You should carefully consider each of the risks described below and all of the other information contained in this Prospectus, including the Accountants' Reports included in Appendix I to this Prospectus, before deciding to invest in the H Shares. You should pay particular attention to the fact that we are a PRC incorporated company and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Any of these risks could have a material adverse effect on our business, financial condition or results of operations. The trading price of H Shares could decline due to any of these risks and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below please refer to "Appendix VI—Summary of principal legal and regulatory provisions".

We believe that there are certain risks involved in our operations; many of these risks are beyond our control. These risks can be categorized as: (i) risks relating to our business operations; (ii) risks relating to the fertilizer and chemical industries in China; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS OPERATIONS

Our operating results may be significantly affected by changes in the supply of natural gas as a critical raw material.

Natural gas is the key raw material used in the manufacture of our urea and methanol products. Our business, results of operations and profitability are directly affected by the availability of natural gas purchased from third parties, including our affiliate, CNOOC Limited, for our urea and methanol production. As of the Latest Practicable Date, all of our principal production facilities in Hainan and Inner Mongolia were designed to use natural gas from specific sources as the key raw material.

The predecessor of CNOOC Fudao entered into a 20-year long-term contract on a take-or-pay basis with Fuel & Chemical Corporation of Hainan (海南省燃料化學總公司), an Independent Third Party engaged in pipeline operations, on 26 April 1996 to secure natural gas sourced from the offshore gasfield operated and owned as to 51% by CNOOC Limited for Fudao Phase I until 2016. CNOOC Chemical, our predecessor, and we subsequently assumed the long-term contract upon Restructuring. See "History, Restructuring and Corporate Structure—History and business development." At the time they entered into the long-term contract, both the predecessor of CNOOC Fudao and Fuel & Chemical Corporation of Hainan were State-owned business entities under the common control of the Hainan Provincial Government. Fuel & Chemical Corporation of Hainan has informed us that it may unilaterally reduce the volume agreed upon in the contract by up to approximately 7.3%. We cannot guarantee that we will be able to maintain the same levels of production as in previous years at Fudao Phase I in the event that Fuel & Chemical Corporation of Hainan fails to fully perform its obligations under our natural gas sale and purchase agreement. We are currently negotiating with Fuel & Chemical Corporation of Hainan to maintain the supply of natural gas agreed upon but cannot assure you as to the results of our negotiations.

On 28 July 2003, we entered into a 20-year long-term contract on a take-or-pay basis directly with CNOOC Limited to secure natural gas supply for Fudao Phase II until 2023. CNOOC Limited also agreed on 10 March 2005 to supply CNOOC Jiantao Methanol Plant with additional volumes of natural gas for our methanol production pursuant to a 20-year long-term contract entered into on a take-or-pay basis, expiring in 2026. The pipeline transporting the natural gas supplied to Fudao Phase

II and CNOOC Jiantao Methanol Plant is operated by CNOOC Limited rather than other parties such as Fuel & Chemical Corporation of Hainan.

For the year ended 31 December 2005, the natural gas consumed by Fudao Phase II exceeded the level committed by CNOOC Limited under the natural gas sale and purchase agreement by approximately 7.5%. The committed natural gas supply to our production facilities in Hainan at the contracted level may not satisfy the amount required for our production at Fudao Phase I, Fudao Phase II and CNOOC Jiantao Methanol Plant if production at any of these facilities significantly exceeds their respective designed production capacities, particularly during periods when maintenance is not required to be performed. See "Our Business—Principal production facilities—Existing facilities".

Further, our subsidiary Tianye Chemical, which converted its facilities from oil-based production to natural gas-based production in 2005, purchases natural gas for its production of urea and methanol from Inner Mongolia Western Natural Gas Co., Ltd. (內蒙古西部天然氣股份有限公司), an Independent Third Party engaged in pipeline operations, which in turn obtains natural gas from PetroChina. The supply of natural gas to Tianye Plant from PetroChina's onshore gasfields may be insufficient for its production. We do not have any binding long-term agreements with PetroChina, and, as far as we are aware, Inner Mongolia Western Natural Gas Co., Ltd. does not have any binding long-term agreements with PetroChina with respect to the continued supply of natural gas for use at Tianye Plant. There are no alternative sources of natural gas supply in Huhhot where Tianye Plant is located.

If we are unable to renew our long-term natural gas sale and purchase agreements for our operations at Fudao Phase I, Fudao Phase II or CNOOC Jiantao upon their expiry on 30 April 2016, 30 September 2023 and 15 October 2026, respectively, or if, owing to the nature of such sales and purchases of natural gas for Fudao Phase II and CNOOC Jiantao as connected transactions between CNOOC Limited and us, we or CNOOC Limited are unable to obtain the approval regarding such connected transactions from shareholders for the continued supply of natural gas to Fudao Phase II and CNOOC Jiantao, on terms that are beneficial to us or at all, or if any of these supply contracts terminates earlier or if we are unable to continue to procure natural gas supplies on similar terms or at all for our production at Tianye Plant, then our business, results of operations and financial condition may be materially adversely affected. Moreover, in the event that any of our natural gas suppliers fails to abide by the terms of our sale and purchase agreements or refuses to supply us with natural gas in the committed quantities or at all and we are unable to purchase natural gas from alternative sources, or if we expand our production capacity through acquisitions or the construction of new plants but fail to procure an adequate supply of natural gas for our increased production, our business, results of operations and financial condition may be negatively impacted.

In the event of a disruption, shortage or depletion of natural gas supplies, or in the event that the reserves from which we source our natural gas are exhausted sooner than estimated, our operations would be adversely affected if we were unable to find alternative sources of natural gas supplies. We may suffer from sudden disruption or prolonged stoppage of natural gas supplies without prior notice in the event of a fire, explosion or natural disaster such as any typhoon, flood, earthquake or other catastrophe affecting the gasfields, gas supply pipelines or our production facilities, which may lead to unplanned shutdowns of our production facilities and increase our production costs.

We may also suffer if the PRC Government implements a policy limiting the use of natural gas for the production of methanol and if we are unable to secure or utilize alternative sources of raw materials for our methanol production. In addition, if the PRC Government changes its policies regarding the usage of natural gas as a raw material for fertilizer or methanol production, and we are unable to obtain sufficient funding to reconfigure our facilities to use alternative raw materials or we are not able to utilize alternative raw materials for our production at all, we may be forced to shut down our production facilities or we may not be able to expand our production of fertilizer, methanol or other chemicals using natural gas as a raw material.

Any of the above will have a material adverse effect on our business, operating results, profit margins and financial position.

The price of natural gas as our critical raw material is subject to fluctuation.

Natural gas is the key raw material used in our production of urea and methanol products. Crude oil prices, inflation and various other factors impact natural gas prices. Under the terms of our natural gas sale and purchase agreements, the prices of natural gas supplied to our production facilities in Hainan are subject to fluctuations on a quarterly or monthly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter or month. The price of natural gas supplied to Tianye Plant is subject to the PRC Government's pricing controls applicable to sales of natural gas sourced from onshore gasfields in the PRC. Our production costs will therefore increase if there is any rise in the international market prices of natural gas or crude oil. As we may not be able to transfer the increase in raw materials costs to our customers, particularly in times of rapidly increasing natural gas costs, our profit margins may therefore be negatively affected.

We purchase natural gas, our principal raw material, from a limited number of sources.

We use natural gas as the primary feedstock for our production in Hainan and Inner Mongolia. Our operations in Hainan rely exclusively on Yacheng 13-1 and Dongfang 1-1 offshore gasfields located in the basins close to our production complexes. We source natural gas from the onshore Changqing Gasfields for our production in Inner Mongolia. See "Our Business—Raw materials and energy". There is currently one natural gas supplier in each region in which our production complexes are located; consequently, we may not be able to find alternative natural gas suppliers at competitive prices or at all if these natural gas suppliers are unable to provide adequate supply to satisfy the production requirements of our production complexes in Hainan or Inner Mongolia.

In addition, because the composition of natural gas varies between source gasfields, the design of our production facilities does not allow us to use natural gas supplied from other sources without first reconfiguring such production facilities. In the event that we need to source natural gas from gasfields other than those that currently supply us, we may incur significant capital investment in order to reconfigure our production facilities, which may also lead to significant disruption of our production. Production of natural gas from gasfields is subject to reserves and production conditions, such as weather and other natural disasters. We cannot guarantee that we will be able to secure natural gas supplies from current sources at the same level or at all. Neither can we assure you that we can shift the natural gas supply from current sources to other alternatives in a cost efficient manner. If supplies of natural gas are reduced or stopped for any reason and we cannot find suitable alternative sources in a timely and cost efficient manner, our production, operating results and financial condition will be materially and adversely impacted. See "—Our operating results may be significantly affected by changes in the supply of natural gas as a critical raw material".

A substantial amount of our revenues is derived from the sale of a limited number of main products to a limited number of customers.

We derive substantially all of our revenues from the sale of a limited number of products, primarily urea and methanol. Revenue generated from sales of urea was the largest contributor to both our and Tianye Chemical's total revenue during the Track Record Period, representing approximately 90.2%, 94.4%, 93.8% and 94.3% of our total revenue for the years ended 31 December 2003, 2004 and 2005 and the three months ended 31 March 2006, respectively, and approximately 99.4%, 99.5% and 99.3% of Tianye Chemical's revenue, for the years ended 31 December 2003, 2004 and 2005, respectively. We diversified our product portfolio to include methanol after the acquisition of Tianye Chemical in 2006, which commenced mass production of methanol in April 2006, and we expect to begin mass production of methanol at CNOOC Jiantao Methanol Plant in January 2007. We rely on urea and methanol as our primary sources of revenue. In the event of a decline in selling prices due to increased market supply of, or decreased market demand for, urea or methanol products, our business, financial condition and results of operations could be materially adversely affected.

We derive a substantial amount of revenue from sales to a limited number of customers. For the years ended 31 December 2003, 2004 and 2005 and the three months ended 31 March 2006, our sales made to the five largest customers, all of which were wholesalers, represented approximately 68.2%, 54.8%, 48.9% and 32.7%, respectively of our total sales. For the years ended 31 December 2003, 2004 and 2005, Tianye Chemical's sales to its five largest customers represented approximately 46.1%, 38.5%, and 45.5% of its total sales. We did not experience any loss of major customers during the Track Record Period; however, our revenue could be adversely affected if any of our major customers reduces their purchases significantly.

In particular, we derived a substantial portion of our revenue during the Track Record Period from export sales to our largest customer and international wholesaler of urea, Transammonia. Transammonia is also one of our shareholders. Sales made to Transammonia accounted for approximately 37.3%, 31.4% and 14.8% of our total net sales for the years ended 31 December 2003, 2004 and 2005, respectively. Sales made to Transammonia for the three months ended 31 March 2006 was nil. We cannot assure you that Transammonia will continue to purchase urea products from us at levels comparable to those during the Track Record Period or at all.

Methanol and the fertilizer components and products that we manufacture, process, store, handle, distribute and transport are very volatile and may be harmful if handled or disposed of improperly. Natural gas, our primary raw material, is also highly combustible. Accidents involving these substances, which are often subject to high pressures and temperatures during the production process, could cause severe damage or injury to property, the environment and human health.

We manufacture, process, store, handle, distribute and transport methanol and other fertilizer components and products, which are very volatile substances and may cause harm if not handled or disposed of properly. See "Our Business—Occupational health and safety—Our chemical products and materials". We also utilize natural gas, a highly flammable gas, as a primary raw material. Any accidents or mishandling involving these substances, fires, explosions or natural disasters could cause severe damage or injury to property, the environment and human health, as well as possible disruptions, restrictions or delays in our production. Any damage to persons, equipment or property or other disruption of our production or distribution of our products could result in a significant decrease in operating revenues and significant increase in costs to replace or repair and insure our assets, which could negatively affect our operating results and financial condition.

Litigation or complaints from any such event may result in our being named as a defendant in civil lawsuits or regulatory enforcement proceedings asserting claims for a large amount of damages. In 1997, when Fudao Phase I was still operated by the predecessor of CNOOC Fudao, Hainan Fudao Chemical Industry Limited (海南富島化工有限公司), rainwater caused a considerable amount of urea stored outdoors to dissolve and seep into neighboring farmland. The high concentration of urea polluted the soil. Hainan Fudao Chemical Industry Limited reached a settlement with the local residents pursuant to which we have continued to make payments to the local residents every year since the occurrence of the pollution, as compensation for damages caused to the local community. We will continue to make such payments until the damage is mitigated over time and the land is restored to a cultivatable state. We paid RMB0.6 million, RMB0.8 million and RMB1.0 million in damages for 2003, 2004 and 2005, respectively, and as of 31 March 2006, we had paid an aggregate amount of approximately RMB5.5 million in damages. Fudao Phase I was not previously involved in other accidents, and has not experienced any other similar incidents under our operation as of the Latest Practicable Date. CNOOC, our Controlling Shareholder, has agreed to indemnify us against our direct economic losses arising from compensation payable by us to third parties in connection with environmental pollution resulting from our production operation before the Listing Date, including the above-mentioned pollution incident that occurred in 1997. In addition, based on the official letters issued by the relevant environmental protection authorities, our PRC legal advisors have confirmed that we have not breached any PRC environmental laws or regulations during the Track Record Period in any material respect. However, we cannot provide any assurance that such incidents will not recur in the future. If they do recur, such incidents may result in claims or damage to our reputation and have a material adverse effect on our financial condition and results of operations.

We face competition from other nitrogenous fertilizer and chemical producers and sellers. Our business and prospects may be adversely affected if we are not able to compete effectively.

We operate in competitive markets. Our key competitors are domestic nitrogenous fertilizer and chemical producers and sellers of similar or larger size and scale in China. In addition, a number of foreign companies have established fertilizer and chemical manufacturing enterprises in China, and other foreign manufacturers may do so in the future. We also operate in a very competitive international fertilizer market. Such domestic and foreign competitors may have greater access to financial resources, higher levels of vertical integration, better operating efficiency and longer operating histories. Some of our international competitors may also have better management and utilize more advanced technology than we do. If we are unable to improve our product quality, performance and price competitiveness or if we are unable to anticipate and respond to changing market demand, maintain our operating efficiency and economies of scale, and control our costs in connection with our planned expansion, raw materials and energy, our business and prospects may be adversely affected and we may not be able to compete effectively.

We may have difficulty in managing our future growth and the associated increased scale of our operations.

We have experienced significant internal growth of designed annual production capacity of urea, from 520,000 tonnes following our operation of Fudao Phase I to 1,320,000 tonnes after commencement of Fudao Phase II in 2003. Through our acquisition of Tianye Chemical, we expanded our designed annual production capacity of urea by an additional 520,000 tonnes and acquired methanol production facilities with a designed capacity to produce 200,000 tonnes of methanol per annum. See "Our Business—The Acquisition of Tianye Chemical". As a result of the Acquisition, the scale of our operations increased substantially. We expect to increase our designed annual production capacity of methanol by another 600,000 tonnes upon commencement of mass production at CNOOC Jiantao Methanol Plant, expected in January 2007. See "Our Business—Principal production facilities—Existing facilities".

To take full advantage of the integration of our business and resulting synergies, we plan to expand the scope of our operations and our product range through our capital investment and expansion plan. Such expansion and the need to integrate new operations for the production and sale of different product lines in different regions to different customers may place a significant strain on our managerial, operational and financial resources. In addition, our cost controls, and our internal controls, accounting and reporting systems must be integrated and upgraded to support the continued expansion of our operations. Our expansion projects presented, and continue to present, significant challenges to our management regarding allocation of resources, substantially increased requirements for raw materials and utilities supplies and corresponding increases or expansion of supporting infrastructure, such as environmental protection facilities and security measures as well as transportation infrastructure and staff. As an example, if we are unable to manage our growth efficiently, fully integrate our operations at Tianye Chemical with our existing operations, or cope with the challenge created by our growth in production capacity and product diversification in an efficient and effective manner, we may not be able to keep pace with our planned growth or to handle the additional responsibilities of becoming a listed company and our ability to optimize the success of our business strategy and to capitalize on future business opportunities could be negatively affected.

We engage and will continue to engage in connected transactions.

We currently engage and will continue to engage in continuing connected transactions with our connected persons (as defined in the Hong Kong Listing Rules) such as CNOOC, Hong Kong Kingboard and their respective Associates. See "Connected Transactions". For those connected transactions that are not exempted from reporting, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Hong Kong Listing Rules but will be continued after the Global Offering, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from compliance with the announcement and (where applicable) independent shareholders' approval requirements for a period expiring on 31 December 2008, except for deposits placed by us with CNOOC Finance which is subject to a waiver expiring one calendar year from the Listing Date. The waiver is subject to the annual value of such continuing connected transactions for each financial year not exceeding the relevant cap amounts set out in the section headed "Connected transactions".

Approvals from independent shareholders are required (i) if the caps of the connected transactions being subject to the waiver of the Hong Kong Stock Exchange are exceeded, (ii) for approval of, and renewal of caps for, continuing connected transactions from 2009 onwards or the expiry date of the waiver obtained from the Hong Kong Stock Exchange, as appropriate, and (iii) for new connected transactions that are not exempted from independent shareholders' approval requirement.

If such approvals are not obtained, we will not be able to effect these transactions, and our business operations and financial condition may be adversely affected.

We will be controlled by CNOOC, our Controlling Shareholder, whose interests may differ from those of our other shareholders.

Upon the completion of the Global Offering, assuming the Over-allotment Option is not exercised, CNOOC will beneficially own and control approximately 62.73% of our equity interest. Subject to the Articles of Association, CNOOC will continue to have the ability to exercise a controlling influence over the management, policies and business of our Company through the power to nominate and elect board members, determine the timing and amount of dividend distributions, approve significant corporate transactions such as mergers and acquisitions, and approve annual budgets. Therefore, CNOOC may cause us to enter into transactions, to take or fail to take, other actions, or to make decisions that conflict with the best interests of our other shareholders. See "Relationship with CNOOC".

Our operations could be adversely affected by the departure of any of our senior management members.

Our success depends on the continued service of our senior management team. The experience and contributions of our executive Directors and other members of our senior management are crucial to our success. We will require an increasing number of experienced and competent executives, engineers and other members of senior management in the future to implement our growth plans. Competition for such personnel may be intense. If we were to lose the services of any of our Company's key management members, namely Mr. Wu Mengfei, Mr. Yang Yexin, Mr. Fang Yong, Mr. Chen Kai, Mr. Quan Changsheng, Mr. Hong Junlian, Mr. Liang Mingchu, Mr. Miao Qian, Mr. Meng Jun, and Mr. Gu Weihua, and were unable to recruit and retain replacement personnel with equivalent qualifications at any time, the growth of our business could be disrupted or delayed.

Our business and operations require significant and continuous capital investment. The failure to raise sufficient capital in a timely manner may adversely affect our business and results of operations.

Our business and operations are capital intensive, and we regularly incur capital expenditures to expand our operations, maintain our production equipment and supporting facilities, increase our operating efficiency and comply with environmental laws and regulations. For the years ended 31 December 2003, 2004 and 2005 and the three months ended 31 March 2006, our total capital expenditures were approximately RMB1,294.5 million, RMB292.3 million, RMB461.8 million and RMB340.4 million, respectively. We expect to spend a total of approximately RMB6,766.4 million for the years 2006 to 2008 on capital expenditures. See "Financial Information—Management's discussion and analysis of financial condition and results of operations of our Company—Liquidity and capital resources—Capital expenditures."

If we require additional funds and cannot obtain them when required, we may not be able to fully fund the necessary capital expenditures needed to upgrade or purchase additional facilities and equipment, or to implement our business strategies or at all. Even if we are able to secure sufficient funding, we may not be able to obtain the funds under commercially favorable terms, which would increase financing costs. If we are unable to satisfy our working capital needs or to repay our outstanding and future debt obligations as they become due, we may be subject to creditors' actions or be forced to adopt an alternative strategy that may include such actions as reducing production or delaying capital expenditures, selling assets, refinancing our indebtedness or seeking equity capital. Any of the above could impede the implementation of our business strategies or prevent us from entering into transactions that would otherwise benefit our business on commercially reasonable terms or at all and adversely affect our financial condition and results of operations.

Our operations are subject to operating hazards and natural disasters that may not be fully covered by our insurance policies.

Our business requires substantial investments in complex production facilities, manufacturing and transportation equipment. Many of our production processes, raw materials and certain finished products are potentially destructive and dangerous in uncontrolled or catastrophic circumstances, including operating hazards, fires and explosions, and natural disasters such as typhoons, floods, earthquakes and major equipment failures for which we cannot obtain insurance at a reasonable cost or at all. In 2003 and 2005, operations at our production complex in Hainan were suspended for six and eight days, respectively, due to severe typhoons which resulted in temporary stoppage of natural gas and electricity power supply. Should an accident or natural disaster occur in the future, it may cause significant property damage, disruption to our operations and personal injuries and our insurance coverage may be inadequate to cover such loss. Should an uninsured loss or a loss in excess of insured limits occur, we could suffer from damage to our reputation or lose all or a portion of our production capacity as well as future revenues anticipated to derive from the relevant facilities. Any material loss not covered by our insurance could materially and adversely affect our business, financial condition and results of operations.

In addition, we may incur significant losses or costs relating to the transportation of methanol by vessels after the completion of the new CNOOC Jiantao Methanol Plant and the liquid chemical berth at Port of Basuo. These vessels and their shipments are subject to perils particular to maritime operations, including capsizing, grounding, collision and loss or damage from severe weather or storms. Due to the potentially destructive and dangerous nature of the cargo, any such event may have catastrophic consequences, including fires, explosions, accidents and severe pollution. Such events may result in severe damage and injury to property, the environment and humans or in our being named as a defendant in lawsuits asserting claims for large amounts of damages, which may in turn materially adversely affect our financial condition and results of operations.

We do not carry product liability insurance for the use of our products or business interruption insurance.

Neither we nor any of our production subsidiaries carry any insurance for product liability which may potentially arise from the use of the products sold by us. We may be held liable for any damage or loss incurred in connection with or arising from the use of defective products produced by us or the misuse of our products. Any such claim may result in costly litigation and may adversely affect our results of operations and profitability. Consistent with what we consider the customary practice in China, we do not carry any insurance for business interruption or loss of profit arising from accidents at any of our production facilities or other disruptions of our operations such as demonstrations and protests by neighboring residents.

We may not be able to implement our business strategies on schedule or within budget or at all.

We may not be able to implement fully our business strategies or implement them on schedule or within budget or at all. Our strategies are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and could delay or increase the costs of implementation. Such potential events relating to our expansion plans include, but are not limited to, delays in the delivery and installation of manufacturing equipment, seasonality, labor disputes, costs or requirements related to compliance with environmental regulations or other laws and regulations on design or construction changes, delays in securing the necessary governmental approvals and land use rights, a downturn in the economy and changes to plans for additional facilities necessitated by changes in market conditions.

Delays in the expansion of our production facilities could result in losses or delayed receipt of expected revenues, an increase in financing costs, inadequacy of working capital or a failure to meet profit and earnings projections, any of which would adversely affect our cash flow, business and results of operations. In order to implement our expansion strategies, we may selectively seek suitable opportunities to make strategic acquisitions or joint venture investments in the future. Our ability to consummate and integrate effectively any future acquisitions or joint venture investments on terms that are favorable to us may be limited by the number of attractive acquisition targets, joint venture partners, internal demands on our resources and, to the extent necessary, our ability to obtain financing on satisfactory terms, if at all.

There is no assurance that members of our Company will continue to benefit from preferential tax treatment.

We enjoy substantial income tax reductions under various tax incentive programs applicable to our Company and/or some of our subsidiaries on a stand-alone basis. Although the standard corporate income tax rate in the PRC is 33%, businesses incorporated in Hainan Special Economic Zone, including ours and those of many of our subsidiaries, are entitled to a 15% corporate income tax rate. A two-year income tax exemption followed by a three-year 50% corporate income tax rate reduction based on the 15% corporate income tax rate commencing from the first profitable fiscal year is commonly applicable to all members of our Company in Hainan that qualify as industrial businesses. In addition, by virtue of its operation of Fudao Phase II, our Company is entitled to a further three-year 50% corporate income tax rate reduction with respect to the profits generated from Fudao Phase II as it is qualified as an advanced and new technology project. Our subsidiary Hainan Basuo is also entitled to a five-year corporate income tax exemption followed by a five-year 50% tax reduction of corporate income tax due to its nature as an infrastructure business starting from 2005. Tianye Chemical is entitled to preferential income tax treatment by way of a three-year tax exemption starting from 2005 because it converted its facilities to use natural gas instead of residual oil as a raw material for its urea production.

For 2004 and the first six months of 2005, we were entitled to a 50% VAT refund for our domestic sales. Since 1 July 2005, we have been exempted from VAT for domestic sales. These exemptions are subject to annual adjustments. There is no guarantee that the PRC Government will continue to grant us such exemptions. For detailed information on preferential VAT treatment, see “Financial Information—Management’s discussion and analysis of financial condition and results of operations—Factors affecting our results of operations and financial condition”.

There can be no guarantee that the government authorities will not modify or revoke the above preferential income tax treatments and VAT refunds. In the event that any such preferential treatment is cancelled or changed or that the major members of our Company cease to be entitled to such preferential tax treatment, the resulting increase in our tax liability will have a negative impact on our net profits.

Any material dispute between our Company and a joint venture partner may adversely affect the results of operations of the relevant joint venture company and our Company and if unresolved, could potentially lead to a termination of that joint venture company.

If a dispute arises between a joint venture partner and us in connection with the performance of a party's obligations or the scope of a party's responsibilities under the relevant joint venture agreement, the parties may not be able to resolve their differences through negotiation or arbitration. In the event such a material dispute cannot be resolved, the business and operations of the relevant joint venture company may suffer, and the joint venture agreement may even be terminated by mutual consent of the parties or as a result of a material breach by one of them.

In addition, none of our joint venture agreements provides for any dispute resolution mechanism in the event of a deadlock at the board meeting of the relevant joint venture company. Any such deadlock may cause the board of directors of the relevant joint venture company to fail to make, or delay in making, an important decision, which may adversely affect the financial condition and results of operations of that joint venture company.

It is possible that one of our joint venture partners may suffer financial or other difficulties, adversely affecting its ability to continue to perform its obligations under the relevant joint venture agreement or other contracts with us or with the relevant joint venture company, which in turn could have an adverse effect on the business of that joint venture company.

Any of the foregoing events could have a material adverse effect on our financial condition and results of operations.

Our acquisition agreements may not provide us with sufficient protection against liability for undiscovered acts of non-compliance arising from our prior acquisitions or future acquisitions.

There are certain risks inherent in the acquisition of businesses from third parties including the risk of potential liability as a result of pre-existing non-compliance with applicable laws and regulations or agreements by such businesses. We cannot provide any assurance that we will be adequately protected under the terms of the relevant acquisition agreements against any liabilities arising as a result of acts of non-compliance by businesses that we have acquired or may in the future acquire that we did not or do not discover during the acquisition process.

Prior to the Acquisition, Tianye Chemical was fined on several occasions during the Track Record Period for non-compliance with applicable laws and regulations for a total of RMB2.0 million. For example, on 24 February 2005, the NDRC in Inner Mongolia penalized Tianye Chemical for over-charging its customers RMB4.5 million in its sales of 48,168 tonnes of urea products. The local price supervisory agency confiscated part of the over-charged amount, or RMB1.6 million, that Tianye Chemical failed to refund its customers before 20 April 2005 as an administrative penalty on 12 May 2005, and also ordered Tianye Chemical to refund the remaining amount over-charged, or RMB2.9

million, to its customers. See "Our Business—Sales and marketing—Pricing". There may be other incidents of non-compliance that were not discovered by us during the acquisition process. Our business operations may be adversely effected by any such incidents of non-compliance for which we are not sufficiently protected under the terms of the relevant acquisition agreements. In addition, any such instances of non-compliance may have an adverse effect on our corporate image.

Furthermore, in respect of any future acquisition, we cannot assure you that the relevant businesses that we may acquire will have fully complied with all applicable laws and regulations or agreements or that we will be able to discover all acts of non-compliance during our due diligence process. In addition, we cannot guarantee that the terms which we agree with the sellers of such businesses will adequately protect us from the resulting liability should such undiscovered events of non-compliance become apparent after the acquisition, or that we will be able to successfully enforce the terms of such agreements to recover any such resulting liability, any of which may adversely affect the value of our investment and hence our financial condition and results of operations.

Our dividend distributions to our existing shareholders made prior to the completion of the Global Offering should not be treated as indicative of our Company's future dividend policy. These dividend distributions before the listing may adversely impact the total value of our assets and your investment.

On 6 March 2006, we declared, as a commercial decision, a special dividend of approximately RMB1,210.8 million to CNOOC, which is equal to our distributable profit as of 31 December 2005. CNOOC is the only shareholder entitled to such dividend because it was the sole shareholder of CNOOC Chemical, our predecessor, as of 31 December 2005. The funds for paying such a special dividend will be sourced from our cash and cash equivalents generated from our operating activities and, if necessary, bank borrowings. The payment will be made prior to the Listing Date.

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment," issued by the MOF, we are required to make a distribution to CNOOC in the amount equal to the net profit attributable to shareholders generated by CNOOC Chemical during the period from 1 January 2006 to 24 April 2006, the date immediately prior to the date on which CNOOC Chemical was restructured to be China BlueChemical Ltd. as a joint stock limited company. The payment of such distribution will be made to CNOOC before the Listing Date from our cash and cash equivalents generated from our operating activities and, if necessary, bank borrowings secured before the Listing Date.

It was considered by our Promoters that our profits generated from the date of our Company's establishment until the listing were largely the outcome of their investments in our Company from the financial perspective. On 25 April 2006, our five Promoters unanimously resolved, as a commercial decision based on the above-mentioned rationale, that they will be entitled to, in the same proportion as their respective shareholdings in us, all of the undistributed profit of our Company generated during the period from 25 April 2006, the date on which our Company was restructured to be a joint stock limited company, to the last day of the month immediately preceding the Listing Date. The distribution of such profit will be made to our five Promoters after the Listing Date from our cash and cash equivalents generated from our operating activities and, if necessary, bank borrowings.

Investors of our H Shares under the Global Offering will not be entitled to participate in the above dividends or distribution of profit. Such dividends, distributions or profits are not indicative of the dividends that our Company may declare or pay in the future. Any distributable profits available for distribution to our shareholders after the Global Offering will exclude the respective amounts of such dividends, distributions and profits. In addition, the payment and distribution of the special dividends, pre-IPO distribution and profit prior to the listing may adversely impact the total value of our assets and your investment.

We cannot guarantee when and if dividends will be paid in the future, and the amount of dividends that we have declared historically are not indicative of the dividends that we may pay in the future. Details of our Company's dividend policy after completion of the Global Offering are set out in the section headed "Financial Information—Dividend Policy". The declaration, payment and the amount of any future dividends will be at the discretion of our Board and will depend upon general business conditions and strategies, our financial results and capital requirements, interests of our shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant.

As stipulated under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC GAAP and IFRS, whichever is lower, less allocations to our statutory and discretionary common reserve funds. Any distributable profits that are not distributed in a given year will be retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects. As a result, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not have sufficient distribution from our subsidiaries to enable us to make dividend distributions to our shareholders in the future, including in respect of periods that our financial statements indicate that our operations have been profitable.

The actual amount of the Pre-IPO Profit to be distributed to CNOOC and other Promoters could be greater than the estimated amount disclosed in this Prospectus.

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment," issued by the MOF (the "Provisional Regulations"), we are required to make a distribution (the "Pre-establishment Distribution") to CNOOC in the amount equal to the net profit attributable to shareholders generated by CNOOC Chemical during the period from 1 January 2006 to 24 April 2006, the date immediately prior to the date on which CNOOC Chemical was restructured to be China BlueChemical Ltd. as a joint stock limited company (the "Relevant Profit Period"). Our income statement for the period from 1 January 2006 to 30 April 2006 was prepared under PRC GAAP and was reviewed by our auditors. The amount of the Pre-establishment Distribution required under the Provisional Regulations to be made to CNOOC was agreed among the Promoters to be RMB264.5 million and the payment will be made to CNOOC before the Listing Date from our cash and cash equivalents generated from our operating activities and, if necessary, bank borrowings secured before the Listing Date.

Further, our Promoters agree that we shall distribute to each of the Promoters except CNOOC an amount equal to the net profit of CNOOC Fudao attributable to shareholders generated by each shareholder's respective share in the equity interest of CNOOC Fudao contributed to our Company during the Relevant Profit Period. CNOOC Fudao's income statement for the period from 1 January 2006 to 30 April 2006 was prepared under PRC GAAP and was reviewed by our auditors. The aggregate amount of distributions to Zhejiang AMP, Guangdong AMP, Shanghai AMP and

Transammonia was agreed with us by reference to such reviewed income statement to be RMB11.6 million and the payments will be made to the four Promoters before the Listing Date from our cash and cash equivalents generated from our operating activities and, if necessary, bank borrowings secured before the Listing Date.

On 25 April 2006, our five Promoters unanimously resolved, as a commercial decision, that they will be entitled to, in the same proportion as their respective shareholdings in us, all of the undistributed profit of our Company generated during the period from 25 April 2006, the date on which our Company was established and restructured to be a joint stock limited company, to the last day of the month immediately preceding the Listing Date (the "Pre-IPO Profit"). Assuming the Listing Date is in September 2006, we estimate that the Pre-IPO Profit will be approximately RMB312.0 million, calculated as 129 (being the number of days from 25 April 2006 to 31 August 2006)/365 of our forecast net profit for the year ending 31 December 2006. The Pre-IPO profit will be determined in accordance with PRC GAAP. See "Financial Information—Dividend policy". There can be no assurance that total amount required to be distributed to CNOOC will not be greater than this estimate of RMB312.0 million, which may adversely affect our financial condition.

We incurred net current liabilities as of 31 March 2006.

As of 31 March 2006, we had net current liabilities of RMB2,080.4 million, compared with net current assets of RMB1,512.9 million as of 31 December 2005. The substantial increase in our net current liabilities during the three-month period ended 31 March 2006 was mainly due to a RMB1,210.8 million one-off dividend payable to CNOOC and a RMB2,102.6 million increase in other payables and accruals as of 31 March 2006, which mainly included (i) RMB1,396.7 million payable to CNOOC as amortized cost of unsecured entrusted loans of RMB1,392.6 million obtained from CNOOC during the three-month period ended 31 March 2006, and (ii) RMB488.3 million payable to Inner Mongolia Finance Bureau, representing an amount originally owed by Tianye Chemical to the Inner Mongolia Finance Bureau. The RMB1,396.7 million payable to CNOOC was fully settled in August 2006 and the RMB488.3 million due to Inner Mongolia Finance Bureau was paid to the Inner Mongolia Finance Bureau on 30 April 2006. The RMB1,210.8 million once-off dividend payable to CNOOC will be paid prior to the listing of our H Shares on the Hong Kong Stock Exchange.

We cannot assure you that we will not experience periods of net current liabilities in the future. If we continue to have net current liabilities in the future, our working capital for the purposes of our operations may be constrained.

We are exposed to fluctuations in fair value adjustments on financial derivative instruments.

On 29 April 2001, we entered into a cross currency interest rate swap contract, or the swap, with Bank of China Hainan Branch to swap the Japanese Yen cash flow arising from the JPY17.8 billion loan, or the Yen Loan, into US dollar cash flow at a fixed interest rate of 3.93% per annum, for the purpose of reducing our exposure to interest rate and exchange rate fluctuations. The life of the swap is from 10 May 2001 to 20 June 2008. Fair value gains and losses arising from changes in the fair value of the swap constitute our other income or other expenses, respectively. In the years ended 31 December 2003 and 2004 and the three months ended 31 March 2006, we recorded fair value gains on the swap of RMB47.2 million, RMB37.3 million and RMB5.8 million, respectively, and recorded RMB67.9 million as fair value loss in the year ended 31 December 2005. Due to the nature of the derivative instruments, we cannot assure you that we will keep recording gains or that we will not incur significant losses on the fair value adjustment of the swap or any other derivatives we may enter into in the future.

RISKS RELATING TO THE FERTILIZER AND CHEMICAL INDUSTRIES IN CHINA

The cyclical nature of our business will expose us to potentially significant fluctuations in our financial condition.

A significant portion of our sales volumes and revenues are attributable to sales of our two main products, urea and methanol. According to the normal course of business, we are exposed to fluctuations in supply and demand, which historically have had and could in the future have significant effects on the prices of our products, and in turn, our operating results and financial conditions. The price of our products depends on a number of factors, including general economic conditions, cyclical trends in end-user markets, and supply and demand imbalances. In addition, prices of our fertilizer products also depend on weather conditions, which have a greater relevance because of the seasonal nature of fertilizer application. The domestic price of fertilizers is also affected by demand for agricultural products and affordability of fertilizers by farmers, PRC Government policies and other factors beyond our control. Changes in supply result from capacity additions or reductions and from changes in inventory levels. Periods of high demand for fertilizer and methanol products, high capacity utilization and increased operating margins have tended to result in new plant investment and increased production until supply exceeds demand, followed by periods of declining prices and declining capacity utilization until the cycle is repeated. Our fertilizer and methanol prices during the Track Record Period reached a historical high; however, we cannot guarantee that our prices will remain at recent or current levels or that they will increase in the future.

We face significant challenges and changes in government policies, including changes to VAT policies, adjustments of export custom duties and accession to the WTO, which could affect the operation environment of our industry and thus our financial performance.

In the years ended 31 December 2003, 2004 and 2005 and the three months ended 31 March 2006, export sales accounted for 41.1%, 40.4%, 15.5% and 0%, respectively, of our revenue from fertilizer operations. To ensure a sufficient supply of fertilizers to meet the domestic demand in China, the PRC Government has historically adjusted its policies towards the export of fertilizers, in particular through the cancellation of VAT refunds and imposition of export tariffs. The PRC Government's policies regarding export tariffs have historically encouraged or discouraged exports, and the PRC Government changed its tax regime for exports several times during the Track Record Period and thereafter. In addition, the PRC Government may from time to time change its VAT refund policies based on supply or demand. While we previously enjoyed VAT refunds for exports of our urea products, we are currently subject to a seasonal export tariff ranging from 15% to 30%. A 30% seasonal export tax rate is in place from 1 January 2006 to 30 September 2006, while the PRC Government has announced that the seasonal export tax rate will be adjusted to 15% starting from 1 October 2006 to 31 December 2006. Because of such changes in taxes and export tariffs payable on exports of fertilizer products, we changed the mix of domestic and export sales of our fertilizer products during the Track Record Period. We may in the future be subject to further changes in tax liabilities, which may further affect our mix of domestic and export sales and have an adverse impact on our business, results of operations and net profits. For details of VAT refunds and export tariffs, see "Financial Information—Management's discussion and analysis of financial condition and results of operations—Factors affecting our results of operations and financial condition—Taxation".

As part of its WTO concession commitment, China is obliged to open its domestic fertilizer market to foreign participation within five years of its accession to the WTO by allowing foreign participation in the trading and distribution of fertilizers in China. In compliance with its WTO concession commitment, China raised its urea import quota to 1.3 million tonnes in 2002; this figure has been increased annually by 500,000 tonnes, and this figure has reached 3,300,000 tonnes in 2006. Whereas domestic fertilizer prices were insulated from fluctuations of international market prices prior to China's WTO accession, we anticipate that international market prices will have an increasingly direct impact on our fertilizer prices as China gradually relaxes its fertilizer trade restrictions.

Our results of operations are subject to seasonality and could be negatively impacted by adverse weather conditions and seasonality.

Sales of fertilizer products to end users are seasonal in nature. In general, we generate a greater amount of net sales and revenue during spring and summer than during the autumn and winter seasons. The variance in sales is, generally, more significant in northern China where there are shorter planting seasons than in southern China. Because of fluctuations in net sales to end users, demand for our urea products also follows these sales patterns. Accordingly, our revenue and results of operations may be affected by seasonal variations in demand for our urea products. In addition, our quarterly performance may vary significantly within a year and from one year to the next due primarily to weather-related shifts in planting schedules and purchase patterns.

The prices of fertilizer products in China are subject to State-imposed price controls, which limit our flexibility to raise or set prices and pass along cost increases.

The prices of fertilizer products sold in China are subject to controls imposed by the relevant State and provincial price administration authorities. The government authorities generally consider production cost, profit, market tolerance as well as other market conditions when establishing the base price of mineral fertilizers. See "Regulation". At present, all fertilizer producers operating ammonia production facilities with production capacities of over 150,000 tonnes per annum in China, being large-sized nitrogenous fertilizer producers, including us, are subject to a maximum selling price of 15% above the specified PRC Government base price for urea prescribed by the NDRC or the relevant local development and reform commission of RMB1,500 per tonne from 1 January 2006. Accordingly, we cannot adjust the price of our urea products based on market demand and supply beyond the price ceiling set by the government authorities without prior governmental approval. However, there is no assurance that the price ceilings for fertilizer products in China will not be adjusted, or that a minimum price will not be set, by the NDRC or the relevant local development and reform commission, which may limit our ability to compete. In the event that the relevant price administration authorities do not approve our application for a price increase beyond the price ceiling, and should we be unable to raise the selling prices of our fertilizer products while the cost of major raw materials, such as natural gas, continues to increase, our business, results of operations and profitability may be adversely affected.

RISKS RELATING TO THE PRC

Substantially all of our assets are located in China and a significant amount of our revenue is sourced from China. Accordingly, our results of operations, financial condition and prospects are to a significant degree subject to economic, political and legal developments in China.

Adverse changes in China's economic, political, and social conditions as well as government policies could have a material adverse effect on China's overall economic growth, which could in turn adversely affect our financial condition and results of operations.

The Chinese economy differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The Chinese economy has been transitioning from a planned economy to a more market oriented economy. For the past two decades, the PRC Government has implemented economic reform measures emphasizing utilization of market forces in the development of the Chinese economy. We cannot predict whether changes in China's political, economic and social conditions, laws, regulations and policies will have any material adverse effect on our current or future business, financial condition and results of operations.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends.

Conversion of Renminbi is under government regulation in the PRC. Currently, Renminbi is freely exchangeable in current account transactions, but controlled in capital accounts. Our principal accounting records and domestic sales are in Renminbi, but our revenue derived from export sales is denominated in foreign currencies. In addition, we have in the past purchased and expect to continue to purchase equipment and spare parts for our equipment from overseas equipment suppliers for which we are required to pay in foreign currencies, mainly U.S. dollars. As a result, our operations are exposed to fluctuations in the exchange rate of Renminbi against these foreign currencies. Following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future.

The value of Renminbi may fluctuate due to a number of factors. On 21 July 2005, the PRC Government reformed the Renminbi exchange rate mechanism so that the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies. A revaluation of Renminbi resulted in the appreciation of Renminbi against the U.S. dollar and Hong Kong dollar by approximately 3%. The relaxation of the Renminbi-U.S. dollar peg may contribute to volatility or increased fluctuations in the value of Renminbi. Further appreciation of Renminbi may have an adverse impact on our export sales. Conversely, depreciation of Renminbi would adversely affect the value of, and dividends, if any, payable on, the H Shares by our Company in foreign currency terms, as well as increasing the cost of importing equipment and facilities.

The PRC legal system is continuously evolving and has inherent uncertainties and the legal protections available to our shareholders may be limited.

Our Company was incorporated under PRC law. As substantially all of our businesses are conducted in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, interpretation of PRC laws and regulations will involve a degree of uncertainty.

As a PRC company offering and listing its H Shares outside the PRC, we are subject to the Special Regulations and the Mandatory Provisions. Upon the listing of the H Shares on the Hong Kong Stock Exchange, the Hong Kong Listing Rules will become the principal basis for protection of shareholders' rights. The Hong Kong Listing Rules contain particular standards of conduct and disclosure for us and the Controlling Shareholder of our Company. As far as we are aware, China has not published any case report that involves a request by a holder of H Shares of a PRC company to exercise his or her rights under any constitutional document of any joint stock company with limited liability, the Company Law or any regulatory provisions of the PRC applicable to PRC joint stock limited companies.

It may be difficult to enforce any judgments obtained from non-PRC courts against our Company or our Directors, Supervisors or executive officers residing in China.

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate law in the United States with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. However, in 2005, the PRC Company Law was amended to allow shareholders to commence an action against the directors, supervisors, officers or any third party who infringed a company's legal rights and resulted in its losses on behalf of a company under certain circumstances, but as far as we are aware, China has not officially published any case report of such shareholders' derivative action under the newly amended PRC Company Law.

Although we will be subject to the Hong Kong Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, upon the listing of the H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and only provide standards of acceptable commercial conduct for takeover and merger transactions and share repurchases in Hong Kong.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with countries such as the United States, the United Kingdom and Japan, and therefore enforcement in the PRC of judgments of a court in these jurisdictions may be difficult or impossible.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned. Under such arrangement, where any designated People's Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, the rights under the arrangement are limited and as of the Latest Practicable Date, no announcement has been made on when the arrangement will come into effect. When the arrangement is implemented, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

The Articles of Association and the Hong Kong Listing Rules provide that most disputes between holders of H Shares and our Company, our Directors, Supervisors or officers arising out of the Articles of Association or the Company Law and related regulations concerning our Company's affairs, such as transfer of its H Shares, are to be resolved through arbitration. On 18 June 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. This arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the arrangement, awards that are made by the PRC arbitral authorities pursuant to the Arbitration Law of the PRC can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities under the Arbitration Ordinance of Hong Kong are also enforceable in the PRC. However, so far as we are aware, no action has been brought in the PRC by a holder of H Shares to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favor of a holder of H Shares.

The exemption from withholding tax on dividends and income available to holders of H Shares may not continue in the future.

Under current PRC tax laws, regulations and rulings, dividends paid by our Company to holders of H Shares outside the PRC are currently exempt from PRC income tax. In addition, gains realized by holders of H Shares upon the sale or other disposition of H Shares are currently exempted from PRC income tax. If the exemptions are withdrawn in the future, holders of H Shares may be required to pay PRC income tax, or we may be required to withhold such tax from dividend payments. Such PRC income tax or withholding tax on dividends is currently imposed at the rate of 20%, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such overseas holders of H Shares reside, which reduces or exempts the relevant tax.

The Chinese economy may experience inflationary pressure, which may lead to an increase in interest rates and a slowdown in economic growth.

In response to concerns regarding China's high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC Government has taken measures to slow down economic growth to a more manageable level. Among the measures that the PRC Government has taken are restrictions on bank loans in certain sectors. These measures have contributed to a slowdown in economic growth in China and a reduction in demand for consumer goods. These measures and any additional such measures, including a possible increase in interest rates, could contribute to a further slowdown in the Chinese economy.

Electricity shortages in China may lead to reduced economic growth.

Many businesses are reported to be experiencing rotating electricity shutdowns and are expecting worse disruptions as warmer weather and the greater use of air conditioners put additional strain on electricity demand. Although we have not yet suffered from a shortage of electricity generally, we may do so in the future. Even if we ourselves do not experience problems with our electricity supply, nationwide shortages could adversely affect industrial production, and therefore economic growth, in China generally, which could lead to a decline in demand for our products.

Any recurrence of severe acute respiratory syndrome, or SARS, pandemic avian influenza or another widespread public health problem could adversely affect our business and results of operations.

From November 2002 to June 2003, China and certain other countries and regions experienced an outbreak of a new and highly contagious form of atypical pneumonia known as SARS. On 5 July 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated cases of SARS were reported in the PRC in April 2004. A renewed outbreak of SARS, pandemic avian influenza or another widespread public health problem in China could have a negative effect on our operations and results. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and manufacturing facilities, travel restrictions, the sickness or death of our key officers and employees, import and export restrictions and a general slowdown in China's economy.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the H Shares. The liquidity and market price of the H Shares following the Global Offering may be volatile.

Prior to the Global Offering, there has been no public market for the H Shares. The initial price range for the H Shares set out in this Prospectus was the result of negotiations among our Company and the Joint Global Coordinators (on behalf of the Underwriters) and the Offer Price may differ significantly from the market price for the H Shares following the Global Offering. We have applied to list and deal in the H Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for the H Shares. In addition, the price and trading volumes of the H Shares may be volatile. Factors such as variation in our revenue, earnings and cash flows or any other developments of our Company may affect the volume and price at which the H Shares will be traded.

Because the Offer Price is higher than the net tangible book value per Share, the holders of the H Shares will incur immediate dilution.

The Offer Price of the H Shares is higher than the net tangible book value per Share. Therefore, investors of the H Shares in the Global Offering will experience an immediate dilution in net tangible record value per H Shares.

Disposal of H Shares by NSSF following the listing of the H Shares may result in an increase in the number of H Shares available on the market and may affect the price of the H Shares.

Pursuant to the approvals of the relevant PRC authorities, CNOOC is required to transfer to NSSF such number of Domestic Shares as shall be in aggregate equivalent to 10% of the number of Offer Shares. These Domestic Shares will be converted into H Shares on a one-for-one basis upon completion of the Global Offering and will be held by NSSF immediately thereafter. NSSF will retain approximately 140,000,000 H Shares, representing approximately 3.18% of our total issued share capital, if the Over-allotment Option is not exercised, or 161,000,000 H Shares, representing approximately 3.49% of our total issued share capital if the Over-allotment Option is exercised in full. As advised by our PRC counsel, Jun He Law Offices, the H Shares to be held by NSSF shall not be subject to any lock-up under the PRC Company Law and there is no legal restriction on NSSF transferring or disposing of such H Shares following the listing of the H Shares. The above-mentioned arrangement will result in an increase of the number of H Shares available on the market if NSSF disposes of its H Shares and such increase may, directly or indirectly, affect the trading price of the H Shares following completion of the Global Offering. For further details, see "Share Capital—Contribution to NSSF".

Potential conversion of Domestic Shares or Unlisted Foreign Shares into H Shares may result in an increase in the number of H Shares available in the market and may affect the price of the H Shares.

Subject to the approval by the securities supervisory and administrative authorities of the State Council, (a) holders of Domestic Shares may transfer their Shares to overseas investors and such Shares may be listed or traded on an overseas securities exchange; and (b) Unlisted Foreign Shares may be listed or traded on an overseas securities exchange. Any listing or trading of the above-mentioned Shares on an overseas securities exchange shall also comply with the regulatory procedures, rules and requirements of the relevant overseas securities exchange. Unless otherwise required by the overseas securities exchange, the listing and trading of the above-mentioned Shares shall not be required to be approved in a class meeting of our Company. Potential conversion of a substantial amount of Domestic Shares or Unlisted Foreign Shares into H Shares could further increase the supply of the H Shares in the market and could negatively impact the market price of the H Shares.

Shareholders' interests may be diluted as a result of additional equity fund-raising.

We may need to raise additional funds in the future to finance expansion of, or new developments relating to, our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing shareholders, the percentage ownership of our shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the H Shares.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the Chinese economy and China's mineral fertilizer industry and petrochemical industry contained in this Prospectus.

Facts, forecasts and other statistics in this Prospectus relating to China, the Chinese economy and China's mineral fertilizer industry and petrochemical industry have been derived from official publications generally believed to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by our Company, and the Underwriters or any of its or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts, and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.