(8,857)	(1,065)
	<u>597,148</u>	332,375
Transfer to a disposal group classified as held for sale (Note 40)	(8,908)	-
	<u>588,240</u>	332,375

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

	2022	2021
	RMB'000	RMB'000
Balance at beginning of the year	1,065	15,153
Provision for/(reversal of) impairment loss	7,792	(4,395)
Written off of impairment loss recognised	-	(9,693)
	<u>8,857</u>	1,065
Transfer to a disposal group classified as held for sale (Note 40)	(1,065)	-
Balance at end of the year	<u>7,792</u>	1,065

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:

	2022	2021
	RMB'000	RMB'000
Ultimate holding company	50	-
CNOOC group companies	4,986	12,165
Associates	296	1,202
Joint venture	-	101
	<u>5,332</u>	13,468

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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

	2022	2021
	RMB'000	RMB'000
Cash and bank and financial institution balances	8,932,980	8,487,668
Less: Pledged bank deposits	(4,203)	(13,219)
Time deposits with original maturity over three months	(8,400,000)	(7,800,000)
Cash and cash equivalents in the consolidated statement of cash flows	528,777	674,449

The Group's cash and bank balances were denominated in RMB as at 31 December 2022 and 2021, except for (i) RMB3,666,000 (2021: RMB1,723,000) which was translated from US\$526,000 (2021: US\$270,000) and (ii) RMB6,000 (2021: RMB7,000) which was translated from HK\$7,000 (2021: HK\$9,000).

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 2022, included in the Group's cash and cash equivalents were RMB396,374,000 (2021: RMB399,500,000) 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 2022 and 2021	4,610,000	4,610,000

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

33. Benefits liability

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

	2022 RMB'000	2021 RMB'000
Post-employment allowances	44,304	-
Early retirement benefits	250,073	6,059
Total benefits liability	294,377	6,059

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 2021	10,907	20,367
Service cost	-	289
Net interest cost	-	201
Benefits paid	(2,147)	(9,549)
Reversal of benefits liability	(8,760)	(5,249)
At 31 December 2021 and 1 January 2022	-	6,059
Transfer from other long-term liabilities*	33,090	275,352
Service cost	-	8,234
Net interest cost	1,124	8,205
Benefits paid	(1,878)	(47,777)
Remeasurement loss recognised in other comprehensive income	11,968	-
At 31 December 2022	44,304	250,073

The principal assumptions used in determining post-employment allowances and early retirement benefits of the Group as at 31 December 2022 are shown below:

	Post- employment allowances		Early retirement benefits	
	2022	2021	2022	2021
Discount rate				
- The Company*	3.00%	3.50%	2.50%	3.20%
- Hainan Basuo Port	N/A	N/A	2.40%	2.50%
Annual growth rate of employee benefits				
- The Company*	0%	0%	2.50%	2.50%
- Hainan Basuo Port	N/A	N/A	7.00%	7.00%

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

33. Benefits liability – Continued

* Upon the suspension of Urea and Methanol operations of CNOOC Tianye, the employees and labours have been laid off or replacement to other companies within the Group, severance payments for post-employment allowances and early retirement benefits of RMB33,090,000 and RMB275,352,000 respectively, which were performed by an independent actuary service provider, were recognised as other expenses during the year ended 31 December 2021.

During the year, the total severance payments of RMB308,442,000 have been transferred from other long-term liabilities to benefits liability.

The directors of the Company have reviewed the actuarial valuation as at 31 December 2022 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 2022. The directors of the Group do not expect significant changes in principal assumptions.

34. Interest-bearing bank and other borrowings

	2022 RMB'000	2021 RMB'000
Within one year	869,149	447,750
More than two year, but not more than five years	398,300	-
More than five years	787,462	571,991
	2,054,911	1,019,741
Analysed for reporting purposes as:		
Current	869,149	447,750
Non-current	1,185,762	571,991

As at 31 December 2022, bank borrowings of RMB883,713,000 (2021: RMB447,750,000) were unsecured with effective interest rate of 3.15%-3.35% per annum (2021: 3.40%-3.50%), payable within 2023 to 2027 (2021: payable within 2022). The amounts due were based on the scheduled repayment dates set out in the loan agreements.

As at 31 December 2022, other borrowings of RMB1,171,198,000 (2021: RMB571,991,000) were unsecured and due to the CNOOC Finance with effective interest rates of 2.80%-3.75% per annum (2021: 3.75%), payable within 2023 to 2029 (2021: payable within 2029). The amounts due were based on the scheduled repayment dates set out in the loan agreements.

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.

	2022 RMB'000	2021 RMB'000
Balance at beginning of the year	125,804	123,474
Additions	23,852	28,794
Credited to consolidated statement of profit or loss	(32,084)	(26,464)
Transfer to a disposal group classified as held for sale (Note 40)	(5,572)	-
Balance at end of the year	112,000	125,804

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

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:

	2022	2021
	RMB'000	RMB'000
Trade payables	1,586,013	1,335,288
Transfer to a disposal group classified as held for sale (Note 40)	(239,530)	-
	1,346,483	1,335,288
	2022	2021
	RMB'000	RMB'000
Within one year	1,283,080	1,286,545
Over one year but within two years	61,585	45,865
Over two years but within three years	415	1,704
Over three years	1,403	1,174
	1,346,483	1,335,288

As at 31 December 2022, the amounts due to ultimate holding company, CNOOC group companies, associate, joint venture and Other Related Parties included in the above, which are unsecured, non-interest bearing and have no fixed repayment terms, can be analysed as follows:

	2022	2021
	RMB'000	RMB'000
Ultimate holding company	1,285	-
CNOOC group companies	522,942	518,770
Associate	1	421
Joint venture	325	-
Other Related Parties	5,982	5,651
	530,535	524,842

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

37. Other payables and accruals

	2022	2021
	RMB'000	RMB'000
Accrued payroll	169,365	162,788
Other payables	170,810	249,361
Payable to government	18,528	18,603
Other tax payables	93,422	42,401
Port construction fee payable	158,773	158,773
Payables in relation to the construction and purchase of property, plant and equipment	49,919	36,023
	660,817	667,949
Transfer to a disposal group classified as held for sale (Note 40)	(32,751)	-
	628,066	667,949

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:

	2022	2021
	RMB'000	RMB'000
Ultimate holding company	-	4
CNOOC group companies	34,503	59,684
Joint venture	-	306
Other Related Parties	-	2,830
	34,503	62,824

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:

	2022	2021
	RMB'000	RMB'000
Ownership interests in leasehold land, carried at amortised cost (Note 19)	359,510	533,210
Other properties leased for own use, carried at depreciated cost (Note 17)	24,369	8,877
Plant and machinery, carried at depreciated cost (Note 17)	-	15,106

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

38. Leases – Continued

LEASE LIABILITIES

	Plant and machinery RMB'000	Land and buildings RMB'000	Total RMB'000
For the year ended 31 December 2022			
At 1 January 2022	18,552	7,263	25,815
Additions	-	33,473	33,473
Interest expense	640	1,131	1,771
Lease payments	-	(16,454)	(16,454)
Disposal	-	(486)	(486)
	19,192	24,927	44,119
Transfer to a disposal group classified as held for sale (Note 40)	(19,192)	(1,483)	(20,675)
At 31 December 2022	-	23,444	23,444
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
Future lease payments are due as follows:			
	2022		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	17,677	691	16,986
After one but within two years	3,408	79	3,329
After two but within five years	2,662	197	2,465
More than five years	759	95	664
	6,829	371	6,458
	24,506	1,062	23,444

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

38. Leases – Continued

	2021		Present value of minimum lease payments RMB'000
	Minimum lease payments RMB'000	Interest 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 five years	1,026	138	888
	19,171	2,051	17,120
	28,836	3,021	25,815

The present value of future lease payments are analysed as:

	2022 RMB'000	2021 RMB'000
Current liabilities	16,986	8,695
Non-current liabilities	6,458	17,120
	23,444	25,815
	2022 RMB'000	2021 RMB'000
Short-term lease expense	-	14,925

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

39. DISPOSAL OF A SUBSIDIARY AND AN ASSOCIATE

The Group has entered into 2 equity transaction agreements dated on 18 June 2020 with Hequ Taiyang Coal Industry Co., Ltd. (the “Purchaser”) to dispose (i) the Group’s 51% 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.

On 21 January 2021, the Group completed the transaction by transferring the equity interests of CNOOC Hualu and Yangpoquan to the Purchaser.

(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)
	(68,707)
Satisfied by:	
Deposit received	82,066
Cash consideration received	20,000
Cash and cash equivalents disposed of	(4)
	102,062

(b) Disposal of an associate

	2021 RMB’000
Investment in an associate	181,897
Consideration	(637,000)
	(455,103)
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 2022

40. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The Group has entered into an equity transaction agreement dated on 18 December 2022 with 中國石油天然氣股份有限公司 (transliterated as PetroChina Company Limited) (the“**Purchaser**”) to dispose the Group’s 67% of equity interest in a subsidiary, CNOOC Tianye, which is under urea and methanol segments, at a consideration of RMB207,234,000. The Group is in view of that the equity transaction agreement have not yet been completed they will provide necessary assistance and cooperation on procedures including the registration for the change in equity interest and issuance of new business licenses so as to complete the disposal. The Group expects the transaction will complete within one year.

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

	RMB’000
Assets classified as held for sale:	
Cash and cash equivalents	6
Prepayments, deposits and other receivables	8,908
Inventories	24,741
Property, plant and equipment	366,461
Prepaid lease payments	158,103
Intangible assets	732
	<u>558,951</u>
Liabilities associated with a disposal group classified as held for sale:	
Trade payables	239,530
Contract liabilities	2,792
Other payables and accruals	32,751
Income tax payable	395
Lease liabilities	20,675
Deferred tax liabilities	29,308
Deferred revenue	5,572
Other long-term liabilities	2,639
	<u>333,662</u>

CNOOC Tianye incurred net loss of RMB182,152,000 (2021: RMB912,996,000) during the year ended 31 December 2022. The disposal of CNOOC Tianye did not constitute a discontinued operation as it does not represent a major line of business.

41. 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:

	2022	2021
	RMB’000	RMB’000
Contracted, but not provided for acquisition of plant and machinery	66,741	1,824,979

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

42. Related party transactions

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

(1) Recurring

	2022	2021
	RMB'000	RMB'000
(A) Included in revenue and other income		
(i) CNOOC group companies		
Sale of goods	503,179	469,811
Provision of packaging and assembling services	87,368	102,998
Provision of transportation services	174	221
Provision of logistics services	4,453	26,132
Provision of labour services	48,308	-
Lease of property and land	6,669	6,861
(ii) Other Related Parties		
Sale of goods	257,002	261,968
Provision of transportation services	-	423
(B) Included in cost of sales and other expenses		
(i) CNOOC group companies		
Purchase of raw materials	3,521,698	2,764,152
Labour service	190,809	259,349
Construction and installation services	-	24,766
Lease of offices	31,377	23,847
Logistics services	5,381	4,625
Transportation services	13,826	1,510
Network service	309	18,021
(C) Included in finance income/costs		
(i) CNOOC Finance		
Finance income	4,297	4,675
Fees and charges	1,952	1,341
Interest on other borrowings	3,931	-
(ii) CNOOC Leasing		
Fees and charges	-	12,520
Interests on bank borrowings	-	13,108
Loan received	-	996,000
Loan repaid	-	1,677,868

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.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

42. Related party transactions – Continued

(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	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Ultimate holding company	50	-	6,002	4,721
CNOOC group companies	55,824	30,435	650,886	617,302
Associates	1,385	3,368	6,629	27,043
Joint venture	344	426	325	306
CNOOC Finance	-	-	1,171,198	571,991
Other Related Parties	1,200	-	5,982	8,481

In addition, as at 31 December 2022, the deposits placed by the Group with CNOOC Finance were amounted to RMB396,374,000 (2021: RMB399,500,000), as detailed in Note 31.

(3) Compensation of key management personnel of the Group

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	9,763	11,447
Post-employment benefits	255	225
Total compensation paid to key management personnel	10,018	11,672

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

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

42. Related party transactions – Continued

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

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, with SOEs other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. Certain specific and major raw materials provided by SOE suppliers are from Heilongjiang Longmei Hegang Mining Co., Ltd. (the “**Longmei**”) and Longmei mainly supplied coal to CNOOC Huahe Coal Chemical Limited. As of 31 December 2022, the Group made a total procurement of RMB576,233,000 (2021: RMB674,080,000) from Longmei. 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 2022, the sales amounted to RMB467,878,000 (2021: RMB718,978,000). 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 and other borrowings with certain state-owned banks in the PRC as at 31 December 2022, as summarised below:

	2022	2021
	RMB'000	RMB'000
Cash and cash equivalents	528,771	674,435
Pledged bank deposits	4,203	13,219
Time deposits	8,400,000	7,800,000
	<u>8,932,974</u>	<u>8,487,654</u>
Interest-bearing bank and other borrowings	<u>2,054,911</u>	<u>1,019,741</u>

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 2022

43. Financial instruments

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

	2022		2021	
	Carrying amounts RMB'000	Fair value RMB'000	Carrying amounts RMB'000	Fair value RMB'000
Financial assets at FVTPL				
- Wealth management products	-	3,617,572	-	2,756,122
Financial assets at FVOCI				
- Unlisted equity investment	-	600	-	600
- Bills receivable	-	136,817	-	176,853
Financial assets at amortised cost				
- Trade receivables	284,584	-	35,409	-
- Contract assets	11,612	-	7,259	-
- Deposits and other receivables	488,463	-	233,759	-
- Pledged bank deposits	4,203	-	13,219	-
- Time deposits	8,400,000	-	7,800,000	-
- Cash and cash equivalents	528,777	-	674,449	-
Financial liabilities at amortised cost				
- Trade payables	1,346,483	-	1,335,288	-
- Other payables and accruals	628,066	-	667,949	-
- Lease liabilities	23,444	-	25,815	-
- Interest-bearing bank and other borrowings	2,054,911	-	1,019,741	-
- Other long-term liabilities	5,736	-	326,560	-

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

44. 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 2021 was realised during the year. Bills receivable as at 31 December 2022 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 2022

44. Fair value and fair value hierarchy – Continued

(b) Financial instruments measured at fair value – Continued

	31 December 2022		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL			
- Wealth management products	3,617,572	-	3,617,572
Financial assets at FVOCI			
- Unlisted equity investment	-	600	600
- Bills receivable	-	136,817	136,817
	31 December 2021		
	Level 2	Level 3	Total
	RMB'000	RMB'000	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

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 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 2022

45. Financial risk management objective and policies

The Group's principal financial instruments comprise interest-bearing bank and other 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 and other borrowings and lease liabilities with floating interest rates.

As at 31 December 2022, the Group's interest-bearing bank and other borrowings and lease liabilities bear variable interest rates amounted to RMB2,078,355,000 (2021: RMB1,045,556,000).

The interest rates and the terms of repayment of the Group's interest-bearing bank and other 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 2022 would be decreased/increased by approximately RMB7,794,000 (2021: decreased/increased by RMB3,921,000).

(ii) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Assets	
	2022 RMB'000	2021 RMB'000
United States dollar ("USD")	3,666	1,723
HKD	6	7

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 3% (2021: 9%) 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 2022

45. 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% (2021: 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% (2021: 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	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Sensitivity rate	5%	5%	5%	5%
Profit or loss	(153)	(72)	-*	-
Equity	(153)	(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 dominated 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 categorised as not past due is assessed to be 0.1% (2021: 0.1%), while the ECLs rate for past due within one year is assessed to be 0.5% (2021: 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 2022

45. 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 2022, the balance of the Group's interest-bearing bank and other borrowings was RMB2,054,911,000 (2021: RMB1,019,741,000).

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:

	2022					
	Total contractual	Within 1	More than	More than		
	Carrying amount	year or on	1 year but	2 year but	More than	More than
	undiscounted	demand	less than	less than	5 years	5 years
	cash flow		2 years	5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	2,054,911	2,177,390	948,755	-	411,643	816,992
Trade payables	1,346,483	1,346,483	1,346,483	-	-	-
Other payables and accruals	628,066	628,066	628,066	-	-	-
Lease liabilities	23,444	24,506	17,677	3,408	2,662	759
Other long-term liabilities	5,736	5,736	191	191	5,354	-
	4,058,640	4,182,181	2,941,172	3,599	419,659	817,751
	2021					
	Total contractual	Within 1	More than	More than		
	Carrying amount	year or on	1 year but	2 year but	More than	More than
	undiscounted	demand	less than	less than	5 years	5 years
	cash flow		2 years	5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other 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

In addition to the amounts shown in the above table as at 31 December 2022, 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 RMB152,116,000 (2021: RMB213,757,000) in aggregate.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

45. 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 2022 and 2021.

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:

	2022 RMB'000	2021 RMB'000
Interest-bearing debts (Note)	2,078,355	1,045,556
Net assets	17,776,590	16,914,674
Net assets plus Interest-bearing debts	19,854,945	17,960,230
Gearing ratio	10.47%	5.82%

Note: Interest-bearing debts comprises interest-bearing bank and other 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 2022

46. 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
			Direct	Indirect	
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 Tianye ”) (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 (iii))	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 2022

46. 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
			Direct	Indirect	
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 100.00	Indirect -	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))	PRC 19 Oct 2020	RMB300,000	Direct 51.00	Indirect -	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 100.00	Indirect -	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 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 interest and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2022	2021	2022	2021	2022	2021
			RMB'000	RMB'000	RMB'000	RMB'000
CNOOC Kingboard	40.00%	40.00%	159,970	144,865	475,271	459,685
Hainan Basuo Port	26.89%	26.89%	1,413	7,320	176,458	227,822
CNOOC Tianye	7.73%	7.73%	(14,082)	(70,246)	(54,615)	(40,533)
Hubei Dayukou	20.02%	20.02%	8,786	54,289	272,249	274,594

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

46. 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	2022 RMB'000	2021 RMB'000
Current assets	683,667	680,442
Non-current assets	654,090	637,471
Current liabilities	(149,578)	(168,700)
Net assets	1,188,179	1,149,213
Non-controlling interests	475,271	459,685
Revenue	1,451,093	1,314,831
Expenses	(1,051,164)	(952,669)
Profit and total comprehensive income	399,929	362,162
Profit and total comprehensive income attributable to:		
Owners of the Company	239,959	217,297
Non-controlling interests	159,970	144,865
Profit and total comprehensive income	399,929	362,162
Dividends paid to non-controlling interests	144,384	-
Net cash inflow from operating activities	350,606	463,311
Net cash inflow/(outflow) from investing activities	51,652	(429,211)
Net cash outflow from financing activities	(360,961)	-
Net cash inflow	41,297	34,100

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

46. 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	2022 RMB'000	2021 RMB'000
Current assets	142,875	148,621
Non-current assets	880,734	899,706
Current liabilities	(354,045)	(184,882)
Non-current liabilities	(13,344)	(16,207)
Net assets	656,220	847,238
Non-controlling interests	176,458	227,822
Revenue	312,425	339,858
Expenses	(307,172)	(312,636)
Profit and total comprehensive income	5,253	27,222
Profit and total comprehensive income attributable to:		
Owners of the Company	3,840	19,902
Non-controlling interests	1,413	7,320
Profit and total comprehensive income	5,253	27,222
Dividends paid to non-controlling interests	52,777	-
Net cash inflow from operating activities	29,402	50,795
Net cash inflow from investing activities	16,908	86,031
Net cash outflow from financing activities	(46,866)	(159,665)
Net cash outflow	(556)	(22,839)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

46. Particulars of principal subsidiaries of the company - Continued

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

CNOOC Tianye	2022 RMB'000	2021 RMB'000
Current assets	44,045	64,673
Non-current assets	350,609	372,740
Current liabilities	(1,070,960)	(937,976)
Non-current liabilities	(30,221)	(23,811)
Net liabilities	(706,527)	(524,374)
Non-controlling interests	(54,615)	(40,533)
Revenue	271,015	463,063
Expenses	(453,168)	(1,371,809)
Loss and total comprehensive income	(182,153)	(908,746)
Loss and total comprehensive income attributable to:		
Owners of the Company	(168,071)	(838,500)
Non-controlling interests	(14,082)	(70,246)
Loss and total comprehensive income	(182,153)	(908,746)
Net cash outflow from operating activities	(98,026)	(92,066)
Net cash outflow from investing activities	(12,260)	(19,058)
Net cash inflow from financing activities	110,286	111,123
Net cash outflow	-	(1)

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

46. Particulars of principal subsidiaries of the company – Continued

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

Hubei Dayukou	2022 RMB'000	2021 RMB'000
Current assets	1,021,521	878,959
Non-current assets	1,193,009	1,283,382
Current liabilities	(831,086)	(765,436)
Non-current liabilities	(23,764)	(25,510)
Net assets	1,359,680	1,371,395
Non-controlling interests	272,249	274,594
Revenue	3,260,147	2,834,291
Expenses	(3,216,269)	(2,563,160)
Profit and total comprehensive income	43,878	271,131
Profit and total comprehensive income attributable to:		
Owners of the Company	35,092	216,842
Non-controlling interests	8,786	54,289
Profit and total comprehensive income	43,878	271,131
Dividends paid to non-controlling interests	11,131	-
Net cash inflow from operating activities	235,222	261,445
Net cash outflow from investing activities	(181,549)	(86,563)
Net cash outflow from financing activities	(62,976)	(170,869)
Effect of foreign exchange rate changes	9,350	(65)
Net cash inflow	47	3,948

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

47. Statement of financial position and reserves of the company

	2022	2021
	RMB'000	RMB'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	48,656	36,141
Investment properties	42,046	43,210
Prepaid lease payments	5,702	6,568
Intangible assets	13,414	15,576
Investment in subsidiaries	5,675,552	7,659,080
Investment in joint ventures	213,487	213,487
Deferred tax assets	35,600	39,585
Other long-term prepayment	453	470
	6,034,910	8,014,117
CURRENT ASSETS		
Trade receivables	39,941	13,090
Prepayments, deposits and other receivables	522,755	372,281
Loans receivable	1,657,378	1,992,766
Financial assets at FVTPL	3,315,370	1,102,752
Time deposits with original maturity over three months	7,900,000	7,300,000
Cash and cash equivalents	407,893	557,072
	13,843,337	11,337,961
Non-current assets classified as held for sale	232,243	-
	14,075,580	11,337,961
TOTAL ASSETS	20,110,490	19,352,078
EQUITY		
CAPITAL AND RESERVES		
Issued capital	4,610,000	4,610,000
Reserves	10,975,820	11,393,649
Proposed dividends	820,580	714,550
TOTAL EQUITY	16,406,400	16,718,199
LIABILITIES		
NON-CURRENT LIABILITIES		
Benefits liability	290,028	-
Deferred revenue	6,758	6,518
Deferred tax liabilities	8,332	14,329
Other long-term liabilities	12,999	321,442
	318,117	342,289

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

47. Statement of financial position and reserves of the company – Continued

	2022	2021
	RMB'000	RMB'000
CURRENT LIABILITIES		
Trade payables	9,888	12,221
Other payables and accruals	3,352,644	2,260,765
Lease liabilities	13,469	-
Income tax payable	9,972	18,604
	<u>3,385,973</u>	<u>2,291,590</u>
TOTAL LIABILITIES	<u>3,704,090</u>	<u>2,633,879</u>
TOTAL EQUITY AND LIABILITIES	<u>20,110,490</u>	<u>19,352,078</u>

Movement in Company's reserves

The Company's movement in reserves and proposed dividends for the years ended 31 December 2022 and 2021 were as follows:

	Notes	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 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 and 1 January 2022		1,366,392*	1,763,729*	69*	8,263,459*	714,550	12,108,199
Total comprehensive income for the year		-	-	-	402,751	-	402,751
Transfer from retained profits		-	40,086	-	(40,086)	-	-
2022 proposed final dividends	15	-	-	-	(820,580)	820,580	-
2021 final dividends declared		-	-	-	-	(714,550)	(714,550)
At 31 December 2022		1,366,392*	1,803,815*	69*	7,805,544*	820,580	11,796,400

* These reserve accounts comprise the Company's reserves of RMB10,975,820,000 (2021: RMB11,393,649,000) in the Company's statement of financial position.

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

48. 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 and other 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	-
At 1 January 2022	1,019,741	25,815	-
Changes from cash flow:			
Dividend paid	-	-	(928,827)
Bank and other borrowings raised	2,017,776	-	-
Repayment of bank and other borrowings	(982,606)	-	-
Interest paid	(27,623)	-	-
Payment of lease liabilities	-	(16,454)	-
Other changes:			
Dividend declared to non-controlling interests	-	-	214,277
2021 final dividend declared	-	-	714,550
Finance costs (Note 10)	27,623	1,771	-
New leases	-	33,473	-
Disposal of lease liabilities	-	(486)	-
Transfer to a disposal group classified as held for sale (Note 40)	-	(20,675)	-
At 31 December 2022	2,054,911	23,444	-

Notes to the Consolidated Financial Statements - Continued

For the year ended 31 December 2022

49. Events after the reporting year

There was no material event after the reporting date.

50. Approval of consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2023.

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, $(\text{NH}_4)_2\text{HPO}_4$, a type of phosphate fertiliser;
Formaldehyde	CH_2O , a colorless, poisonous gas, made by the oxidation of methanol;
MAP	mono-ammonium phosphate, $\text{NH}_4\text{H}_2\text{PO}_4$, 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)	$-(\text{O}-\text{CH}_2)_n-$, 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	$\text{H}_2\text{N}-\text{CO}-\text{NH}_2$, 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	Kuang Xiaobing
Authorized representatives	Hou Xiaofeng Kuang Xiaobing
Principal banker	Industrial and Commercial Bank of China, Hainan Branch
Auditor	BDO Limited 25th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong
Hong Kong law legal adviser	Freshfields Bruckhaus Deringer 55th Floor, One Island East, Taikoo Place, Quarry Bay, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
Investor Relations/Public Relations Hong Kong	Tel: (852) 22132533 Fax: (852) 25259322
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Webiste	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983

