*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix IX, a copy of the accountants' report is available for inspection.*

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

18 September 2006

The Board of Directors
China BlueChemical Ltd.
J.P. Morgan Securities (Asia Pacific) Limited
UBS AG

Dear Sirs,

We set out below our report on the financial information regarding China BlueChemical Ltd. (中海石油化學股份有限公司) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), jointly-controlled entity and associates for each of the three years ended 31 December 2005 and the three-month period ended 31 March 2006 (the "Relevant Periods") and the three-month period ended 31 March 2005 (the "31 March 2005 Financial Information"), prepared under the basis of presentation set forth in Section 1 below, for inclusion in the prospectus of the Company dated 18 September 2006 (the "Prospectus").

The Company was established in the People's Republic of China (the "PRC") on 3 July 2000 as a limited liability company under the name of CNOOC Chemical Limited (中海石油化學有限公司) and as the holding company of the companies now comprising the Group to principally engage in the manufacture and sale of fertilizers. As part of the Company's reorganization (the "Reorganization") as set out in more detail in Section 1, the Company was reorganized into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006.

The Group and its associates are principally engaged in the manufacture and sale of fertilizers while its jointly-controlled entity is in the process of constructing a methanol plant which is planned to commence production in the second half of 2006. The Company, its subsidiaries, jointly-controlled entity and associates were all established in the PRC and have adopted 31 December as their financial year end date. The management accounts of these companies were prepared in accordance with the relevant accounting principles and financial regulations applicable to these companies. Particulars of the Company and its principal subsidiaries, jointly-controlled entity and associates are set out in Section 4 below.

For the purpose of the Reorganization, the directors of the Company (the "Directors") have prepared the financial statements of the Group and of the Company for each of the three years ended 31 December 2005 (the "PRC GAAP Financial Statements") in accordance with the PRC Enterprise Accounting Standards and PRC Enterprise Accounting System ("PRC GAAP") for which the Directors are solely responsible. The PRC GAAP Financial Statements were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Periods and the three-month period ended 31 March 2005 and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2003, 2004, and 2005 and 31 March 2006, together with the notes thereto set out in this report (collectively the "Financial Information") have been prepared based on the audited PRC GAAP Financial Statements and the unaudited management accounts of the Group for the three-month periods ended 31 March 2005 and 31 March 2006, after making such adjustments as are appropriate to comply with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"), and have been prepared on the basis set out in Section 1 below.

The Directors are responsible for the preparation of the Financial Information, which gives, for the purpose of this report, a true and fair view. The directors of the respective companies of the Group, its jointly-controlled entity and associates are responsible for the preparation of the respective financial statements and, where appropriate, management accounts which give a true and fair view. In preparing the Financial Information, the financial statements and the management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable, and that the reasons for any significant departure from applicable standards are stated. It is our responsibility to form an independent opinion and a review conclusion on such information in respect of the Relevant Periods and for the three-month period ended 31 March 2005, respectively, and to report our opinion and review conclusion to you.

***Procedures Performed in Respect of the Relevant Periods***

For the purpose of this report, we have carried out an independent audit on the financial information for the Relevant Periods in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

***Procedures Performed in Respect of the 31 March 2005 Financial Information***

For the purpose of this report, we have also performed a review of the 31 March 2005 Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the 31 March 2005 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 31 March 2005 Financial Information.

*Opinion in Respect of the Relevant Periods*

In our opinion, the Financial Information prepared on the basis of presentation set out in Section 1 below gives, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flows of the Group for the Relevant Periods and of the state of affairs of the Company and of the Group as at 31 December 2003, 2004 and 2005 and 31 March 2006.

*Review Conclusion in Respect of the 31 March 2005 Financial Information*

On the basis of our review of the 31 March 2005 Financial Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information of the Group presented for the three-month period ended 31 March 2005.

## 1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company was a limited liability company established in the PRC on 3 July 2000. The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC. Particulars of the principal subsidiaries comprising the Group, the jointly-controlled entity and the associates are set out in Section 4 below.

In the opinion of the Directors, the ultimate holding company of the Company is China National Offshore Oil Corporation ("CNOOC"), a state-owned enterprise established in the PRC.

In early 2006, pursuant to a reorganization notice from its ultimate holding company, CNOOC, and a promotion agreement (the "Promotion Agreement") entered into between CNOOC and the Other Four Promoters (as defined hereinafter), details of which are further explained below, the Company underwent a corporate reorganization (the "Reorganization") to rationalize its business and to reorganize itself into a joint stock limited company:

1. Pursuant to a reorganization notice issued by CNOOC dated 13 February 2006, equity interests owned by the Company's wholly-owned fellow subsidiaries in the following companies (the "Relevant Companies") were transferred, effective on 31 December 2005, to the Company. These equity interests were transferred to the Company at an aggregate value of RMB15,777,000, representing the aggregate of the respective share of the net assets value , as determined in accordance with PRC GAAP, in the Relevant Companies by these wholly-owned fellow subsidiaries as at 31 December 2005. The transfer of the equity interests in the Relevant Companies to the Company was treated as an additional capital contribution to the Company by CNOOC with an effective date of 31 December 2005. Accordingly, there was no profit or loss to the Company as a result of the above transfer of equity interests.

| | **Percentage of equity interests transferred** |
|---|---|
| Hainan CNOOC Plastic Company Limited ("Plastic Co.") | 30.23% |
| Hainan CNOOC Transportation Co., Ltd. ("Transportation Co.") | 40% |
| CNOOC (Hainan) E&P Gas Limited ("E&P Gas") | 60% |

As CNOOC ultimately controlled the Relevant Companies before the Reorganization and continues to have ultimate control over the Group after the Reorganization, the transfer of the

## 1. CORPORATE INFORMATION AND BASIS OF PRESENTATION (continued)

equity interests in the Relevant Companies from the Company's wholly-owned fellow subsidiaries has been accounted for as a reorganization of entities under common control in a manner similar to pooling of interests. As a consequence of the aforesaid transfer and after considering the equity interests already held by the Company in the Relevant Companies, Plastic Co. and Transportation Co. had been accounted for as a wholly-owned subsidiary and a 90%-owned subsidiary of the Company, respectively, from the beginning of the Relevant Periods while E&P Gas had been accounted for as a wholly-owned subsidiary of the Company since its establishment on 8 November 2004.

In addition, pursuant to the aforesaid reorganization notice, the Company transferred its entire equity interests of 9.21%, 60% and 84% in Sanya Resort Co., Ltd., Haiwan Fudao Hotel and Hainan CNOOC Agriculture Co., Ltd., respectively at an aggregate value of RMB45,323,000, representing the aggregate of the Company's total costs of investment in Sanya Resort Co., Ltd. and Haiwan Fudao Hotel, and the Company's share of net assets value, as determined in accordance with PRC GAAP, in Hainan CNOOC Agriculture Co., Ltd. as at 31 December 2005, to a wholly-owned fellow subsidiary of the Company. The Company's investments in Sanya Resort Co., Ltd. and Haiwan Fudao Hotel were accounted for as available-for-sale equity investments while Hainan CNOOC Agriculture Co., Ltd. was accounted for as a subsidiary of the Company prior to the above transfer. Although the Group held a 60% equity interest in Haiwan Fudao Hotel, the Group had no effective control over Haiwan Fudao Hotel during the Relevant Periods and therefore, Haiwan Fudao Hotel was not accounted for as a subsidiary of the Company. The transfer of the equity interests in the aforesaid companies to the Company's wholly-owned fellow subsidiary was treated as a reduction in capital contribution to the Company by CNOOC with an effective date of 31 December 2005. Accordingly, there was also no profit or loss to the Company as a result of the above transfer of equity interests.

2. Pursuant to an equity transfer agreement dated 28 February 2006, the Company acquired a 30% equity interest in Hainan CNOOC Complex Fertilizer Co., Ltd. ("Complex Fertilizer") at a cash consideration of RMB2,363,000 from Hainan Agricultural Means of Production Group Limited. Pursuant to a resolution of the employee shareholders of Complex Fertilizer, who together held a 34.95% equity interest in Complex Fertilizer, dated 6 March 2006, the Company acquired the 34.95% equity interest in Complex Fertilizer at a cash consideration of RMB2,752,000 from the employee shareholders of Complex Fertilizer. Although the Group only held a 35.05% equity interest in Complex Fertilizer prior to the aforesaid acquisitions, the Group already accounted for Complex Fertilizer as a subsidiary during the Relevant Periods by virtue of the Company's control over it and as a consequence of the above acquisitions, Complex Fertilizer became a wholly-owned subsidiary of the Company.

3. Pursuant to the Promotion Agreement entered into among Zhejiang AMP Incorporation, Guangdong Agricultural Means of Production Corporation, Shanghai Municipal Agricultural Means of Production Corporation and Transammonia Inc., (together the "Other Four Promoters") and CNOOC in relation to the reorganization of the Company into a joint stock limited company dated 18 March 2006, each of the Other Four Promoters transferred their entire shareholding of 3.24% each in CNOOC Fudao Co., Limited ("Fudao") to the Company in exchange for a 0.83% equity interest each in the Company upon its reorganization into a joint stock limited company. Upon the completion of the exchange of shares, Fudao became a wholly-owned subsidiary of the Company.

4. Pursuant to an approval document Guo Zi Gai Ge [2006] No. 462 issued by the State-owned Assets Supervision and Administration Commission of the State Council on 24 April 2006, the Company was reorganized into a joint stock limited company with a registered share capital of

## 1. CORPORATE INFORMATION AND BASIS OF PRESENTATION (continued)

RMB3,000,000,000 on 25 April 2006. Additional details of the Reorganization are set out in the Section headed "History, Restructuring and Corporate Structure" of the Prospectus.

The Financial Information set out below has been prepared on the basis that the Company is a continuing entity and the equity interests in the Relevant Companies, other than those already held by the Company prior to the aforesaid transfer, had been transferred to the Company as at the beginning of the Relevant Periods or the date of company establishment. The accompanying consolidated results and consolidated cash flows include the Group's results of operations and cash flows as if Plastic Co. and Transportation Co. had been a wholly-owned subsidiary and a 90%-owned subsidiary of the Company, respectively, from the beginning of the Relevant Periods while E&P Gas had been a wholly-owned subsidiary of the Company since its establishment on 8 November 2004.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of preparation***

The Financial Information has been prepared in accordance with IFRS, which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, except for the following standards that have been early adopted as at the beginning of the Relevant Periods:

| | |
|---|---|
| IAS 1 (amended 2004) | Presentation of Financial Statements |
| IAS 2 (revised 2003) | Inventories |
| IAS 8 (revised 2003) | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 (amended 2004) | Events after the Balance Sheet Date |
| IAS 16 (amended 2004) | Property, Plant and Equipment |
| IAS 17 (amended 2004) | Leases |
| IAS 19 (amended 2004) | Employee Benefits |
| IAS 21 (amended 2003) | The Effects of Changes in Foreign Exchange Rates |
| IAS 24 (revised 2003) | Related Party Disclosures |
| IAS 28 (amended 2004) | Investments in Associates |
| IAS 31 (amended 2004) | Interests in Joint Ventures |
| IAS 32 (amended 2004) | Financial Instruments: Disclosure and Presentation |
| IAS 33 (amended 2004) | Earnings per Share |
| IAS 36 (amended 2004) | Impairment of Assets |
| IAS 38 (amended 2004) | Intangible Assets |
| IAS 39 (amended 2004) | Financial Instruments: Recognition and Measurement |
| IFRS 2 | Share-based Payment |
| IFRS 3 | Business Combinations |

The Financial Information has been prepared under the historical cost convention, except for the derivative financial instruments and certain equity investments, which have been measured at fair value. The Financial Information has been prepared in Renminbi and all values are rounded to the nearest thousand (RMB'000) except otherwise indicated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform to IFRS, are set out below:

***Basis of consolidation***

The Financial Information includes the financial statements of the Company, its subsidiaries and jointly-controlled entity for the Relevant Periods and the three-month period ended 31 March 2005.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The Group's interest in its jointly-controlled entity is accounted for by proportionate consolidation from the date on which joint control over the jointly-controlled entity are established, which involves recognizing in the Financial Information a proportionate share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items on a line-by-line basis.

All significant intercompany transactions and balances, including any unrealized profits arising from intercompany transactions, have been eliminated on consolidation.

The acquisition of subsidiaries during the Relevant Periods has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the subsidiaries of the Company.

***Subsidiaries***

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

***Joint ventures***

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realized upon its dissolution. The profits and losses from the joint venture's operations and any

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Joint ventures (continued)***

distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Company, directly, or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

***Jointly-controlled entity***

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in its jointly-controlled entity is accounted for by proportionate consolidation from the date on which joint control over the jointly-controlled entity are established, which involves recognizing in the Financial Information a proportionate share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items on a line-by-line basis.

The results of the jointly-controlled entity are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a jointly-controlled entity is treated as a non-current asset and is stated at cost less any impairment losses.

***Associates***

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Excess over the cost of a business combination***

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognized immediately in the consolidated income statement.

***Impairment of assets***

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the consolidated income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises.

***Related parties***

A party is considered to be related to the Group if:

(a) the party directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Related parties (continued)***

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company/ Group, or of any entity that is a related party of the Company/Group.

***Property, plant and equipment and depreciation***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

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:

| | |
|---|---|
| Buildings | 2.57% to 6.67% |
| Plant and machinery | 6.43% to 10.00% |
| Motor vehicles | 18.00% to 20.00% |
| Computer and electronic equipment | 18.00% to 20.00% |
| Office and other equipment | 18.00% to 20.00% |

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 each balance sheet date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the consolidated income statement in the year the asset is derecognized 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, machinery 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 capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Investment properties***

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost, including transaction costs, less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of the retirement or disposal.

***Leases***

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

***Intangible assets***

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

*Computer software*

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

*Patents and licenses*

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Intangible assets (continued)***

*Trademark*

Trademark is stated at cost and is amortized on the straight-line basis over the registered term of usage of seven years.

***Investments and other financial assets***

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase 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 marketplace.

*Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Investments and other financial assets (continued)***

*Fair value*

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

***Impairment of financial assets***

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*Assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Impairment of financial assets (continued)***

*Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

***Derecognition of financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

***Interest-bearing loans and borrowings***

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Derecognition of financial liabilities***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

***Derivative financial instruments and hedging***

The Group uses derivative financial instruments such as a cross currency interest rate swap contract to partially offset its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group's derivative financial instruments do not qualify for hedge accounting and any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement in the year they arise.

The fair value of a cross currency interest rate swap contract is calculated by using valuation technique.

***Inventories***

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

| | |
|---|---|
| Raw materials | Purchase cost on the weighted average basis |
| Finished goods and work in progress | Cost of direct materials and labor and an appropriate proportion of overheads |

Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

***Cash and cash equivalents***

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Provisions***

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

***Income tax***

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated income statement, or in equity if it relates to items that are recognized directly in equity in the same or a different period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where 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, a jointly-controlled entity and associates, where 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 recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where 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, a jointly-controlled entity and associates, deferred tax assets are only recognized 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 utilized.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Income tax (continued)***

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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 taxation authority.

***Government grants***

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

***Revenue recognition***

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the provision of services is started and completed within the same financial year, revenue is recognized at the time of completion. When the provision of services is started and completed in different accounting years and the outcome of the transaction can be estimated reliably, revenue is recognized at the balance sheet date on the percentage of completion basis; when the outcome of a transaction cannot be estimated reliably, revenue is recognized only to the extent of costs incurred that are expected to be recoverable;

(c) Rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Employee benefits***

*Retirement benefits*

The Group, its jointly-controlled entity and associates participate in a government-regulated defined contribution pension scheme, under which the Group, its jointly-controlled entity and associates make contributions into a government-regulated pension scheme 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 consolidated income statement as incurred.

In addition to the benefits under the government-regulated defined contribution pension scheme above, Inner Mongolia Tianye Chemical Industry Limited ("Tianye"), the Company's 90%-owned subsidiary, also paid supplementary pensions to early retirees in accordance with an internal retirement plan and allowances to retired employees in accordance with the local labor regulations. As detailed in note (r) of Section 6 below, such supplementary pensions and post employment allowances payables were assessed using the projected unit credit method; the cost of providing such pensions and allowances is charged to the consolidated income statement so as to spread the service cost over the average service lives of such former employees, in accordance with the actuarial reports which contained full valuations of the obligations for each of the relevant accounting periods. These obligations are measured at the present value of the estimated future cash outflows using interest rates of the government securities which have terms to maturity similar to the terms of the related liability. Actuarial gains and losses are recognized in the period in which they are incurred.

Details of the government-regulated pension scheme and the supplementary pension benefits are set out in note (e) to Section 5 below.

*Medical benefit costs*

The Group, its jointly-controlled entity and associates participate in government-organized defined contribution medical benefit plans, under which the Group, its jointly-controlled entity and associates make contributions into a government-organized medical benefit plan 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 consolidated income statement as incurred. Details of the medical benefit plan are set out in note (e) of Section 5 below.

*Housing fund*

The Group contributes on a monthly basis to a defined contribution housing fund plan organized by the PRC government. Contributions to these plans by the Group are expensed as incurred. Details of the housing fund plans are set out in note (e) of Section 5 below.

*Cash housing subsidies costs*

Cash housing subsidies represent payments to the housing subsidy plan implemented by the Group. Cash housing subsidies are charged as an expense to the consolidated income statement as incurred. Details of the cash housing subsidy plan are set out in note (e) of Section 5 below.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***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 capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized.

All other borrowing costs are recognized as expenses in the period in which they are incurred.

***Dividends***

Dividends are recognized as a liability in the period in which they are approved by the shareholders and declared.

***Foreign currencies***

The financial records of the Group, its jointly-controlled entity and associates are maintained and the Financial Information is stated in Renminbi ("RMB"), which is the functional currency of the Group, its jointly-controlled entity and associates.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

***Impact of issued but not yet effective IFRS***

The Group has not applied the following new and revised IFRS, that have been issued but are not yet effective, to the Financial Information.

| | |
|---|---|
| IAS 1 Amendment | Capital Disclosures |
| IFRS 7 | Financial Instruments: Disclosures |
| International Financial Reporting Interpretations Committee ("IFRIC") 7 | Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies* |
| IFRIC 8 | Scope of IFRS 2 |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 10 | Interim Financial Reporting and Impairment |

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Impact of issued but not yet effective IFRS (continued)***

IFRS 7 will replace IAS 32 and has modified the disclosure requirements of IAS 32 relating to financial instruments. This IFRS shall be applied for annual periods beginning on or after 1 January 2007.

IFRIC 7 and IFRIC 8 do not apply to the activities of the Group. IFRIC 7 and IFRIC 8 shall be applied for annual periods beginning on or after 1 March 2006 and 1 May 2006, respectively.

IFRIC 9 states that a first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that exist at the later of the date it first becomes a party to the contract. This IFRIC shall be applied for annual periods beginning on or after 1 June 2006.

IFRIC 10 states that an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost should not be reversed. However, this interpretation should not be extended by analogy to other areas of potential conflict between IAS 34 "Interim Financial Reporting" and other standards. This IFRIC shall be applied for annual periods beginning on or after 1 November 2006.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Deferred tax

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

(b) Write-down of inventories to net realizable value

Write-down of inventories to net realizable value is made based on the estimated net realizable value of the inventories. The assessment of the write-down required involves management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of the inventories and the write-down charge/write-back in the period in which such estimate has been changed.

(c) Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of doubtful receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(d) Impairment of items of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of Section 2 above. The recoverable amount of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

## 4. PARTICULARS OF PRINCIPAL COMPANIES COMPRISING THE GROUP, A JOINTLY-CONTROLLED ENTITY AND ASSOCIATES OF THE GROUP

Particulars of the principal companies comprising the Group, its jointly-controlled entity and associates, which have substantially similar characteristics to private companies incorporated in Hong Kong are as follows:

| Company name | Place and date of establishment | Registered capital as at 31 March 2006 | | Percentage of equity interests attributable to the Company: 31 December 2003 | 31 December 2004 | 31 December 2005 | 31 March 2006 | Date of this report | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| | | RMB'000 | | | | | | | |
| ***The Company*** | | | | | | | | | |
| CNOOC Chemical Limited | PRC | 1,300,000 | Direct | N/A | N/A | N/A | N/A | N/A | Manufacture and |
| (中海石油化學有限公司)[(1) & vii] | 3 July 2000 | | Indirect | N/A | N/A | N/A | N/A | N/A | sale of fertilizers |
| ***Subsidiaries*** | | | | | | | | | |
| CNOOC Fudao Co., Limited | PRC | 463,000 | Direct | 87.04 | 87.04 | 87.04 | 87.04 | 100.00 | Manufacture and |
| (海洋石油富島股份有限公司)[(2), i & viii] | 31 December 2001 | | Indirect | — | — | — | — | — | sale of fertilizers |
| Hainan CNOOC Plastic Company Limited | PRC | 12,716 | Direct | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | Manufacture and |
| (海南中海石油塑編有限公司)[(1) & iii] | 28 April 2002 | | Indirect | — | — | — | — | — | sale of woven plastic bags |
| Hainan CNOOC Transportation Co., Ltd. | PRC | 5,000 | Direct | 90.00 | 90.00 | 90.00 | 90.00 | — | Provision |
| (海南中海石油運輸服務 有限公司)[(1), iii & ix] | 22 October 2001 | | Indirect | — | — | — | — | 65.25 | of transportation services |
| CNOOC (Hainan) E&P Gas Limited | PRC | 6,900 | Direct | — | 100.00 | 100.00 | 100.00 | 100.00 | Manufacture and |
| (中海石油(海南)環保氣體有限公司)[(3), ii & iii] | 8 November 2004 | | Indirect | — | — | — | — | — | sale of liquid carbon dioxide |
| Hainan CNOOC Complex Fertilizer Co., Ltd. | PRC | 7,500 | Direct | 35.05 | 35.05 | 35.05 | 100.00 | 100.00 | Manufacture and |
| (海南富島複合肥有限公司)[(1)] | 19 May 2000 | | Indirect | — | — | — | — | — | sale of compound fertilizers |
| Hainan Basuo Port Limited | PRC | 419,596 | Direct | — | — | 72.50 | 72.50 | 72.50 | Port operation |
| (海南八所港務有限責任公司)[(4) & iv] | 25 April 2005 | | Indirect | — | — | — | — | — | |
| Shanghai Qiong Hua Trading Co., Ltd. | PRC | 1,000 | Direct | — | — | — | — | — | Trading of |
| (上海瓊化經貿有限公司)[(2)] | 7 January 2002 | | Indirect | 44.39 | 44.39 | 44.39 | 44.39 | 51.00 | fertilizers |
| Inner Mongolia Tianye Chemical Industry Limited | PRC | 1,981,690 | Direct | — | — | — | 90.00 | 90.00 | Manufacture and |
| (內蒙古天野化工(集團)有限責任公司)[(5) & v] | 4 October 1991 | | Indirect | — | — | — | — | — | sale of fertilizers |
| Inner Mongolia Hong Feng Packaging Co., Ltd. | PRC | 3,297 | Direct | — | — | — | — | — | Manufacture and |
| (內蒙古鴻豐包裝有限責任公司)[(6) & vi] | 9 December 1999 | | Indirect | — | — | — | 63.54 | 63.54 | sale of woven plastic bags |
| ***A jointly- controlled entity*** | | | | | | | | | |
| CNOOC Kingboard Chemical Limited | PRC | 500,000 | Direct | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 | Manufacture and |
| (中海石油建滔化工有限公司)[(7), i &ii] | 31 October 2003 | | Indirect | — | — | — | — | — | sale of methanol |
| ***Associates*** | | | | | | | | | |
| Guangxi Fudao Agricultural Means of Production Limited | PRC | 11,800 | Direct | — | — | — | — | — | Trading of |
| (廣西富島農業生產資料 有限公司)[(2)] | 11 January 2003 | | Indirect | 26.11 | 26.11 | 26.11 | 26.11 | 30.00 | fertilizers |
| China Basuo Oversea Shipping Agency Co., Ltd. | PRC | 1,800 | Direct | — | — | — | — | — | Provision of |
| (中國八所外輪代理 有限公司)[(8)] | 24 May 2000 | | Indirect | — | — | 36.25 | 36.25 | 36.25 | overseas shipping services |

## 4. PARTICULARS OF PRINCIPAL COMPANIES COMPRISING THE GROUP, A JOINTLY-CONTROLLED ENTITY AND ASSOCIATES OF THE GROUP (continued)

Notes:
N/A—not applicable.

i Sino-foreign equity joint venture.

ii Not yet commenced operations as at 31 March 2006.

iii Certain percentage of the equity interests in these companies were transferred to the Company from other wholly-owned fellow subsidiaries of the Company with an effective date of 31 December 2005. The Financial Information set out below has been prepared on the basis that the transfer of the relevant equity interests in these companies to the Company had been completed as at the beginning of the Relevant Periods or the date of company establishment. Further details are set out in Section 1 above.

iv Hainan Basuo Port Limited ("Hainan Basuo") was established by the Company and the State-owned Assets Supervision and Administration Commission of the Province of Hainan, the PRC ("Hainan SASAC") on 25 April 2005 as a limited liability company. Further details are set out in note (a) of Section 8 below.

v On 19 January 2006, the Group obtained effective control over Tianye. Further details are set out in note (e) of Section 8 below.

vi The Group's effective interest in Inner Mongolia Hong Feng Packaging Co., Ltd. ("Hong Feng") was 54.72% at the date when the Group obtained effective control over Tianye. On 16 March 2006, the Group acquired an additional effective equity interest of 8.82% in Hong Feng for a cash consideration of RMB379,000. As a result, the Group's effective equity interest in Hong Feng was 63.54% as at 31 March 2006.

vii Pursuant to the Reorganization, the Company was reorganized into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006. Further details are set out in Section 1 above.

viii Upon the reorganization of the Company into a joint stock limited company on 25 April 2006, Fudao was restructured from a joint stock limited company into a limited liability company under the name of CNOOC Fudao Limited (海洋石油富島有限公司), and became a wholly-owned subsidiary of the Company.

ix Pursuant to an equity transfer agreement dated 24 April 2006, the Company transferred to Hainan Basuo its entire 90% equity interest in Transportation Co. as part of its additional capital contribution to Hainan Basuo.

(1) The financial statements for the years ended 31 December 2003, 2004 and 2005 were audited by Pan-China (Xiamen) Certified Public Accountants, Beijing Pan-China Certified Public Accountants and Ernst & Young Hua Ming Certified Public Accountants, respectively, which are certified public accountants registered in the PRC.

(2) The financial statements for the years ended 31 December 2003 and 2004 were audited by Beijing Pan-China Certified Public Accountants, certified public accountants registered in the PRC. The financial statements for the year ended 31 December 2005 were audited by Ernst & Young Hua Ming Certified Public Accountants, certified public accountants registered in the PRC.

(3) No auditors had been appointed by this company for the period from its date of registration to 31 December 2004. The financial statements for the year ended 31 December 2005 were audited by Pan-China (Xiamen) Certified Public Accountants, certified public accountants registered in the PRC.

(4) The financial statements for the period ended 31 December 2005 were audited by Ernst & Young Hua Ming Certified Public Accountants, certified public accountants registered in the PRC.

(5) The financial statements for the years ended 31 December 2003 and 2004 were audited by Caixinda Certified Public Accountants Co., Limited, certified public accountants registered in the PRC. The

## 4. PARTICULARS OF PRINCIPAL COMPANIES COMPRISING THE GROUP, A JOINTLY-CONTROLLED ENTITY AND ASSOCIATES OF THE GROUP (continued)

Notes: (continued)

financial statements for the year ended 31 December 2005 were audited by Ernst & Young Hua Ming Certified Public Accountants, certified public accountants registered in the PRC.

(6) No auditors had been appointed by this company since its registration till the financial year ended 31 December 2004. The financial statements for the year ended 31 December 2005 were audited by Caixinda Certified Public Accountants Co., Limited, certified public accountants registered in the PRC.

(7) No auditors had been appointed by this company for the period from its date of registration to 31 December 2003. The financial statements for the years ended 31 December 2004 and 2005 were audited by Beijing Pan-China Certified Public Accountants and Ernst & Young Hua Ming Certified Public Accountants, respectively, which are certified public accountants registered in the PRC.

(8) The financial statements for the year ended 31 December 2005 were audited by Beijing Huatongjian CPA Co., Ltd., certified public accountants registered in the PRC.

The above table lists the Company's principal subsidiaries, jointly-controlled entity and associates which, in the opinion of Directors, principally contributed to the results of the Group for the Relevant Periods and the three-month period ended 31 March 2005 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of Directors, result in particulars of excessive length.

The English names of the Company's subsidiaries, its jointly-controlled entity and associates represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

## 5. CONSOLIDATED INCOME STATEMENT

The following is a summary of the consolidated results of the Group for the Relevant Periods and the three-month period ended 31 March 2005 prepared on the basis set out in Section 1 above:

| | | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|---|
| | Notes | 2003 | 2004 | 2005 | 2005 | 2006 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| REVENUE | (b) | 738,262 | 2,027,279 | 2,370,999 | 505,616 | 697,657 |
| Cost of sales | | (476,517) | (1,094,994) | (1,293,095) | (295,996) | (449,075) |
| Gross profit | | 261,745 | 932,285 | 1,077,904 | 209,620 | 248,582 |
| Other income and gains | (b) | 79,372 | 40,656 | 1,645 | 892 | 7,132 |
| Excess over the cost of a business combination | 8(e) | — | — | — | — | 577,619 |
| Selling and distribution costs | | (18,994) | (31,059) | (15,440) | (1,886) | (3,607) |
| Administrative expenses | | (56,510) | (76,639) | (130,672) | (17,425) | (42,312) |
| Other expenses | | (23,740) | (28,765) | (103,124) | (36,979) | (794) |
| Finance revenue | (c) | 3,836 | 11,869 | 24,441 | 3,619 | 6,967 |
| Finance costs | (d) | (7,709) | (14,990) | (15,532) | (4,147) | (10,750) |
| Exchange gain/(loss), net | | (56,111) | (39,996) | 189,536 | 41,856 | (6,167) |
| Share of profits of associates | | 855 | 1,564 | 1,913 | 435 | 476 |
| PROFIT BEFORE TAX | (e) | 182,744 | 794,925 | 1,030,671 | 195,985 | 777,146 |
| Income tax expense | (h) | (17,200) | (26,883) | (47,516) | (3,181) | (17,680) |
| PROFIT FOR THE YEAR/PERIOD | | 165,544 | 768,042 | 983,155 | 192,804 | 759,466 |
| Attributable to: | | | | | | |
| Equity holders of the parent | (i) | 137,151 | 720,523 | 943,830 | 189,604 | 746,909 |
| Minority interests | | 28,393 | 47,519 | 39,325 | 3,200 | 12,557 |
| | | 165,544 | 768,042 | 983,155 | 192,804 | 759,466 |
| DIVIDENDS | (j) | 567 | 134,808 | 1,211,813 | — | — |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | | | | |
| —Basic for the year/period (RMB cents) | (k) | 4.57 | 24.02 | 31.46 | 6.32 | 24.90 |

### (a) *Segment information*

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(a) Segment information (continued)*

Summary details of the business segments are as follows:

(i) the fertilizers segment is engaged in the manufacture and sale of nitrogenous fertilizers and compound fertilizers;

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

(iii) the "others" segment mainly comprises of segments engaged in port operation, the provision of transportation services and the manufacture and sale of woven plastic bags.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No geographical segments based on the location of the assets are presented as over 90% of the Group's assets are located in the PRC.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(a) Segment information (continued)*

*Business segments*

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the Relevant Periods and the three-month period ended 31 March 2005.

| | Fertilizers | Methanol | Others | Elimination | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Year ended 31 December 2003*** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 709,823 | — | 28,439 | — | 738,262 |
| Intersegment sales | — | — | 12,390 | (12,390) | — |
| Other income | 28,740 | — | 403 | — | 29,143 |
| Total | 738,563 | — | 41,232 | (12,390) | 767,405 |
| **Segment results** | 242,517 | — | (1,104) | — | 241,413 |
| Interest and dividend income and unallocated gains | | | | | 54,065 |
| Corporate and other unallocated expenses | | | | | (49,769) |
| Finance costs | | | | | (7,709) |
| Exchange loss, net | | | | | (56,111) |
| Share of profits of associates | 855 | — | — | — | 855 |
| Profit before tax | | | | | 182,744 |
| Income tax expense | | | | | (17,200) |
| Profit for the year | | | | | 165,544 |
| ***As at 31 December 2003*** | | | | | |
| Segment assets | 3,602,288 | 150,000 | 85,281 | (2,163) | 3,835,406 |
| Investments in associates | 2,355 | — | — | — | 2,355 |
| Corporate and other unallocated assets | | | | | 295,860 |
| Total assets | | | | | 4,133,621 |
| Segment liabilities | (331,813) | — | (22,642) | 2,163 | (352,292) |
| Corporate and other unallocated liabilities | | | | | (1,632,687) |
| Total liabilities | | | | | (1,984,979) |
| ***Other segment information:*** | | | | | |
| Depreciation and amortization | 124,054 | — | 649 | — | 124,703 |
| Other non-cash expenses | (3,314) | — | 1,728 | — | (1,586) |
| Capital expenditure | 1,271,849 | — | 22,670 | — | 1,294,519 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(a) Segment information (continued)*

*Business segments (continued)*

| | Fertilizers | Methanol | Others | Elimination | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Year ended 31 December 2004*** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 1,962,186 | — | 65,093 | — | 2,027,279 |
| Intersegment sales | — | — | 49,914 | (49,914) | — |
| Other income | 2,885 | — | 170 | — | 3,055 |
| Total | 1,965,071 | — | 115,177 | (49,914) | 2,030,334 |
| **Segment results** | 852,815 | — | 2,518 | — | 855,333 |
| Interest and dividend income and unallocated gains | | | | | 49,470 |
| Corporate and other unallocated expenses | | | | | (56,456) |
| Finance costs | | | | | (14,990) |
| Exchange loss, net | | | | | (39,996) |
| Share of profits of associates | 1,564 | — | — | — | 1,564 |
| Profit before tax | | | | | 794,925 |
| Income tax expense | | | | | (26,883) |
| Profit for the year | | | | | 768,042 |
| ***As at 31 December 2004*** | | | | | |
| Segment assets | 3,983,279 | 341,538 | 94,964 | (9,166) | 4,410,615 |
| Investments in associates | 3,919 | — | — | — | 3,919 |
| Corporate and other unallocated assets | | | | | 429,482 |
| Total assets | | | | | 4,844,016 |
| Segment liabilities | (245,195) | (41,538) | (18,195) | 9,166 | (295,762) |
| Corporate and other unallocated liabilities | | | | | (1,663,948) |
| Total liabilities | | | | | (1,959,710) |
| ***Other segment information:*** | | | | | |
| Depreciation and amortization | 254,254 | — | 5,801 | — | 260,055 |
| Other non-cash expenses | 260 | — | (185) | — | 75 |
| Capital expenditure | 230,883 | 58,271 | 3,112 | — | 292,266 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(a) Segment information (continued)*

*Business segments (continued)*

| | Fertilizers | Methanol | Others | Elimination | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Year ended 31 December 2005*** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 2,259,876 | — | 111,123 | — | 2,370,999 |
| Intersegment sales | — | — | 55,532 | (55,532) | — |
| Other income | 543 | — | 370 | — | 913 |
| Total | 2,260,419 | — | 167,025 | (55,532) | 2,371,912 |
| **Segment results** | 960,476 | — | 2,368 | — | 962,844 |
| Interest and dividend income and unallocated gains | | | | | 25,173 |
| Corporate and other unallocated expenses | | | | | (133,263) |
| Finance costs | | | | | (15,532) |
| Exchange gain, net | | | | | 189,536 |
| Share of profits of associates | 1,892 | — | 21 | — | 1,913 |
| Profit before tax | | | | | 1,030,671 |
| Income tax expense | | | | | (47,516) |
| Profit for the year | | | | | 983,155 |
| ***As at 31 December 2005*** | | | | | |
| Segment assets | 4,362,105 | 454,336 | 883,099 | (3,661) | 5,695,879 |
| Investments in associates | 5,811 | — | 999 | — | 6,810 |
| Corporate and other unallocated assets | | | | | 450,335 |
| Total assets | | | | | 6,153,024 |
| Segment liabilities | (167,125) | (54,947) | (398,495) | 3,661 | (616,906) |
| Corporate and other unallocated liabilities | | | | | (1,458,525) |
| Total liabilities | | | | | (2,075,431) |
| ***Other segment information:*** | | | | | |
| Depreciation and amortization | 253,489 | — | 12,785 | — | 266,274 |
| Impairment losses recognized in the consolidated income statement | — | — | 1,605 | — | 1,605 |
| Other non-cash expenses | (1,221) | — | (1,028) | — | (2,249) |
| Capital expenditure | 79,615 | 324,206 | 57,949 | — | 461,770 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(a) Segment information (continued)*

*Business segments (continued)*

| | Fertilizers | Methanol | Others | Elimination | Total |
|---|---|---|---|---|---|
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| ***Three-month period ended 31 March 2005*** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 486,837 | — | 18,779 | — | 505,616 |
| Intersegment sales | — | — | 11,583 | (11,583) | — |
| Other income | 848 | — | 24 | — | 872 |
| Total | 487,685 | — | 30,386 | (11,583) | 506,488 |
| **Segment results** | 184,854 | — | 1,484 | — | 186,338 |
| Interest and dividend income and unallocated gains | | | | | 3,639 |
| Corporate and other unallocated expenses | | | | | (32,136) |
| Finance costs | | | | | (4,147) |
| Exchange gain, net | | | | | 41,856 |
| Share of profits of associates | 435 | — | — | — | 435 |
| Profit before tax | | | | | 195,985 |
| Income tax expense | | | | | (3,181) |
| Profit for the period | | | | | 192,804 |
| ***Other segment information:*** | | | | | |
| Depreciation and amortization | 65,424 | — | 1,055 | — | 66,479 |
| Other non-cash expenses | (872) | — | — | — | (872) |
| Capital expenditure | 14,364 | 5,200 | 580 | — | 20,144 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(a) Segment information (continued)*

*Business segments (continued)*

| | Fertilizers | Methanol | Others | Elimination | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Three-month period ended 31 March 2006*** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 662,385 | — | 35,272 | — | 697,657 |
| Intersegment sales | — | — | 17,608 | (17,608) | — |
| Other income | 402 | — | 88 | — | 490 |
| Total | 662,787 | — | 52,968 | (17,608) | 698,147 |
| **Segment results** | 205,523 | — | 2,968 | — | 208,491 |
| Interest and dividend income and unallocated gains | | | | | 13,609 |
| Corporate and other unallocated expenses | | | | | (6,132) |
| Finance costs | | | | | (10,750) |
| Exchange loss, net | | | | | (6,167) |
| Share of profits of associates | 476 | — | — | — | 476 |
| Excess over the cost of a business combination | | | | | 577,619 |
| Profit before tax | | | | | 777,146 |
| Income tax expense | | | | | (17,680) |
| Profit for the period | | | | | 759,466 |
| ***As at 31 March 2006*** | | | | | |
| Segment assets | 6,151,249 | 1,196,769 | 899,079 | (13,329) | 8,233,768 |
| Investments in associates | 6,287 | — | 999 | — | 7,286 |
| Corporate and other unallocated assets | | | | | 471,976 |
| Total assets | | | | | 8,713,030 |
| Segment liabilities | (587,943) | (118,176) | (311,276) | 13,329 | (1,004,066) |
| Corporate and other unallocated liabilities | | | | | (3,949,500) |
| Total liabilities | | | | | (4,953,566) |
| ***Other segment information:*** | | | | | |
| Depreciation and amortization | 104,432 | — | 4,519 | — | 108,951 |
| Other non-cash expenses | 7 | — | — | — | 7 |
| Capital expenditure | 32,093 | 257,889 | 50,434 | — | 340,416 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(a) Segment information (continued)*

*Geographical segments*

The following table presents revenue information for the Group's geographical segments for the Relevant Periods and the three-month period ended 31 March 2005:

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Sales to external customers: | | | | | |
| — PRC | 446,676 | 1,235,201 | 2,020,564 | 505,616 | 697,657 |
| — United States of America | 274,976 | 635,761 | 350,435 | — | — |
| — Others | 16,610 | 156,317 | — | — | — |
| | 738,262 | 2,027,279 | 2,370,999 | 505,616 | 697,657 |

### *(b) Revenue, other income and gains*

Revenue, which is also the Group's turnover, represents the invoiced values of goods sold, net of value added tax ("VAT"), after allowances for returns and discounts; and the value of services rendered, net of business taxes and surcharges during the Relevant Periods and the three-month period ended 31 March 2005.

An analysis of revenue, other income and gains is as follows:

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| ***Revenue*** | | | | | |
| Sale of goods | 710,397 | 1,963,335 | 2,264,210 | 488,465 | 664,528 |
| Rendering of services | 27,865 | 63,944 | 106,789 | 17,151 | 33,129 |
| | 738,262 | 2,027,279 | 2,370,999 | 505,616 | 697,657 |
| ***Other income and gains*** | | | | | |
| Dividend income from unlisted investments | 109 | 154 | 223 | — | — |
| Dividend income from listed investments | — | — | — | — | 135 |
| Subsidy income (Note) | 19,753 | — | — | — | — |
| Fair value gains on derivative financial instruments | 47,206 | 37,318 | — | — | 5,790 |
| Gain on dissolution of a subsidiary | — | — | — | — | 586 |
| Income from the sale of other materials | 3,446 | 2,493 | 1,117 | 695 | 589 |
| Gross rental income | — | — | — | — | 32 |
| Others | 8,858 | 691 | 305 | 197 | — |
| | 79,372 | 40,656 | 1,645 | 892 | 7,132 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(b) Revenue, other income and gains (continued)*

Note:

Pursuant to a document Cai Shui (2001) No: 113 issued by the Ministry of Finance and the State Administration of Taxation of the PRC (the "SAT") in 2001, manufacturers of urea products in Mainland China were entitled to a refund of 50% of the net VAT paid on the sale of urea products in 2002. This refund of VAT is recognized as subsidy income by the Group upon receipt due to the uncertainty of the timing for the actual refund made by the government authority. The Group received a cash refund in 2003 for 50% of its net VAT paid on the sale of urea products for the year ended 31 December 2002. As such, the refund was recorded as subsidy income for the year ended 31 December 2003.

Pursuant to documents Cai Shui (2004) No. 33 and Cai Shui (2005) No. 9 issued by the Ministry of Finance and the SAT on 17 January 2004 and 26 January 2005, respectively, manufacturers of urea products in Mainland China were entitled to a refund of 50% of the net VAT paid on the sale of urea products during the period from 1 January 2004 to 31 December 2005. In October 2005, the Group received approval documents from the local finance authority of Hainan Province, the PRC for the refund of 50% of the net VAT paid by the Group on the sale of urea products, amounting to RMB65,768,000, for the year ended 31 December 2004. In addition, in January 2006, the Group also received approval documents from the local finance authority of Hainan Province, the PRC for the refund of 50% of the net VAT paid by the Group on the sale of urea products, amounting to RMB53,243,000, for the six-month period ended 30 June 2005. Pursuant to the payment notifications issued by the Hainan provincial government on 22 May 2006, the Group received cash refund of RMB89,259,000 in May 2006. The remaining VAT refund of RMB29,752,000 has yet to be received by the Group and will be recognized as subsidy income when there is reasonable assurance that the VAT refund will be received by the Group.

Pursuant to a document Cai Shui (2005) No. 87 issued by the Ministry of Finance and the SAT on 26 May 2005, the sale of urea products by manufacturers of urea products in Mainland China were no longer entitled to receive a refund of 50% of the net VAT paid on the sale of urea products from 1 July 2005 as they are exempt from VAT with effect from 1 July 2005.

### *(c) Finance revenue*

Finance revenue represented interest income earned during the Relevant Periods and the three-month period ended 31 March 2005.

### *(d) Finance costs*

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Interest on bank loans and other loans wholly repayable within five years | 13,806 | 14,990 | 15,801 | 4,147 | 12,660 |
| Less: Interest capitalized in construction in progress | (6,097) | — | (269) | — | (1,910) |
| | 7,709 | 14,990 | 15,532 | 4,147 | 10,750 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(e) Profit before tax*

The Group's profit before tax is arrived at after charging/(crediting):

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Cost of inventories sold | 452,298 | 1,038,082 | 1,212,716 | 281,154 | 424,216 |
| Cost of services provided | 24,219 | 56,912 | 80,379 | 14,842 | 24,859 |
| Depreciation | 123,157 | 257,900 | 264,362 | 66,002 | 107,060 |
| Amortization of a trademark | — | — | — | — | 65 |
| Amortization of patents and licenses | 25 | 25 | 25 | 6 | 6 |
| Amortization of other intangible assets | 55 | 115 | 114 | 28 | 28 |
| Amortization of prepaid land lease payments | 1,466 | 2,015 | 1,773 | 443 | 1,792 |
| Fair value losses on derivative financial instruments* | — | — | 67,937 | 30,259 | — |
| Write-down/(write-back) of inventories to net realizable value | 88 | (88) | (1,426) | — | 7 |
| Auditors' remuneration | 31 | 449 | 736 | 28 | 76 |
| Employee benefits expense (including directors' and supervisors' remuneration—note (f) below): | | | | | |
| Wages and salaries | 56,765 | 90,498 | 122,566 | 23,478 | 41,010 |
| Defined contribution pension scheme (note i) | 3,423 | 4,541 | 12,885 | 2,825 | 6,120 |
| Early retirement benefits and post-employment allowances (note ii) | — | — | — | — | 1,152 |
| Medical benefit costs (note iii) | 1,828 | 2,122 | 8,008 | 747 | 1,376 |
| Housing fund (note iv) | 2,035 | 2,286 | 3,594 | 700 | 1,469 |
| Cash housing subsidies costs (note v) | 63 | 124 | 46 | 17 | — |
| | 64,114 | 99,571 | 147,099 | 27,767 | 51,127 |
| Foreign exchange differences, net | 56,111 | 39,996 | (189,536) | (41,856) | 6,167 |
| Provision/(write-back of provision) for bad and doubtful receivables* | (1,674) | 163 | (823) | (872) | — |
| Impairment of items of property, plant and equipment* | — | — | 1,605 | — | — |
| Dividend income from unlisted investments | (109) | (154) | (223) | — | — |
| Dividend income from listed investments | — | — | — | — | (135) |
| Loss on disposal of items of property, plant and equipment* | 624 | 342 | 156 | — | — |

* These items are included in "Other expenses" on the face of the consolidated income statement.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(e) Profit before tax (continued)*

Notes:

(i) Defined contribution pension scheme

All of the Group's employees in the PRC are covered by a government-regulated scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension scheme at 20% of the employees' salaries. This defined contribution pension scheme continued to be available to the Group's employees for the Relevant Periods and the three-month period ended 31 March 2005. The related pension costs are expensed as incurred.

In addition to the government-regulated scheme, commencing from 1 January 2005, the Group operates a supplementary defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. Contributions are made based on a percentage of the employee's basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme. The assets of this scheme are held separately from those of the Group in an independently administered fund.

(ii) Early retirement benefits and post-employment allowances

Tianye, the Group's 90%-owned subsidiary, paid supplementary pensions to early retirees and allowances to retired employees in addition to the benefits under the government-regulated defined contribution pension scheme above. The benefits are assessed using the projected unit credit method and are charged to the consolidated income statement so as to spread the service cost over the average service lives of such former employees, in accordance with the actuarial reports which contained full valuations of the obligations for each of the relevant accounting periods. Details of the early retirement benefits are set out in note (r) of Section 6 below.

(iii) Medical benefit costs

The Group contributes on a monthly basis to defined contribution medical benefit plans organized by the PRC Government. The PRC Government undertakes to assume the medical benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for medical benefits for their qualified employees under these plans.

(iv) Housing fund

The Group contributes on a monthly basis to a defined contribution housing fund plan organized by the PRC government. Contributions to these plans by the Group are expensed as incurred.

(v) Cash housing subsidies costs

Cash housing subsidies represent payments to the housing subsidy plan implemented by the Group. Cash housing subsidies are charged as an expense to the consolidated income statement as incurred.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(f) Directors' and supervisors' remuneration*

Directors' and supervisors' remuneration for the Relevant Periods and the three-month period ended 31 March 2005, disclosed pursuant to the Listing Rules and section 161 of the Companies Ordinance, is as follows:

| | Directors | | | | |
|---|---|---|---|---|---|
| | Year ended 31 December | | | Three-month period ended 31 March | |
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Fees | — | — | — | — | — |
| Other emoluments: | | | | | |
| Salaries, housing benefits, other allowances and benefits in kind | 132 | 201 | 328 | 83 | 106 |
| Discretionary bonuses | 224 | 391 | 524 | 13 | 41 |
| Pension scheme contributions | 4 | 8 | 48 | 12 | 15 |
| | 360 | 600 | 900 | 108 | 162 |

| | Supervisors | | | | |
|---|---|---|---|---|---|
| | Year ended 31 December | | | Three-month period ended 31 March | |
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Fees | — | — | — | — | — |
| Other emoluments: | | | | | |
| Salaries, housing benefits, other allowances and benefits in kind | — | 123 | 142 | 32 | 26 |
| Discretionary bonuses | — | 93 | 124 | — | — |
| Pension scheme contributions | — | 2 | 17 | 4 | 3 |
| | — | 218 | 283 | 36 | 29 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(f) Directors' and supervisors' remuneration (continued)*

The remuneration of each of the directors and supervisors for the year ended 31 December 2003 is set out below:

| | Salaries, housing benefits, other allowances and benefits in kind | Discretionary bonuses | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *Directors* | | | | |
| Yang Yexin | 34 | 104 | 2 | 140 |
| Fang Yong | 98 | 120 | 2 | 220 |
| Wu Zhenfang | — | — | — | — |
| Sun Guofu | — | — | — | — |
| Wang Zhongan | — | — | — | — |
| Zheng Baoguo | — | — | — | — |
| Cheng Chi | — | — | — | — |
| Wei Liucheng | — | — | — | — |
| Zhang Weiping | — | — | — | — |
| Luo Han | — | — | — | — |
| Luo Ming | — | — | — | — |
| Chen Wei | — | — | — | — |
| | 132 | 224 | 4 | 360 |
| *Supervisors* | | | | |
| Yang Zhongjia | — | — | — | — |
| Xie Weizhi | — | — | — | — |
| Zhou Shengwei | — | — | — | — |
| Fu Maosheng | — | — | — | — |
| | — | — | — | — |

The remuneration of each of the directors and supervisors for the year ended 31 December 2004 is set out below:

| | Salaries, housing benefits, other allowances and benefits in kind | Discretionary bonuses | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *Directors* | | | | |
| Yang Yexin | 101 | 213 | 6 | 320 |
| Fang Yong | 100 | 178 | 2 | 280 |
| Wu Zhenfang | — | — | — | — |
| Sun Guofu | — | — | — | — |
| Wang Zhongan | — | — | — | — |
| Zheng Baoguo | — | — | — | — |
| Cheng Chi | — | — | — | — |
| | 201 | 391 | 8 | 600 |
| *Supervisors* | | | | |
| Zhou Shengwei | — | — | — | — |
| Fu Maosheng | — | — | — | — |
| Yin Gang | 123 | 93 | 2 | 218 |
| | 123 | 93 | 2 | 218 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(f) Directors' and supervisors' remuneration (continued)*

The remuneration of each of the directors and supervisors for the year ended 31 December 2005 is set out below:

| | Salaries, housing benefits, other allowances and benefits in kind | Discretionary bonuses | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *Directors* | | | | |
| Yang Yexin | 195 | 276 | 29 | 500 |
| Fang Yong | 133 | 248 | 19 | 400 |
| Wu Zhenfang | — | — | — | — |
| Sun Guofu | — | — | — | — |
| Wang Zhongan | — | — | — | — |
| Zheng Baoguo | — | — | — | — |
| Cheng Chi | — | — | — | — |
| | 328 | 524 | 48 | 900 |
| *Supervisors* | | | | |
| Zhou Shengwei | — | — | — | — |
| Fu Maosheng | — | — | — | — |
| Yin Gang | 142 | 124 | 17 | 283 |
| | 142 | 124 | 17 | 283 |

The remuneration of each of the directors and supervisors for the three-month period ended 31 March 2005 is set out below:

| | Salaries, housing benefits, other allowances and benefits in kind | Discretionary bonuses | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| *Directors* | | | | |
| Yang Yexin | 49 | 7 | 7 | 63 |
| Fang Yong | 34 | 6 | 5 | 45 |
| Wu Zhenfang | — | — | — | — |
| Sun Guofu | — | — | — | — |
| Wang Zhongan | — | — | — | — |
| Zheng Baoguo | — | — | — | — |
| Cheng Chi | — | — | — | — |
| | 83 | 13 | 12 | 108 |
| *Supervisors* | | | | |
| Zhou Shengwei | — | — | — | — |
| Fu Maosheng | — | — | — | — |
| Yin Gang | 32 | — | 4 | 36 |
| | 32 | — | 4 | 36 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(f) Directors' and supervisors' remuneration (continued)*

The remuneration of each of the directors and supervisors for the three-month period ended 31 March 2006 is set out below:

| | Salaries, housing benefits, other allowances and benefits in kind | Discretionary bonuses | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *Directors* | | | | |
| Yang Yexin | 49 | 24 | 7 | 80 |
| Fang Yong | 34 | 17 | 5 | 56 |
| Sun Guofu | — | — | — | — |
| Wang Zhongan | — | — | — | — |
| Zheng Baoguo | — | — | — | — |
| Cheng Chi | — | — | — | — |
| Wu Mengfei | — | — | — | — |
| Cao Xinghe | — | — | — | — |
| Chen Kai | 23 | — | 3 | 26 |
| | 106 | 41 | 15 | 162 |
| *Supervisors* | | | | |
| Zhou Shengwei | — | — | — | — |
| Fu Maosheng | — | — | — | — |
| Yin Gang | 26 | — | 3 | 29 |
| Yin Jihong | — | — | — | — |
| | 26 | — | 3 | 29 |

During the Relevant Periods and the three-month period ended 31 March 2005, no director or supervisor waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

### *(g) Five highest paid employees*

The five highest paid employees of the Group during the Relevant Periods and the three-month period ended 31 March 2005 are analyzed as follows:

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | | | | (Unaudited) | |
| Directors and supervisors | 1 | 2 | 2 | 2 | 3 |
| Non-director and non-supervisor employees | 4 | 3 | 3 | 3 | 2 |
| | 5 | 5 | 5 | 5 | 5 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(g) Five highest paid employees (continued)*

Details of the remuneration of the above non-director and non-supervisor, highest paid employees during the Relevant Periods and the three-month period ended 31 March 2005 are as follows:

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Salaries, housing benefits, other allowances and benefits in kind | 378 | 284 | 427 | 109 | 62 |
| Discretionary bonuses | 439 | 444 | 600 | 11 | 30 |
| Pension scheme contributions | 13 | 11 | 63 | 15 | 9 |
| | 830 | 739 | 1,090 | 135 | 101 |

The remuneration of all of these non-director and non-supervisor, highest paid employees fell within the band from nil to HK$1,000,000 (approximately RMB1,040,000 equivalent) for each of the Relevant Periods and the three-month period ended 31 March 2005.

During the Relevant Periods and the three-month period ended 31 March 2005, no emoluments were paid by the Group to any of these non-director and non-supervisor, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

### *(h) Income tax expense*

Under the relevant PRC Income Tax Law and the respective regulations, except for certain preferential tax treatment available to the Company, its subsidiaries and its jointly-controlled entity, the entities within the Group are subject to corporate income tax ("CIT") at the rate of 33%.

The Company, its subsidiaries and its jointly-controlled entity registered in Hainan Province or Pudong New Area, Shanghai, the PRC are entitled to a preferential CIT rate of 15%. The other major tax concessions applicable to the entities within the Group are detailed as follows:

| Name of company | Details of tax concessions |
|---|---|
| The Company | Exemption from CIT for the two years ended 31 December 2005 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2008. |
| CNOOC Fudao Co., Limited | Entitlement of a 50% reduction in the applicable tax rate for CIT for the three years ended 31 December 2004 as the company was assessed as a high-technology enterprise. |
| Hainan CNOOC Plastic Company Limited | Exemption from CIT for the two years ended 31 December 2005 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2008. |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(h) Income tax expense (continued)*

| Name of company | Details of tax concessions |
|---|---|
| Hainan CNOOC Transportation Co., Ltd. | Exemption from CIT for the two years ended 31 December 2003 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2006. |
| Hainan CNOOC Complex Fertilizer Co., Ltd. | Exemption from CIT for the two years ended 31 December 2003 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2006. |
| Hainan Basuo Port Limited | Exemption from CIT for the five years ending 31 December 2009 and a 50% reduction in the applicable tax rate for CIT for the five years ending 31 December 2014. |
| Inner Mongolia Tianye Chemical Industry Limited | Exemption from CIT for the three years beginning from the year when Tianye started to produce urea and methanol using natural gas as raw material, i.e., the year ended 31 December 2005. |
| CNOOC Kingboard Chemical Limited | Exemption from CIT for its first two profitable years and a 50% reduction in the applicable tax rate for CIT for the subsequent three years. As at 31 March 2006, the company has yet to commence its operations. |

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the Relevant Periods and the three-month period ended 31 March 2005.

Major components of income tax expense for the Relevant Periods and the three-month period ended 31 March 2005 are as follows:

*Group*

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Current—PRC | | | | | |
| Charge for the year/period | 17,877 | 28,527 | 49,309 | 3,478 | 17,924 |
| Deferred (note (i) of Section 6) | (677) | (1,644) | (1,793) | (297) | (244) |
| Total tax charge for the year/period | 17,200 | 26,883 | 47,516 | 3,181 | 17,680 |

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(h) Income tax expense (continued)*

*Group (continued)*

A reconciliation of the income tax expense applicable to profit before tax using the statutory rates for the country in which the Group and its jointly-controlled entity are domiciled to the income tax expense at the effective tax rates is as follows:

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Profit before tax | 182,744 | 794,925 | 1,030,671 | 195,985 | 777,146 |
| Tax at the statutory tax rate of 33% | 60,306 | 262,325 | 340,121 | 64,675 | 256,458 |
| Lower tax rate for specific provinces/ districts or concessions | (43,680) | (233,902) | (291,695) | (60,176) | (196,795) |
| Effect on opening deferred tax of increase in tax rates | — | (280) | (70) | (70) | — |
| Profits attributable to associates | (64) | (117) | (287) | (65) | (72) |
| Income not subject to tax (Note) | — | — | — | — | (43,322) |
| Expenses not deductible for tax | 770 | 106 | 114 | — | 475 |
| Tax losses not recognized | 126 | 143 | 489 | 35 | 38 |
| Others | (258) | (1,392) | (1,156) | (1,218) | 898 |
| Income tax expense reported in the consolidated income statement | 17,200 | 26,883 | 47,516 | 3,181 | 17,680 |
| The Group's effective income tax rate | 9.4% | 3.4% | 4.6% | 1.6% | 2.3% |

Note:
Income not subject to tax is made up of the excess over the cost of a business combination which is exempt from CIT.

The share of tax attributable to associates included in "Share of profits of associates" on the face of the consolidated income statement is as follows:

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Share of tax attributable to associates | — | — | 8 | — | — |

The above share of tax attributable to associates represented the Group's relevant share of tax attributable to China Basuo Oversea Shipping Agency Co., Ltd., a newly invested associate for the year ended 31 December 2005. Guangxi Fudao Agricultural Means of Production Limited, the Group's another associate, is entitled to an exemption from CIT for the five years ending 31 December 2007.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(i) Profit for the year/period attributable to equity holders of the parent*

The profit for the year/period attributable to equity holders of the parent for each of the Relevant Periods and for the three-month period ended 31 March 2005 dealt with in the financial statements of the Company (note (q) of Section 6) was as follows:

| | RMB'000 |
|---|---|
| Year ended 31 December 2003 | 19,670 |
| Year ended 31 December 2004 | 728,828 |
| Year ended 31 December 2005 | 693,463 |
| Three-month period ended 31 March 2005 (Unaudited) | 165,567 |
| Three-month period ended 31 March 2006 | 414,667 |

### *(j) Dividends*

Dividends of RMB567,000, RMB808,000 and RMB1,012,000 were declared and paid by the Relevant Companies to their respective equity holders, other than the Company, for each of the three years ended 31 December 2005, respectively. The Company declared and paid a dividend of RMB134,000,000 to CNOOC during the year ended 31 December 2004.

On 6 March 2006, the Directors proposed to declare a dividend of RMB1,210,801,000 (the "Special Dividend") to CNOOC which was approved in the shareholders' meeting on the same date. The Special Dividend was recognized as a current liability as at 31 March 2006. The Company confirmed that the Special Dividend will be settled in full prior to the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

For dividend distribution purposes, the amount which the Company, its subsidiaries and its jointly-controlled entity can legally distribute by way of a dividend is determined with reference to the profits available for distribution as reflected in their respective PRC statutory financial statements, which are prepared in accordance with PRC GAAP. These profits may differ from those reflected in the Financial Information, which are prepared in accordance with IFRS.

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 PRC GAAP and IFRS. Further details are set out in Section 7 below.

### *(k) Earnings per share attributable to ordinary equity holders of the parent*

The calculation of basic earnings per share amounts is based on the profit for the year/period attributable to ordinary equity holders of the parent for the Relevant Periods and the three-month period ended 31 March 2005 and on the assumption that 3,000,000,000 domestic shares of RMB1 each issued as a result of the Reorganization had been in issue throughout the Relevant Periods and the three-month period ended 31 March 2005. Further details of the Reorganization are set out in Section 1 above.

No diluted earnings per share is presented for any of the Relevant Periods and the three-month period ended 31 March 2005 as no diluting events occurred during these periods.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(l) Related party transactions*

During the Relevant Periods and the three-month period ended 31 March 2005, the Group had the following material transactions with related parties:

*(1) Recurring*

| | Notes | Year ended 31 December 2003 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | Three-month period ended 31 March 2005 RMB'000 (Unaudited) | 2006 RMB'000 |
|---|---|---|---|---|---|---|
| Purchases of raw materials from CNOOC group companies* . . . | (i) | 95,818 | 298,093 | 350,866 | 79,065 | 71,392 |
| Sale of goods to an associate . . . . | (i) | 5,113 | 71,247 | 196,559 | 25,674 | 48,641 |
| Provision of transportation services to an associate . . . . . . | (ii) | 2,119 | 3,890 | 5,739 | 824 | 1,337 |
| Interest income from a CNOOC group company* . . . . . . . . . . . | (iii) | 1,364 | 5,733 | 11,356 | 1,368 | 2,278 |
| Interest expense to a CNOOC group company* . . . . . . . . . . . | (iii) | — | 135 | 124 | 32 | 130 |
| Rental income from a jointly-controlled entity . . . . . . . . . . . . | (iv) | — | — | — | — | 32 |
| Rental fees to CNOOC group companies* . . . . . . . . . . . . . . . | (v) | — | — | 250 | — | 463 |
| Provision of construction and installation services from CNOOC group companies* . . . | (vi) | 4,908 | 6,035 | 32,877 | 2,417 | 11,158 |
| Use of CNOOC trademark . . . . . | (vii) | — | — | — | — | — |

* CNOOC group companies are defined as the Group's related companies over which CNOOC is able to exert control or significant influence.

Notes:

(i) These transactions were conducted in accordance with terms agreed between the Group and its associate, and CNOOC group companies.

(ii) Transportation income was based on mutually agreed terms with reference to the market rate.

(iii) Interest income/expense was based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.

(iv) Rental income was based on mutually agreed terms.

(v) Rental fees were based on mutually agreed terms with reference to the market rate.

(vi) The construction and installation services were charged based on mutually agreed terms.

(vii) The CNOOC trademark owned by CNOOC was used by the Group at nil consideration.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(l) Related party transactions (continued)*

*(1) Recurring (continued)*

The amounts of transactions with a jointly-controlled entity disclosed in the table above were arrived at after deducting the Group's share portion, which was eliminated in the proportionate consolidation of the Group's investment in the jointly-controlled entity.

Except for the rental income from a jointly-controlled entity, the above recurring related party transactions also constitute continuing connected transactions as defined in Chapter 14 of the Listing Rules.

*(2) Non-recurring*

| | Notes | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2005 | 2006 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Provision of utilities to a CNOOC group company | (i) | 3,604 | 11,430 | 12,536 | 1,526 | 3,309 |
| Interest expense to the ultimate holding company | (ii) | — | — | — | — | 2,781 |
| Fees and charges to a CNOOC group company | (iii) | — | — | — | — | 5,569 |

Notes:

(i) The transaction was conducted in accordance with terms agreed between the Group and the CNOOC group company.

(ii) Interest expense was charged at a contract rate of 2.07% per annum.

(iii) Fees and charges were based on mutually agreed terms.

*(3) Guarantees provided by/to related parties of the Group*

The Group's related parties have provided corporate guarantees, in connection with bank borrowings obtained by the Group, as follows:

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Guarantees provided to the Group by: | | | | |
| —the ultimate holding company | 1,129,121 | 1,356,525 | 1,070,461 | 381,226 |
| —CNOOC group companies | 376,953 | 252,968 | 126,935 | 69,773 |
| | 1,506,074 | 1,609,493 | 1,197,396 | 450,999 |

The guarantees provided by the ultimate holding company and the CNOOC group companies to banks in connection with the banking facilities granted to and utilized by the Group were released in full in June 2006.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(l) Related party transactions (continued)*

*(3) Guarantees provided by/to related parties of the Group (continued)*

As at 31 December 2003, 2004 and 2005 and 31 March 2006, the Group provided corporate guarantees totaling RMB351,330,000, RMB338,100,000, RMB294,000,000 and RMB271,950,000, respectively to a bank in connection with banking facilities granted to and utilized by a CNOOC group company. Such guarantee was also released in full in June 2006.

*(4) Balances with related parties*

Except for the balances with CNOOC Finance Corporation Ltd. ("CNOOC Finance"), one of the CNOOC group companies, the balances due from/to related parties of the Group mainly resulted from trading transactions and miscellaneous amounts reimbursable by/to these related parties. Further details are set out in notes (k), (m), (t), (u) and (v) of Section 6 below.

As at 31 December 2003, 2004 and 2005 and 31 March 2006, the deposits placed by the Group and the Company with CNOOC Finance and the outstanding loans due to CNOOC Finance by the Group and the Company are summarized below:

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deposits placed with CNOOC Finance .......... | 200,052 | 552,596 | 1,098,690 | 449,961 |
| Outstanding loans due to CNOOC Finance ....... | 3,700 | 2,500 | 63,265 | 66,650 |

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deposits placed with CNOOC Finance ............ | 109,477 | 401,536 | 766,949 | 82,123 |
| Outstanding loans due to CNOOC Finance ......... | — | — | 38,716 | 37,075 |

Further details of the deposits placed with CNOOC Finance and the outstanding loans due to CNOOC Finance are set out in notes (o) and (s) of Section 6, respectively.

## 5. CONSOLIDATED INCOME STATEMENT (continued)

### *(l) Related party transactions (continued)*

*(5) Compensation of key management personnel of the Group*

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Short term employee benefits | 1,363 | 1,785 | 3,321 | 419 | 496 |
| Post-employment benefits | 19 | 25 | 188 | 47 | 48 |
| Total compensation paid to key management personnel | 1,382 | 1,810 | 3,509 | 466 | 544 |

Further details of directors' and supervisors' emoluments are included in note (f) of Section 5 above.

*(6) Transactions with other state-owned enterprises in the PRC*

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organizations (collectively the "State-owned Enterprises"). During the Relevant Periods and the three-month period ended 31 March 2005, the Group had transactions with the State-owned Enterprises including, but not limited to, the sale of fertilizers and purchases of raw materials. The Directors consider that transactions with such other State-owned Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and such other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY

The following is a summary of the consolidated balance sheets of the Group and balance sheets of the Company as at the end of the Relevant Periods prepared on the basis set out in Section 1 above.

*Group*

| | Notes | As at 31 December | | | As at 31 March |
|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2006 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ASSETS | | | | | |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | (a) | 2,958,397 | 2,992,139 | 3,479,133 | 6,035,887 |
| Prepaid land lease payments | (c) | 67,340 | 65,325 | 118,857 | 409,738 |
| Intangible assets | (d) | 425 | 537 | 398 | 1,267 |
| Investments in associates | (g) | 2,355 | 3,919 | 6,810 | 7,286 |
| Available-for-sale equity investments | (h) | 43,856 | 43,474 | 6,788 | 6,788 |
| Other long term assets | | 1,536 | 1,017 | 881 | 1,129 |
| Deferred tax assets | (i) | 1,235 | 2,879 | 4,672 | 32,766 |
| | | 3,075,144 | 3,109,290 | 3,617,539 | 6,494,861 |
| CURRENT ASSETS | | | | | |
| Inventories | (j) | 150,477 | 139,377 | 162,059 | 244,562 |
| Trade receivables | (k) | 61,339 | 75,056 | 171,652 | 36,382 |
| Bills receivable | (l) | 34,720 | — | 69,515 | 61,451 |
| Prepayments, deposits and other receivables | (m) | 118,673 | 69,204 | 168,523 | 81,665 |
| Loans receivable | (n) | 2,800 | — | — | — |
| Derivative financial instruments | (w) | — | 17,303 | — | — |
| Tax recoverable | | — | — | 13,984 | — |
| Pledged bank deposits | (o) | — | — | — | 28,120 |
| Cash and cash equivalents | (o) | 690,468 | 1,433,786 | 1,949,752 | 1,765,989 |
| | | 1,058,477 | 1,734,726 | 2,535,485 | 2,218,169 |
| TOTAL ASSETS | | 4,133,621 | 4,844,016 | 6,153,024 | 8,713,030 |
| EQUITY AND LIABILITIES | | | | | |
| **Equity attributable to equity holders of the parent** | | | | | |
| Paid-up capital | (p) | 1,925,860 | 2,079,910 | 2,394,044 | 2,394,044 |
| Reserves | Section 7 | 75,203 | 658,478 | 181,288 | 943,916 |
| Proposed Special Dividend | Section 7 | — | — | 1,210,801 | — |
| | | 2,001,063 | 2,738,388 | 3,786,133 | 3,337,960 |
| **Minority interests** | Section 7 | 147,579 | 145,918 | 291,460 | 421,504 |
| Total equity | | 2,148,642 | 2,884,306 | 4,077,593 | 3,759,464 |
| NON-CURRENT LIABILITIES | | | | | |
| Benefits liability | (r) | — | — | — | 80,726 |
| Interest-bearing bank and other borrowings | (s) | 1,421,955 | 1,311,754 | 1,030,402 | 485,116 |
| Other long term liabilities | (t) | 898 | 898 | 22,430 | 28,185 |
| Deferred tax liabilities | (i) | — | — | — | 61,017 |
| | | 1,422,853 | 1,312,652 | 1,052,832 | 655,044 |
| CURRENT LIABILITIES | | | | | |
| Trade payables | (u) | 67,800 | 58,144 | 48,049 | 71,577 |
| Other payables and accruals | (v) | 321,558 | 262,016 | 588,536 | 2,691,144 |
| Derivative financial instruments | (w) | 20,015 | — | 50,634 | 44,844 |
| Interest-bearing bank and other borrowings | (s) | 148,164 | 318,641 | 335,380 | 261,750 |
| Income tax payable | | 4,589 | 8,257 | — | 18,406 |
| Dividend payable | | — | — | — | 1,210,801 |
| | | 562,126 | 647,058 | 1,022,599 | 4,298,522 |
| TOTAL LIABILITIES | | 1,984,979 | 1,959,710 | 2,075,431 | 4,953,566 |
| TOTAL EQUITY AND LIABILITIES | | 4,133,621 | 4,844,016 | 6,153,024 | 8,713,030 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

*Company*

| | Notes | As at 31 December 2003 | As at 31 December 2004 | As at 31 December 2005 | As at 31 March 2006 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ASSETS | | | | | |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | (a) | 1,885,452 | 1,949,791 | 1,845,413 | 1,813,329 |
| Investment properties | (b) | — | — | — | 14,743 |
| Prepaid land lease payments | (c) | 40,569 | 39,212 | 37,907 | 43,159 |
| Intangible assets | (d) | 223 | 360 | 246 | 218 |
| Investments in subsidiaries | (e) | 754,858 | 761,758 | 1,053,374 | 2,041,574 |
| Investment in a jointly-controlled entity | (f) | 150,000 | 300,000 | 300,000 | 300,000 |
| Available-for-sale equity investments | (h) | 43,256 | 42,874 | — | — |
| Deferred tax assets | (i) | — | 643 | 1,868 | 2,047 |
| | | 2,874,358 | 3,094,638 | 3,238,808 | 4,215,070 |
| CURRENT ASSETS | | | | | |
| Inventories | (j) | 63,248 | 54,720 | 63,286 | 80,756 |
| Trade receivables | (k) | 18,505 | 46,564 | 125,420 | 8,634 |
| Bills receivable | (l) | 34,720 | — | 38,715 | 37,075 |
| Prepayments, deposits and other receivables | (m) | 138,658 | 26,275 | 54,439 | 436,896 |
| Loans receivable | (n) | 2,800 | — | 2,500 | 905,493 |
| Derivative financial instruments | (w) | — | 17,303 | — | — |
| Pledged bank deposits | (o) | — | — | — | 6,718 |
| Cash and cash equivalents | (o) | 195,632 | 893,825 | 1,174,271 | 638,354 |
| | | 453,563 | 1,038,687 | 1,458,631 | 2,113,926 |
| TOTAL ASSETS | | 3,327,921 | 4,133,325 | 4,697,439 | 6,328,996 |
| EQUITY AND LIABILITIES | | | | | |
| Paid-up capital | (p) | 1,925,860 | 2,079,910 | 2,394,044 | 2,394,044 |
| Reserves | (q) | (75,510) | 516,878 | (209,667) | 220,719 |
| Proposed Special Dividend | (q) | — | — | 1,210,801 | — |
| Total equity | | 1,850,350 | 2,596,788 | 3,395,178 | 2,614,763 |
| NON-CURRENT LIABILITIES | | | | | |
| Interest-bearing bank and other borrowings | (s) | 1,156,809 | 1,179,190 | 917,535 | 229,306 |
| Other long term liabilities | (t) | 898 | 898 | 898 | 15,286 |
| | | 1,157,707 | 1,180,088 | 918,433 | 244,592 |
| CURRENT LIABILITIES | | | | | |
| Trade payables | (u) | 41,206 | 41,740 | 41,848 | 30,259 |
| Other payables and accruals | (v) | 258,643 | 137,374 | 99,704 | 1,978,958 |
| Derivative financial instruments | (w) | 20,015 | — | 50,634 | 44,844 |
| Interest-bearing bank and other borrowings | (s) | — | 177,335 | 191,642 | 188,995 |
| Income tax payable | | — | — | — | 15,784 |
| Dividend payable | | — | — | — | 1,210,801 |
| | | 319,864 | 356,449 | 383,828 | 3,469,641 |
| TOTAL LIABILITIES | | 1,477,571 | 1,536,537 | 1,302,261 | 3,714,233 |
| TOTAL EQUITY AND LIABILITIES | | 3,327,921 | 4,133,325 | 4,697,439 | 6,328,996 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(a) Property, plant and equipment*

*Group*

| | Buildings | Plant and machinery | Motor vehicles | Computer and electronic equipment | Office and other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost as at 1 January 2003, net of accumulated depreciation** | 242,501 | 974,624 | 4,766 | 6,181 | 691 | 572,781 | 1,801,544 |
| Additions | — | 5,186 | 10,615 | 6,587 | 982 | 1,264,200 | 1,287,570 |
| Disposals | (5,085) | (610) | (36) | (1,802) | (27) | — | (7,560) |
| Transfers | 9,218 | 15,586 | — | 174 | — | (24,978) | — |
| Depreciation for the year | (16,550) | (103,326) | (1,682) | (1,488) | (111) | — | (123,157) |
| **Cost as at 31 December 2003, and 1 January 2004, net of accumulated depreciation** | 230,084 | 891,460 | 13,663 | 9,652 | 1,535 | 1,812,003 | 2,958,397 |
| Additions | 2,521 | 22,677 | 5,471 | 820 | 2,265 | 258,260 | 292,014 |
| Disposals | — | (372) | — | — | — | — | (372) |
| Transfers | 361,442 | 1,625,192 | 987 | 4,947 | 193 | (1,992,761) | — |
| Depreciation for the year | (35,286) | (217,055) | (3,018) | (2,081) | (460) | — | (257,900) |
| **Cost as at 31 December 2004, and 1 January 2005, net of accumulated depreciation** | 558,761 | 2,321,902 | 17,103 | 13,338 | 3,533 | 77,502 | 2,992,139 |
| Additions | 269 | 2,067 | 8,637 | 6,645 | 283 | 441,034 | 458,935 |
| Formation of a subsidiary (note (a) of Section 8) | 267,015 | 25,406 | 4,140 | 1,145 | 113 | — | 297,819 |
| Disposals | — | (143) | — | (25) | — | — | (168) |
| Transfer of a subsidiary to a CNOOC group company (note (b) of Section 8) | (3,256) | (301) | (68) | — | — | — | (3,625) |
| Transfers | 1,068 | 38,869 | 82 | — | — | (40,019) | — |
| Impairment | — | — | (1,605) | — | — | — | (1,605) |
| Depreciation for the year | (41,142) | (216,631) | (3,696) | (2,331) | (562) | — | (264,362) |
| **Cost as at 31 December 2005 and 1 January 2006, net of accumulated depreciation and impairment** | 782,715 | 2,171,169 | 24,593 | 18,772 | 3,367 | 478,517 | 3,479,133 |
| Additions | — | 11,897 | 975 | 960 | 206 | 283,364 | 297,402 |
| Acquisition of a subsidiary (note (e) of Section 8) | 681,508 | 1,138,063 | 2,932 | 14,904 | 10,810 | 519,216 | 2,367,433 |
| Dissolution of a subsidiary (note (d) of Section 8) | (415) | — | — | — | (606) | — | (1,021) |
| Transfers | 13,563 | 36,114 | 1,161 | — | 139 | (50,977) | — |
| Depreciation for the period | (19,555) | (84,683) | (1,429) | (795) | (598) | — | (107,060) |
| **Cost as at 31 March 2006, net of accumulated depreciation and impairment** | 1,457,816 | 3,272,560 | 28,232 | 33,841 | 13,318 | 1,230,120 | 6,035,887 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(a) Property, plant and equipment (continued)*

*Group (continued)*

| | Buildings | Plant and machinery | Motor vehicles | Computer and electronic equipment | Office and other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 1 January 2003:** | | | | | | | |
| Cost | 318,342 | 1,480,621 | 17,071 | 14,290 | 929 | 572,781 | 2,404,034 |
| Accumulated depreciation | (75,841) | (505,997) | (12,305) | (8,109) | (238) | — | (602,490) |
| Net carrying amount | 242,501 | 974,624 | 4,766 | 6,181 | 691 | 572,781 | 1,801,544 |
| **As at 31 December 2003:** | | | | | | | |
| Cost | 321,120 | 1,499,974 | 27,284 | 19,063 | 1,879 | 1,812,003 | 3,681,323 |
| Accumulated depreciation | (91,036) | (608,514) | (13,621) | (9,411) | (344) | — | (722,926) |
| Net carrying amount | 230,084 | 891,460 | 13,663 | 9,652 | 1,535 | 1,812,003 | 2,958,397 |
| **As at 31 December 2004:** | | | | | | | |
| Cost | 685,083 | 3,147,171 | 33,742 | 24,830 | 4,337 | 77,502 | 3,972,665 |
| Accumulated depreciation | (126,322) | (825,269) | (16,639) | (11,492) | (804) | — | (980,526) |
| Net carrying amount | 558,761 | 2,321,902 | 17,103 | 13,338 | 3,533 | 77,502 | 2,992,139 |
| **As at 31 December 2005:** | | | | | | | |
| Cost | 947,794 | 3,211,272 | 46,470 | 32,436 | 4,733 | 478,517 | 4,721,222 |
| Accumulated depreciation and impairment | (165,079) | (1,040,103) | (21,877) | (13,664) | (1,366) | — | (1,242,089) |
| Net carrying amount | 782,715 | 2,171,169 | 24,593 | 18,772 | 3,367 | 478,517 | 3,479,133 |
| **As at 31 March 2006:** | | | | | | | |
| Cost | 2,016,883 | 5,398,175 | 63,095 | 296,137 | 43,925 | 1,232,960 | 9,051,175 |
| Accumulated depreciation and impairment | (559,067) | (2,125,615) | (34,863) | (262,296) | (30,607) | (2,840) | (3,015,288) |
| Net carrying amount | 1,457,816 | 3,272,560 | 28,232 | 33,841 | 13,318 | 1,230,120 | 6,035,887 |

As at 31 March 2006, the net book value of the Group's property, plant and equipment held under finance leases amounted to RMB1,900,000 (31 December 2003, 2004 and 2005: Nil).

Details of the Group's property, plant and equipment pledged to secure the Group's bank borrowings are set out in note (s) of Section 6 below.

As at 31 March 2006, the Group has yet to obtain building ownership certificates for certain buildings with net book value of approximately RMB206,173,000. Building ownership certificates for buildings with net book value of approximately RMB188,133,000 out of the amount of RMB206,173,000 were subsequently obtained as at the date of this report.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(a) Property, plant and equipment (continued)*

*Company*

| | Buildings | Plant and machinery | Motor vehicles | Computer and electronic equipment | Office and other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost as at 1 January 2003, net of accumulated depreciation** | 64,799 | 1,052 | 3,537 | 3,993 | 637 | 572,482 | 646,500 |
| Additions | — | 2,334 | 4,893 | 3,473 | 982 | 1,239,961 | 1,251,643 |
| Disposals | (5,043) | (603) | (10) | (1,802) | (27) | — | (7,485) |
| Transfers | 440 | — | — | — | — | (440) | — |
| Depreciation for the year | (3,433) | (456) | (923) | (288) | (106) | — | (5,206) |
| **Cost as at 31 December 2003, and 1 January 2004, net of accumulated depreciation** | 56,763 | 2,327 | 7,497 | 5,376 | 1,486 | 1,812,003 | 1,885,452 |
| Additions | 912 | 19,499 | 57 | 352 | 2,101 | 183,794 | 206,715 |
| Transfers | 359,530 | 1,625,192 | 987 | 4,947 | 193 | (1,990,849) | — |
| Depreciation for the year | (24,562) | (114,181) | (1,777) | (1,417) | (439) | — | (142,376) |
| **Cost as at 31 December 2004 , and 1 January 2005, net of accumulated depreciation** | 392,643 | 1,532,837 | 6,764 | 9,258 | 3,341 | 4,948 | 1,949,791 |
| Additions | 119 | 2,123 | 5,356 | 5,203 | 11 | 27,136 | 39,948 |
| Disposals | — | (143) | — | (25) | — | — | (168) |
| Transfers | 289 | 13,991 | 82 | — | — | (14,362) | — |
| Depreciation for the year | (22,856) | (118,038) | (1,572) | (1,200) | (492) | — | (144,158) |
| **Cost as at 31 December 2005 and 1 January 2006, net of accumulated depreciation** | 370,195 | 1,430,770 | 10,630 | 13,236 | 2,860 | 17,722 | 1,845,413 |
| Additions | — | 246 | 4 | 22 | — | 3,712 | 3,984 |
| Transfers | 797 | — | — | — | 139 | (936) | — |
| Depreciation for the period | (5,064) | (30,152) | (368) | (285) | (199) | — | (36,068) |
| **Cost as at 31 March 2006, net of accumulated depreciation** | 365,928 | 1,400,864 | 10,266 | 12,973 | 2,800 | 20,498 | 1,813,329 |
| **As at 1 January 2003:** | | | | | | | |
| Cost | 95,117 | 7,567 | 9,662 | 4,767 | 878 | 572,482 | 690,473 |
| Accumulated depreciation | (30,318) | (6,515) | (6,125) | (774) | (241) | — | (43,973) |
| Net carrying amount | 64,799 | 1,052 | 3,537 | 3,993 | 637 | 572,482 | 646,500 |
| **As at 31 December 2003:** | | | | | | | |
| Cost | 89,090 | 8,909 | 14,452 | 6,252 | 1,828 | 1,812,003 | 1,932,534 |
| Accumulated depreciation | (32,327) | (6,582) | (6,955) | (876) | (342) | — | (47,082) |
| Net carrying amount | 56,763 | 2,327 | 7,497 | 5,376 | 1,486 | 1,812,003 | 1,885,452 |
| **As at 31 December 2004:** | | | | | | | |
| Cost | 449,532 | 1,653,600 | 15,496 | 11,551 | 4,122 | 4,948 | 2,139,249 |
| Accumulated depreciation | (56,889) | (120,763) | (8,732) | (2,293) | (781) | — | (189,458) |
| Net carrying amount | 392,643 | 1,532,837 | 6,764 | 9,258 | 3,341 | 4,948 | 1,949,791 |
| **As at 31 December 2005:** | | | | | | | |
| Cost | 449,940 | 1,668,286 | 20,934 | 16,570 | 4,133 | 17,722 | 2,177,585 |
| Accumulated depreciation | (79,745) | (237,516) | (10,304) | (3,334) | (1,273) | — | (332,172) |
| Net carrying amount | 370,195 | 1,430,770 | 10,630 | 13,236 | 2,860 | 17,722 | 1,845,413 |
| **As at 31 March 2006:** | | | | | | | |
| Cost | 450,737 | 1,668,532 | 20,938 | 16,592 | 4,272 | 20,498 | 2,181,569 |
| Accumulated depreciation | (84,809) | (267,668) | (10,672) | (3,619) | (1,472) | — | (368,240) |
| Net carrying amount | 365,928 | 1,400,864 | 10,266 | 12,973 | 2,800 | 20,498 | 1,813,329 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(b) Investment properties*

| | As at 31 March 2006 |
|---|---|
| | RMB'000 |
| Additions and carrying amount at end of period | 14,743 |

Included in the Company's investment properties are buildings situated in the PRC, which are leased to its subsidiaries under operating leases, further details are set out in note (y) of Section 6.

As at 30 June 2006, the investment properties were valued by Sallmanns (Far East) Limited, independent qualified professional surveyors, at RMB14,714,000, on market value basis. Sallmans (Far East) Limited confirmed that there has been no material changes in the market values of these properties from 31 March 2006 to 30 June 2006.

### *(c) Prepaid land lease payments*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost as at beginning of year/period, net of accumulated amortization** | 61,857 | 67,340 | 65,325 | 118,857 |
| Additions | 6,949 | — | 2,835 | 43,014 |
| Formation of a subsidiary (note (a) of Section 8) | — | — | 57,407 | — |
| Acquisition of a subsidiary (note (e) of Section 8) | — | — | — | 249,659 |
| Transfer of a subsidiary to a CNOOC group company (note (b) of Section 8) | — | — | (4,937) | — |
| Amortization for the year/period | (1,466) | (2,015) | (1,773) | (1,792) |
| **Cost as at end of year/period, net of accumulated amortization** | 67,340 | 65,325 | 118,857 | 409,738 |
| **As at end of year/period:** | | | | |
| Cost (gross carrying amount) | 70,626 | 70,626 | 125,310 | 450,294 |
| Accumulated amortization | (3,286) | (5,301) | (6,453) | (40,556) |
| Net carrying amount | 67,340 | 65,325 | 118,857 | 409,738 |

As at 31 March 2006, the Group has yet to obtain the land use right certificate for a piece of land with an initial cost of RMB6,000,000, where Tianye's production facilities for methanol production are located. Pursuant to a State-owned land use right grant contract dated 30 June 2006 entered into between Tianye and the State-owned Land Resources Bureau of Huhhot City, this piece of land is granted to Tianye for a term of 50 years. The land premium is approximately RMB13,774,000 and the land use right certificate is currently under application.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(c) Prepaid land lease payments (continued)*

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost as at beginning of year/period, net of accumulated amortization** | 34,411 | 40,569 | 39,212 | 37,907 |
| Additions | 6,949 | — | — | 5,592 |
| Amortization for the year/period | (791) | (1,357) | (1,305) | (340) |
| **Cost as at end of year/period, net of accumulated amortization** | 40,569 | 39,212 | 37,907 | 43,159 |
| **As at end of year/period:** | | | | |
| Cost (gross carrying amount) | 42,056 | 42,056 | 42,056 | 47,648 |
| Accumulated amortization | (1,487) | (2,844) | (4,149) | (4,489) |
| Net carrying amount | 40,569 | 39,212 | 37,907 | 43,159 |

The Group's and the Company's leasehold land are all situated in the PRC.

### *(d) Intangible assets*

*Group*

| | Computer software | Patents and licenses | Trademark | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost as at 1 January 2003, net of accumulated amortization** | 278 | 227 | — | 505 |
| Amortization for the year | (55) | (25) | — | (80) |
| **Cost as at 31 December 2003, and 1 January 2004, net of accumulated amortization** | 223 | 202 | — | 425 |
| Additions | 252 | — | — | 252 |
| Amortization for the year | (115) | (25) | — | (140) |
| **Cost as at 31 December 2004 and 1 January 2005, net of accumulated amortization** | 360 | 177 | — | 537 |
| Amortization for the year | (114) | (25) | — | (139) |
| **Cost as at 31 December 2005, and 1 January 2006, net of accumulated amortization** | 246 | 152 | — | 398 |
| Acquisition of a subsidiary (note (e) of Section 8) | — | — | 968 | 968 |
| Amortization for the period | (28) | (6) | (65) | (99) |
| **Cost as at 31 March 2006, net of accumulated amortization** | 218 | 146 | 903 | 1,267 |
| **As at 1 January 2003:** | | | | |
| Cost | 319 | 253 | — | 572 |
| Accumulated amortization | (41) | (26) | — | (67) |
| Net carrying amount | 278 | 227 | — | 505 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(d) Intangible assets (continued)*

*Group (continued)*

| | Computer software | Patents and licenses | Trademark | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 31 December 2003:** | | | | |
| Cost | 319 | 253 | — | 572 |
| Accumulated amortization | (96) | (51) | — | (147) |
| Net carrying amount | 223 | 202 | — | 425 |
| **As at 31 December 2004:** | | | | |
| Cost | 571 | 253 | — | 824 |
| Accumulated amortization | (211) | (76) | — | (287) |
| Net carrying amount | 360 | 177 | — | 537 |
| **As at 31 December 2005:** | | | | |
| Cost | 571 | 253 | — | 824 |
| Accumulated amortization | (325) | (101) | — | (426) |
| Net carrying amount | 246 | 152 | — | 398 |
| **As at 31 March 2006:** | | | | |
| Cost | 571 | 253 | 2,299 | 3,123 |
| Accumulated amortization | (353) | (107) | (1,396) | (1,856) |
| Net carrying amount | 218 | 146 | 903 | 1,267 |

*Company*

| | Computer software |
|---|---|
| | RMB'000 |
| **Cost as at 1 January 2003, net of accumulated amortization** | 278 |
| Amortization for the year | (55) |
| **Cost as at 31 December 2003, and 1 January 2004, net of accumulated amortization** | 223 |
| Additions | 252 |
| Amortization for the year | (115) |
| **Cost as at 31 December 2004 and 1 January 2005, net of accumulated amortization** | 360 |
| Amortization for the year | (114) |
| **Cost as at 31 December 2005 and 1 January 2006, net of accumulated amortization** | 246 |
| Amortization for the period | (28) |
| **Cost as at 31 March 2006, net of accumulated amortization** | 218 |
| **As at 1 January 2003:** | |
| Cost | 319 |
| Accumulated amortization | (41) |
| Net carrying amount | 278 |
| **As at 31 December 2003:** | |
| Cost | 319 |
| Accumulated amortization | (96) |
| Net carrying amount | 223 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(d) Intangible assets (continued)*

*Company (continued)*

| | Computer software |
|---|---|
| | RMB'000 |
| **As at 31 December 2004:** | |
| Cost | 571 |
| Accumulated amortization | (211) |
| Net carrying amount | 360 |
| **As at 31 December 2005:** | |
| Cost | 571 |
| Accumulated amortization | (325) |
| Net carrying amount | 246 |
| **As at 31 March 2006:** | |
| Cost | 571 |
| Accumulated amortization | (353) |
| Net carrying amount | 218 |

### *(e) Investments in subsidiaries*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 754,858 | 761,758 | 1,053,374 | 2,041,574 |

The Company's trade receivable, other receivable, loan receivable, trade payable, and other payable balances with its subsidiaries are disclosed in notes (k), (m), (n), (u) and (v) of Section 6, respectively.

Particulars of the principal subsidiaries of the Company are set out in Section 4 above.

### *(f) Investment in a jointly-controlled entity*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 150,000 | 300,000 | 300,000 | 300,000 |

The Group and the Company's other receivable, other long-term liability and other payable balances with the jointly-controlled entity are disclosed in note (m), (t) and (v) of Section 6 below.

Particulars of the jointly-controlled entity of the Group are set out in Section 4 above.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(f) Investment in a jointly-controlled entity (continued)*

The aggregate amounts of the assets and liabilities of the jointly-controlled entity attributable to the Group are as follows:

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | — | 59,090 | 386,230 | 644,229 |
| Current assets | 150,000 | 282,448 | 68,106 | 13,330 |
| Non-current liabilities | — | — | (99,389) | (239,383) |
| Current liabilities | — | (41,538) | (54,947) | (118,176) |
| Net assets | 150,000 | 300,000 | 300,000 | 300,000 |

As CNOOC Kingboard Chemical Limited had not yet commenced its operations as at 31 March 2006, no income and expenses were shared by the Group during the Relevant Periods and the three-month period ended 31 March 2005.

### *(g) Investments in associates*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Share of net assets | 2,355 | 3,919 | 6,810 | 7,286 |

The Group's trade receivable and other payable balances with the associates are disclosed in notes (k) and (v) of Section 6, respectively.

Particulars of the associates of the Group are set out in Section 4 above.

The following table illustrates the aggregate amounts of the assets, liabilities, revenues and profit of the Group's associates.

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Assets | 31,072 | 82,832 | 90,472 | 88,892 |
| Liabilities | 23,221 | 69,769 | 69,103 | 66,092 |

| | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 114,026 | 273,492 | 455,538 | 74,874 | 125,901 |
| Profit for the year/period | 2,851 | 5,212 | 6,344 | 1,450 | 1,431 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(h) Available-for-sale equity investments*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unlisted equity investments, at cost | 43,856 | 43,474 | 600 | 600 |
| Listed equity securities in the PRC, at fair value | — | — | 6,188 | 6,188 |
| | 43,856 | 43,474 | 6,788 | 6,788 |

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unlisted equity investments, at cost | 43,256 | 42,874 | — | — |

The unlisted equity investments are accounted for at cost less accumulated impairment losses as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(i) Deferred taxation*

The movements in deferred tax assets and liabilities of the Group and of the Company during the Relevant Periods are as follows:

*Group*

*Deferred tax assets*

| | Differences in depreciation and amortization between tax regulations and accounting policies | Provision for impairment of assets | Others | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 1 January 2003** | 278 | 280 | — | 558 |
| Credited to the consolidated income statement (note (h) of Section 5) | 310 | 367 | — | 677 |
| **As at 31 December 2003 and 1 January 2004** | 588 | 647 | — | 1,235 |
| Credited to the consolidated income statement (note (h) of Section 5) | 919 | 725 | — | 1,644 |
| **As at 31 December 2004 and 1 January 2005** | 1,507 | 1,372 | — | 2,879 |
| Credited to the consolidated income statement (note (h) of Section 5) | 962 | 831 | — | 1,793 |
| **As at 31 December 2005 and 1 January 2006** | 2,469 | 2,203 | — | 4,672 |
| Acquisition of a subsidiary (note (e) of Section 8) | — | 27,225 | 625 | 27,850 |
| Credited to the consolidated income statement (note (h) of Section 5) | 223 | 21 | — | 244 |
| **As at 31 March 2006** | 2,692 | 29,449 | 625 | 32,766 |

*Deferred tax liabilities*

| | Fair value adjustments arising from acquisition of a subsidiary |
|---|---|
| | RMB'000 |
| **As at 1 January 2006** | — |
| Acquisition of a subsidiary (note (e) of Section 8) | 61,017 |
| **As at 31 March 2006** | 61,017 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(i) Deferred taxation (continued)*

*Company*

*Deferred tax assets*

| | Differences in depreciation and amortization between tax regulations and accounting policies | Provision for impairment of assets | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **As at 1 January 2004** | — | — | — |
| Credited to the income statement | 643 | — | 643 |
| **As at 31 December 2004 and 1 January 2005** | 643 | — | 643 |
| Credited to the income statement | 642 | 583 | 1,225 |
| **As at 31 December 2005 and 1 January 2006** | 1,285 | 583 | 1,868 |
| Credited to the income statement | 161 | 18 | 179 |
| **As at 31 March 2006** | 1,446 | 601 | 2,047 |

### *(j) Inventories*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 59,778 | 88,150 | 121,768 | 183,835 |
| Work in progress | 3,311 | 18,679 | 25,549 | 44,030 |
| Finished goods | 87,388 | 32,548 | 14,742 | 16,697 |
| Net book value | 150,477 | 139,377 | 162,059 | 244,562 |

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 76 | 27,413 | 50,249 | 59,730 |
| Work in progress | — | 11,267 | 10,310 | 20,643 |
| Finished goods | 63,172 | 16,040 | 2,727 | 383 |
| Net book value | 63,248 | 54,720 | 63,286 | 80,756 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(k) Trade receivables*

Sales of the Group's fertilizers 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. However, in the case of long-standing customers with bulk purchases and a good repayment history, the Group may agree that the sales can be settled by commercial acceptance drafts. In the case of export sales, the Group may also accept irrevocable letters of credit issued in its favor.

An aged analysis of the trade receivables, based on invoice date and net of provision for bad and doubtful debts, of the Group and of the Company as at the balance sheet date of the Relevant Periods, is as follows:

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within six months | 46,343 | 70,043 | 168,830 | 35,577 |
| Over six months but within one year | 3,535 | 3,099 | 2,135 | 496 |
| Over one year but within two years | 2,704 | 224 | 18 | 94 |
| Over two years but within three years | 8,568 | 1,616 | 600 | 193 |
| Over three years | 189 | 74 | 69 | 22 |
| | 61,339 | 75,056 | 171,652 | 36,382 |

As at 31 December 2003 and 2004 and 31 March 2006 the amounts due from an associate included in the above trade receivable balances were RMB974,000 and RMB409,000 and RMB159,000, respectively. The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within six months | 9,572 | 45,671 | 125,420 | 8,634 |
| Over six months but within one year | — | — | — | — |
| Over one year but within two years | 1,414 | — | — | — |
| Over two years but within three years | 7,519 | 893 | — | — |
| | 18,505 | 46,564 | 125,420 | 8,634 |

As at 31 December 2005 and 31 March 2006, the amounts due from subsidiaries of the Company included in the above trade receivable balances were RMB835,000 and RMB4,701,000, respectively. The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(l) Bills receivable*

The bills receivable of the Group and of the Company as at 31 December 2003 and 2005 and 31 March 2006 are all matured within six months.

### *(m) Prepayments, deposits and other receivables*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Prepayments | 61,791 | 44,702 | 59,283 | 49,628 |
| Deposits and other receivables | 56,882 | 24,502 | 109,240 | 32,037 |
| | 118,673 | 69,204 | 168,523 | 81,665 |

The amounts due from CNOOC group companies and a jointly-controlled entity included in the above can be analyzed as follows:

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| CNOOC group companies | 3,599 | 1,228 | 12,094 | 32,637 |
| A jointly-controlled entity | — | 2,834 | 1,226 | 1,542 |
| | 3,599 | 4,062 | 13,320 | 34,179 |

The amounts due are unsecured, non-interest-bearing and have no fixed terms of repayment.

Except for an aggregate amount of RMB2,502,000 which relates to deposits given to certain CNOOC group companies for their provision of construction and installation services to the Group, the Group's non-trade balances with other CNOOC group companies totaling RMB29,032,000 had been settled as at the date of this report.

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Prepayments | 60,188 | 927 | 16,219 | 7,555 |
| Deposits and other receivables | 78,470 | 25,348 | 38,220 | 429,341 |
| | 138,658 | 26,275 | 54,439 | 436,896 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(m) Prepayments, deposits and other receivables (continued)*

*Company (continued)*

The amounts due from CNOOC group companies, a jointly-controlled entity and subsidiaries of the Company included in the above can be analyzed as follows:

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| CNOOC group companies | 3,599 | 1,228 | 2,094 | 6,034 |
| A jointly-controlled entity | — | 7,084 | 3,065 | 3,856 |
| Subsidiaries | 29,044 | 1,643 | 13,546 | 408,446 |
| | 32,643 | 9,955 | 18,705 | 418,336 |

Included in the amount due from the Company's subsidiaries as at 31 March 2006 was a dividend receivable from Fudao of RMB336,148,000.

The amounts due are unsecured, non-interest-bearing and have no fixed terms of repayment.

### *(n) Loans receivable*

In 2003, the Group and the Company provided an entrusted loan of RMB2,800,000 to a minority shareholder of the Group which was repaid in full in 2004.

The Company's loans receivable as at 31 December 2005 and 31 March 2006 represented entrusted loans provided to its subsidiaries amounted to RMB2,500,000 and RMB905,493,000, respectively. The entrusted loans are unsecured, bear interest at rates ranging from 2.07% per annum to 4.5% per annum and are repayable within twelve months.

During the three-month period ended 31 March 2006, the Company provided an unsecured entrusted loan with contractual amount of RMB910,000,000 to Tianye which bears interest at a rate of 2.07% per annum and is repayable on 23 August 2006. The entrusted loan was initially recorded at fair value of RMB899,676,000 and is subsequently measured at amortized cost using the effective interest method at a rate of 5.22% per annum.

The difference of RMB10,324,000 between the fair value of the entrusted loan at initial recognition and cash of RMB910,000,000 receivable by the Company from Tianye on the date of repayment was treated as the Company's additional capital contribution to Tianye. Accordingly, a corresponding increase in the Company's investment in Tianye was recorded in the Company's balance sheet as at 31 March 2006.

The entrusted loan was early repaid in full by Tianye in June 2006.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(o) Cash and cash equivalents and pledged bank deposits*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash and bank balances | 638,968 | 1,023,786 | 1,551,752 | 1,355,926 |
| Time deposits | 51,500 | 410,000 | 398,000 | 438,183 |
| | 690,468 | 1,433,786 | 1,949,752 | 1,794,109 |
| Less: | | | | |
| Pledged bank deposits | — | — | — | (28,120) |
| Cash and cash equivalents in the consolidated balance sheet | 690,468 | 1,433,786 | 1,949,752 | 1,765,989 |
| Less: | | | | |
| Non-pledged time deposits with original maturity of three months or more when acquired | — | (322,000) | (230,000) | (408,183) |
| Cash and cash equivalents in the consolidated cash flow statements | 690,468 | 1,111,786 | 1,719,752 | 1,357,806 |

The Group's pledged deposits of RMB28,120,000 as at 31 March 2006 (31 December 2003, 2004 and 2005: Nil) were deposited to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

The Group's cash and bank balances are denominated in RMB at each balance sheet date of the Relevant Periods, except for amounts of RMB254,489,000, RMB214,618,000, RMB49,088,000 and RMB12,543,000 which are translated from U.S.$30,749,000, U.S.$25,931,000, U.S.$6,083,000 and U.S.$1,563,000 as at 31 December 2003, 2004 and 2005 and 31 March 2006, respectively; and RMB488,304,000 which is translated from JPY7,046,237,000 as at 31 March 2006.

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 authorized to conduct foreign exchange business.

Included in the Group's cash and cash equivalents as at 31 December 2003, 2004 and 2005 and 31 March 2006 were RMB200,052,000, RMB552,596,000, RMB1,098,690,000 and RMB449,961,000, respectively, deposited in CNOOC Finance. The deposits with CNOOC Finance are entitled to interest at the rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(o) Cash and cash equivalents and pledged bank deposits (continued)*

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash and bank balances | 195,632 | 583,825 | 1,174,271 | 645,072 |
| Time deposits | — | 310,000 | — | — |
| | 195,632 | 893,825 | 1,174,271 | 645,072 |
| Less: | | | | |
| Pledged bank deposits | — | — | — | 6,718 |
| | 195,632 | 893,825 | 1,174,271 | 638,354 |

The Company's pledged time deposits of RMB6,718,000 as at 31 March 2006 (31 December 2003, 2004 and 2005: Nil) were deposited to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

The Company's cash and bank balances are denominated in RMB at each balance sheet date of the Relevant Periods, except for amounts of RMB25,146,000, RMB14,691,000, RMB1,565,000 and RMB3,471,000 which are translated from U.S.$3,040,000, U.S.$1,775,000, U.S.$194,000 and U.S.$433,000 as at 31 December 2003, 2004 and 2005, and 31 March 2006, respectively; and RMB488,304,000 which is translated from JPY7,046,237,000 as at 31 March 2006. The Company is subject to the same exchange control requirements as the Group as detailed above.

Included in the Company's cash and cash equivalents as at 31 December 2003, 2004 and 2005 and 31 March 2006 were RMB109,477,000, RMB401,536,000, RMB766,949,000 and RMB82,123,000, respectively, deposited in CNOOC Finance. The deposits with CNOOC Finance are entitled to interest at the rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank deposits approximate to their fair values.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(p) Paid-up capital*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Registered capital | 1,300,000 | 1,300,000 | 1,300,000 | 1,300,000 |
| Paid-up capital | 1,925,860 | 2,079,910 | 2,394,044 | 2,394,044 |

The Company's registered capital was RMB1,300,000,000 which had been fully paid up as at 31 December 2003, 2004 and 2005 and 31 March 2006. The excess of the capital contributions made by CNOOC to the Company amounted to RMB625,860,000, RMB779,910,000, RMB1,094,044,000 and RMB1,094,044,000 as at 31 December 2003, 2004 and 2005 and 31 March 2006, respectively. Pursuant to the Company's Reorganization, the Company was reorganized into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006.

The movements in the Company's paid-up capital during the Relevant Periods and the three-month period ended 31 March 2005 were as follows:

| | | As at 31 December | | | As at 31 March | |
|---|---|---|---|---|---|---|
| | Notes | 2003 | 2004 | 2005 | 2005 | 2006 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **At beginning of year/period** | | 1,302,416 | 1,925,860 | 2,079,910 | 2,079,910 | 2,394,044 |
| Capital contributions | (i) | 517,727 | 151,610 | 150,250 | — | — |
| On capitalization of retained profits | (ii) | 105,717 | 2,440 | 209,207 | 896 | — |
| Transfer of a subsidiary to a CNOOC group company | 8(b) | — | — | (2,449) | — | — |
| Transfer of available-for-sale equity investments | 8(c) | — | — | (42,874) | — | — |
| **At end of year/period** | | 1,925,860 | 2,079,910 | 2,394,044 | 2,080,806 | 2,394,044 |

Notes:

(i) CNOOC made additional cash contributions of RMB517,727,000, RMB147,470,000 and RMB150,250,000 to the Company for the years ended 31 December 2003, 2004 and 2005, respectively. The equity interests in Transportation Co. and Plastic Co. that were transferred from the Company's wholly-owned fellow subsidiaries to the Company, amounting to RMB2,500,000 and RMB3,781,000, respectively, had been included in the Company's paid-up capital as at 1 January 2003 on the assumption that these equity interests were contributed by CNOOC as at that date pursuant to the Reorganization as further detailed in Section 1 above. Pursuant also to the Group's Reorganization, the transfer of the equity interest in E&P Gas, amounting to RMB4,140,000, from a wholly-owned fellow subsidiary of the Company to the Company was also accounted for as additional capital contribution by CNOOC to the Company for the year ended 31 December 2004.

(ii) Pursuant to notices issued by CNOOC, certain amounts of the Company's retained profits had been capitalized as additional capital contributions to the Company by CNOOC during the Relevant Periods and the three-month period ended 31 March 2005.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(q) Reserves*

*Group*

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods and the three-month period ended 31 March 2005 are presented in the consolidated statements of changes in equity set out in Section 7 below.

*Company*

| | Notes | Statutory surplus reserves | Capital reserve | Retained profits/ (accumulated losses) | Proposed Special Dividend | Total |
|---|---|---|---|---|---|---|
| | | RMB'000 (Note i) | | RMB'000 | RMB'000 (Note ii) | RMB'000 |
| **As at 1 January 2003** | | 31,599 | — | (21,062) | — | 10,537 |
| Net profit for the year | 5(i) | — | — | 19,670 | — | 19,670 |
| On capitalization of retained profits | 6(p) | — | — | (105,717) | — | (105,717) |
| **As at 31 December 2003 and 1 January 2004** | | 31,599 | — | (107,109) | — | (75,510) |
| Net profit for the year | 5(i) | — | — | 728,828 | — | 728,828 |
| Dividends declared | 5(j) | — | — | (134,000) | — | (134,000) |
| Transfer from retained profits | | 103,692 | — | (103,692) | — | — |
| On capitalization of retained profits | 6(p) | — | — | (2,440) | — | (2,440) |
| **As at 31 December 2004 and 1 January 2005** | | 135,291 | — | 381,587 | — | 516,878 |
| Net profit for the year | 5(i) | — | — | 693,463 | — | 693,463 |
| Proposed Special Dividend | 5(j) | — | — | (1,210,801) | 1,210,801 | — |
| Transfer from retained profits | | 137,845 | — | (137,845) | — | — |
| On capitalization of retained profits | 6(p) | — | — | (209,207) | — | (209,207) |
| **As at 31 December 2005 and 1 January 2006** | | 273,136 | — | (482,803) | 1,210,801 | 1,001,134 |
| Net profit for the period | 5(i) | — | — | 414,667 | — | 414,667 |
| Special Dividend declared | | — | — | — | (1,210,801) | (1,210,801) |
| Capital contribution | 6(v) | — | 15,719 | — | — | 15,719 |
| **As at 31 March 2006** | | 273,136 | 15,719 | (68,136) | — | 220,719 |
| **(Unaudited)** | | | | | | |
| **As at 1 January 2005** | | 135,291 | — | 381,587 | — | 516,878 |
| Net profit for the period | 5(i) | — | — | 165,567 | — | 165,567 |
| On capitalization of retained profits | 6(p) | — | — | (896) | — | (896) |
| **As at 31 March 2005** | | 135,291 | — | 546,258 | — | 681,549 |

Notes:

(i) Details of the nature of the statutory surplus reserves are set out in Section 7 below.

(ii) The Company confirmed that the Special Dividend will be settled in full prior to the listing of its shares on the Stock Exchange.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(r) Benefits liability*

Tianye, the Group's 90%-owned subsidiary, provides post-employment allowances covering substantially all of its employees, and also early retirement benefits to qualifying retirees.

The following tables summarize the components of net benefit expense recognized in the consolidated income statement and amounts recognized in the consolidated balance sheet.

The details of net benefits expense by each type of benefits during the three-month period ended 31 March 2006 are as follows:

*Group*

| | Early retirement benefits | Post-employment allowances | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Current service cost | 472 | 237 | 709 |
| Interest cost on benefits obligation | 267 | 206 | 473 |
| Net actuarial gain recognized for the period | (17) | (13) | (30) |
| Net benefits expense | 722 | 430 | 1,152 |

The details of benefits liability by each type of benefits as at 31 March 2006 are as follows:

| | Early retirement benefits | Post-employment allowances | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Defined benefit obligation | 40,257 | 30,298 | 70,555 |
| Unrecognized net actuarial gain/(loss) | 10,539 | (368) | 10,171 |
| Benefits liability | 50,796 | 29,930 | 80,726 |

The details of changes in present value of the defined benefit obligation by each type of benefits during the three-month period ended 31 March 2006 are as follows:

| | Early retirement benefits | Post-employment allowances | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **At beginning of period** | — | — | — |
| Acquisition of a subsidiary | 39,814 | 30,033 | 69,847 |
| Current service cost | 472 | 237 | 709 |
| Interest cost | 267 | 206 | 473 |
| Benefits paid | (290) | (172) | (462) |
| Actuarial gains on obligation | (6) | (6) | (12) |
| **At end of period** | 40,257 | 30,298 | 70,555 |

The Group is expected to incur a net benefit expense of RMB4,376,000 for the year ending 31 December 2006.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(r) Benefits liability (continued)*

*Group (continued)*

The principal assumptions used in determining the early retirement benefits obligation and post-employment allowances of the Group as at 31 March 2006 are shown below:

| | |
|---|---|
| Discount rate | 3.5% |
| Early retirement rate | 1.0% |
| Inflation rate | 4.0% |

The actuarial valuation as at 31 March 2006 was performed by Watson Wyatt Consultancy (Shanghai) Ltd., an independent actuary consultancy service provider, using the valuation method as detailed under the relevant heading in Section 2 above.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(s) Interest-bearing bank and other borrowings*

*Group*

| | Effective interest rate (%) | Maturity | As at 31 December 2003 | 2004 | 2005 | As at 31 March 2006 |
|---|---|---|---|---|---|---|
| | | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Current** | | | | | | |
| Bank loans | | | | | | |
| —Secured | 5.3 - 6.6 | 2005 | 5,600 | 7,800 | — | — |
| —Unsecured | | | | | | |
| —Yen loan | LIBOR plus 0.6 | 2006 | — | 177,335 | 152,926 | 151,920 |
| —U.S.$ loan | LIBOR plus 0.55 | 2006 | 124,351 | 124,520 | 119,225 | 59,243 |
| —RMB loan | 4.7 - 5.2 | 2006 | 14,513 | 3,714 | 3,714 | 3,714 |
| | | | 144,464 | 313,369 | 275,865 | 214,877 |
| Other loans | | | | | | |
| —Obligations under finance lease (note (x) of Section 6) | 2.25 | 2006 | — | — | — | 673 |
| —Secured | 4.7 | 2006 | — | — | 57,015 | 43,700 |
| —Unsecured | 4.5 - 5.02 | 2006 | 3,700 | 5,272 | 2,500 | 2,500 |
| | | | 3,700 | 5,272 | 59,515 | 46,873 |
| | | | 148,164 | 318,641 | 335,380 | 261,750 |
| **Non-current** | | | | | | |
| Bank loans | | | | | | |
| —Secured | 6.1 | 2007 | 5,000 | 1,200 | 2,300 | — |
| —Unsecured | | | | | | |
| —Yen loan | LIBOR plus 0.6 | 2012 | 1,129,121 | 1,179,190 | 917,536 | 229,306 |
| —U.S.$ loan | LIBOR plus 0.55 - LIBOR plus 0.65 | 2014 | 246,232 | 122,078 | 99,389 | 227,383 |
| —RMB loan | 5.2 - 6.1 | 2010 | 38,830 | 9,286 | 7,427 | 7,429 |
| | | | 1,419,183 | 1,311,754 | 1,026,652 | 464,118 |
| Other loans | | | | | | |
| —Obligations under finance lease (note (x) of Section 6) | 2.25 | 2007 | — | — | — | 548 |
| —Unsecured | 5.3 - 5.5 | 2010 | 2,772 | — | 3,750 | 20,450 |
| | | | 2,772 | — | 3,750 | 20,998 |
| | | | 1,421,955 | 1,311,754 | 1,030,402 | 485,116 |
| | | | 1,570,119 | 1,630,395 | 1,365,782 | 746,866 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(s) Interest-bearing bank and other borrowings (continued)*

*Group (continued)*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Analyzed into:** | | | | |
| Bank loans repayable: | | | | |
| Within one year or on demand | 144,464 | 313,369 | 275,865 | 214,877 |
| In the second year | 330,657 | 278,061 | 181,321 | 203,738 |
| In the third to fifth years, inclusive | 540,933 | 518,703 | 539,486 | 177,308 |
| Beyond five years | 547,593 | 514,990 | 305,845 | 83,072 |
| | 1,563,647 | 1,625,123 | 1,302,517 | 678,995 |
| Other loans repayable: | | | | |
| Within one year or on demand | 3,700 | 5,272 | 59,515 | 46,873 |
| In the second year | 2,772 | — | 3,750 | 5,762 |
| In the third to fifth years, inclusive | — | — | — | 8,379 |
| Beyond five years | — | — | — | 6,857 |
| | 6,472 | 5,272 | 63,265 | 67,871 |
| | 1,570,119 | 1,630,395 | 1,365,782 | 746,866 |

Certain of the Group's bank borrowings were secured by certain of the Group's buildings and machinery, which had an aggregate net carrying amount of approximately RMB14,718,000, RMB12,715,000, RMB8,462,000 as at 31 December 2003, 2004 and 2005, respectively. The pledges were released in full upon the repayment of the related bank borrowings during the three-month period ended 31 March 2006.

As at 31 December 2003, 2004 and 2005 and 31 March 2006, the Group had unsecured loans of RMB3,700,000, RMB2,500,000, RMB6,250,000 and RMB22,950,000, respectively, from CNOOC Finance which bear interest at rates ranging from 5.0% to 5.5% per annum during the Relevant Periods. As at 31 March 2006, the obligations under finance lease of RMB1,221,000 were due to a CNOOC group company, further details are set out in note (x) of Section 6 below.

As at 31 December 2005 and 31 March 2006, included in the above secured other loans of the Group are short term loans of RMB57,015,000 and RMB43,700,000 obtained from discounting the commercial acceptance drafts with recourse, respectively. CNOOC Finance provides services for discounting the commercial acceptance drafts to the Group with terms similar to those offered by other financial institutions. All the commercial acceptance drafts discounted with recourse were settled in full in June 2006.

Details of corporate guarantees provided by the Group's related companies in connection with the bank borrowings obtained by the Group are set out in note (l) of Section 5 above. The guarantees provided by the ultimate holding company and CNOOC group companies were released in full in June 2006.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(s) Interest-bearing bank and other borrowings (continued)*

*Company*

| | Effective interest rate (%) | Maturity | As at 31 December 2003 | 2004 | 2005 | As at 31 March 2006 |
|---|---|---|---|---|---|---|
| | | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Current** | | | | | | |
| Unsecured bank loans | LIBOR plus 0.6 | 2006 | — | 177,335 | 152,926 | 151,920 |
| Secured other loans | 4.7 | 2006 | — | — | 38,716 | 37,075 |
| | | | — | 177,335 | 191,642 | 188,995 |
| **Non-current** | | | | | | |
| Unsecured bank loans | LIBOR plus 0.6-6.1 | 2012 | 1,156,809 | 1,179,190 | 917,535 | 229,306 |
| | | | 1,156,809 | 1,356,525 | 1,109,177 | 418,301 |
| **Analyzed into:** | | | | | | |
| Bank and other loans repayable: | | | | | | |
| Within one year or on demand | | | — | 177,335 | 191,642 | 188,995 |
| In the second year | | | 205,022 | 152,926 | 152,923 | 151,920 |
| In the third to fifth years, inclusive | | | 407,909 | 513,132 | 458,767 | 77,386 |
| Beyond five years | | | 543,878 | 513,132 | 305,845 | — |
| | | | 1,156,809 | 1,356,525 | 1,109,177 | 418,301 |

Certain of the Company's bank and other borrowings with an aggregate carrying amount of approximately RMB1,129,121,000, RMB1,356,525,000, RMB1,070,462,000 and RMB381,226,000 were guaranteed by the Company's ultimate holding company as at 31 December 2003, 2004 and 2005 and 31 March 2006, respectively.

As at 31 December 2005 and 31 March 2006, included in the above secured other loans of the Company are short term loans of RMB38,716,000 and RMB37,075,000 obtained from discounting the commercial acceptance drafts with recourse, respectively. CNOOC Finance provides services for discounting the commercial acceptance drafts to the Company with terms similar to those offered by other financial institutions. All the commercial acceptance drafts discounted with recourse were settled in full in June 2006.

The carrying amounts of the Group's and the Company's current borrowings approximate their fair values.

### *(t) Other long term liabilities*

*Group*

As at 31 March 2006, other long term liabilities of the Group mainly represented a government grant of RMB15,790,000 received by Hainan Basuo from the Ministry of Communication of the PRC and deferred rental income of RMB5,755,000, after elimination of the Group's 60% interest therein, received from the Group's jointly-controlled entity.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(t) Other long term liabilities (continued)*

*Group (continued)*

The government grant is for the specific purpose of the future renovation of the port facilities operated by Hainan Basuo.

*Company*

As at 31 March 2006, other long term liabilities of the Company mainly represented deferred rental income of RMB14,388,000 received from its jointly-controlled entity.

### *(u) Trade payables*

The trade payables are non-interest-bearing and are normally settled from thirty to sixty days. An aged analysis of trade payables, based on invoice dates, of the Group and of the Company as at the balance sheet date of the Relevant Periods, is as follows:

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within six months | 54,659 | 47,257 | 39,270 | 62,528 |
| Over six months but within one year | 3,744 | 2,679 | 2,924 | 1,252 |
| Over one year but within two years | 3,285 | 1,720 | 615 | 1,622 |
| Over two years but within three years | 281 | 1,203 | 354 | 878 |
| Over three years | 5,831 | 5,285 | 4,886 | 5,297 |
| | 67,800 | 58,144 | 48,049 | 71,577 |

As at 31 December 2003, 2004 and 2005 and 31 March 2006, the amounts due to CNOOC group companies included in the above trade payable balances were RMB27,648,000, RMB28,471,000, RMB31,969,000 and RMB17,683,000, respectively.

The amounts due are unsecured, non-interest-bearing and have no fixed terms of repayment.

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within six months | 29,894 | 34,777 | 35,370 | 23,786 |
| Over six months but within one year | 2,100 | 226 | — | — |
| Over one year but within two years | 2,909 | 456 | 5 | — |
| Over two years but within three years | — | — | 192 | 192 |
| Over three years | 6,303 | 6,281 | 6,281 | 6,281 |
| | 41,206 | 41,740 | 41,848 | 30,259 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(u) Trade payables (continued)*

*Company (continued)*

The amounts due to subsidiaries and CNOOC group companies included in the above can be analyzed as follows:

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| CNOOC group companies | 27,648 | 28,471 | 31,969 | 17,683 |
| Subsidiaries | — | 530 | 190 | 1,592 |
| | 27,648 | 29,001 | 32,159 | 19,275 |

The amounts due are unsecured, non-interest-bearing and have no fixed terms of repayment.

### *(v) Other payables and accruals*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Advances from customers | 29,304 | 39,117 | 19,235 | 113,929 |
| Accruals | 49,919 | 51,189 | 74,044 | 14,310 |
| Payables to the Inner Mongolia Finance Bureau | — | — | — | 488,304 |
| Other payables | 236,088 | 161,245 | 487,644 | 651,929 |
| Due to the ultimate holding company | 6,172 | 4,300 | 2,172 | 1,396,733 |
| Due to CNOOC group companies | 75 | 356 | 3,772 | 20,648 |
| Due to an associate | — | 5,809 | 1,669 | 5,159 |
| Due to a jointly-controlled entity | — | — | — | 132 |
| | 321,558 | 262,016 | 588,536 | 2,691,144 |

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Advances from customers | 21,001 | 19,810 | 9,436 | 23,496 |
| Accruals | 22,815 | 20,816 | 24,779 | 5,883 |
| Payables to the Inner Mongolia Finance Bureau | — | — | — | 488,304 |
| Other payables | 205,841 | 81,680 | 55,077 | 37,621 |
| Due to the ultimate holding company | 6,172 | 4,300 | 2,172 | 1,396,733 |
| Due to CNOOC group companies | 75 | 356 | 2,654 | 2,214 |
| Due to an associate | — | 5,809 | 500 | 3,000 |
| Due to subsidiaries | 2,739 | 4,603 | 5,086 | 21,376 |
| Due to a jointly-controlled entity | — | — | — | 331 |
| | 258,643 | 137,374 | 99,704 | 1,978,958 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(v) Other payables and accruals (continued)*

As at 31 March 2006, except for an amount of RMB1,392,586,000 due to the ultimate holding company, the amounts due to the CNOOC group companies, an associate, a jointly-controlled entity and the subsidiaries, and the remaining amounts of RMB4,147,000 due to the ultimate holding company are unsecured, non-interest-bearing and repayable on demand.

Included in the amounts due to the ultimate holding company as at 31 March 2006 was the amortized cost of the unsecured entrusted loans of RMB1,392,586,000 obtained from CNOOC during the three-month period ended 31 March 2006.

During the three-month period ended 31 March 2006, the Company obtained unsecured entrusted loans with an aggregate contract amount of RMB1,410,000,000 from CNOOC, the ultimate holding company, which are unsecured, bear interest at a contract rate of 2.07% per annum and are repayable within six months from the respective dates of drawdown.

The entrusted loans are initially recorded at their aggregate fair value of RMB1,394,281,000 and are subsequently measured at amortized cost using the effective interest method at a rate of 5.22% per annum. The difference of RMB15,719,000 between the fair value of the entrusted loans at initial recognition and the total cash amounts of RMB1,410,000,000 payable to CNOOC by the Company on the respective dates of repayment was accounted for as a capital contribution to the Company by CNOOC at initial recognition and was recorded by both the Group and the Company as capital reserve.

Except for an aggregate amount of RMB4,944,000 which relates to retention money and construction payables to certain CNOOC group companies, the Group's non-trade balances with other CNOOC group companies totaling RMB15,704,000 and the amount due to the ultimate holding company of RMB1,396,733,000 had been settled as at the date of this report.

The amount due to the Inner Mongolia Finance Bureau (the "Finance Bureau") as at 31 March 2006 represented an amount originally due by Tianye to the Finance Bureau. The Company has provided an entrusted loan to Tianye for settlement of this amount, and will make the payment directly to the Finance Bureau on behalf of Tianye. The amount was paid to the Finance Bureau on 30 April 2006.

### *(w) Derivative financial instruments*

In 2001, the Group and the Company entered into a cross currency interest rate swap contract with a financial institution to sell United States dollars ("U.S.$") in exchange for Japanese Yen ("JPY") in order to partially offset the potential fluctuation in future repayments of certain Japanese Yen denominated loans and their related interest payments in U.S.$ equivalent. The Japanese Yen loans are subject to floating six month LIBOR plus 0.6% per annum while the interest rate stipulated in this swap contract for the U.S.$ is fixed at a rate of 3.93% per annum. The contractual exchange rate is JPY124/U.S.$1.

This swap contract did not meet the criteria for hedge accounting of IAS 39 as the Group and the Company did not prepare the required formal designation and documentation that

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(w) Derivative financial instruments (continued)*

specified how the hedge effectiveness would be assessed throughout the life of hedge relationship from the outset. As such, changes in the fair values of this non-hedging cross currency interest rate swap contract have been reported as other income and gains or other expenses in the consolidated income statements for the Relevant Periods and the three-month period ended 31 March 2005.

The notional/contract amount of this swap contract indicates the volume of transaction outstanding as at the balance sheet date i.e. the outstanding Japanese Yen denominated loan amounts or its U.S.$ equivalents as at that date. The notional amount changes according to a fixed amortized schedule with notional amount of U.S.$136,408,000 or JPY15,578,161,000 as at 31 March 2006 and amortized subsequently to U.S.$97,434,000 or JPY11,127,257,000 in the last coupon period before it matures on 20 June 2008. The cross currency interest rate swap contract is carried as an asset when the fair value is positive and a liability when the fair value is negative as at each balance sheet date. The fair value of the cross currency interest rate swap contract as of each balance sheet date of the Relevant Periods is detailed as follows:

*Group and Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cross currency interest rate swap contract | (20,015) | 17,303 | (50,634) | (44,844) |

### *(x) Obligations under finance lease*

The Group has finance lease contracts for computer equipment with a CNOOC group company. The lease has term of renewal but no purchase option and escalation clauses. Renewals are at the option of the Group.

At 31 March 2006, the future minimum lease payments under finance lease and the present value of the minimum lease payments are as follows:

| | Minimum lease payments As at 31 March 2006 | Present value of minimum lease payments As at 31 March 2006 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Amount payable: | | |
| Within one year | 689 | 673 |
| In the second year | 562 | 548 |
| Total minimum finance lease payments | 1,251 | 1,221 |
| Future finance charges | (30) | |
| Total net finance lease payables | 1,221 | |
| Portion classified as current liabilities (note (s) of Section 6) | (673) | |
| Non-current portion (note (s) of Section 6) | 548 | |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(y) Operating lease arrangements*

*(i) As lessor*

*Group*

As at 31 December 2003, 2004 and 2005 and 31 March 2006, the Group had no significant future minimum lease receivables under non-cancellable operating leases.

*Company*

The Company leases certain of its buildings under operating lease arrangements with leases negotiated for terms from one year to twenty years to its subsidiaries.

As at 31 December 2003, 2004 and 2005 and 31 March 2006, the Company had total future minimum lease receivables from the subsidiaries of the Company under non-cancellable operating leases falling due as follows:

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 517 | 517 | 517 | 9,866 |
| In the second to fifth years, inclusive | 2,069 | 2,069 | 2,069 | 2,069 |
| After five years | 6,733 | 6,216 | 5,698 | 5,569 |
| | 9,319 | 8,802 | 8,284 | 17,504 |

*(ii) As lessee*

The Group and the Company lease office premises under operating lease arrangements with leases negotiated for terms of one year from CNOOC group companies.

As at 31 March 2006, the Group and the Company had total future minimum lease payments to CNOOC group companies under non-cancellable operating leases falling due within one year of RMB1,262,000.

As at 31 December 2003, 2004 and 2005, the Group had no significant future minimum lease payables under non-cancellable operating leases.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(z) Commitments and contingent liabilities*

*(i) Capital commitments*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted, but not provided for: | | | | |
| —Acquisition of land and buildings | — | — | 50,263 | 41,543 |
| —Acquisition of plant and machinery | 81,767 | 19,200 | 58 | 8,678 |
| Authorized, but not contracted for: | | | | |
| —Acquisition of land and buildings | — | — | 196,842 | 199,842 |
| —Acquisition of plant and machinery | 840 | 13,771 | 1,781 | 300,017 |
| | 82,607 | 32,971 | 248,944 | 550,080 |

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted, but not provided for: | | | | |
| —Acquisition of plant and machinery | 81,767 | 18,388 | — | 5,909 |
| Authorized, but not contracted for: | | | | |
| —Acquisition of plant and machinery | — | — | 1,560 | 11,963 |
| | 81,767 | 18,388 | 1,560 | 17,872 |

In addition, the Group's and the Company's share of the jointly-controlled entity's own capital commitments, which are not included in the above, is as follows:

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted, but not provided for: | | | | |
| —Acquisition of plant and machinery | — | 231,002 | 265,735 | 168,379 |
| Authorized, but not contracted for: | | | | |
| —Acquisition of plant and machinery | — | 604,757 | 260,613 | 247,224 |
| | — | 835,759 | 526,348 | 415,603 |

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(z) Commitments and contingent liabilities (continued)*

*(ii) Contingent liabilities*

*Group*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Guarantees given to a bank in connection with banking facilities granted to and utilized by a CNOOC group company | 351,330 | 338,100 | 294,000 | 271,950 |

*Company*

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Guarantees given to banks in connection with banking facilities granted to and utilized by: | | | | |
| —A CNOOC group company | 351,330 | 338,100 | 294,000 | 271,950 |
| —Subsidiaries | 6,630 | 6,630 | 7,183 | 10,753 |
| —A jointly-controlled entity | — | — | 99,389 | 239,383 |
| | 357,960 | 344,730 | 400,572 | 522,086 |

The guarantees given to a bank in connection with the banking facilities granted to and utilized by the CNOOC group company were released in full in June 2006.

### *(aa) Financial risk management objectives and policies*

The Group's principal financial instruments other than derivatives, comprise bank loans, other interest-bearing loans 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 Group also enters into a cross currency interest rate swap contract, the purpose of which is to manage the exchange rate and interest rate risk arising from the Group's sources of finance.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group does not have written risk management policies and guidelines. However, the management meets periodically to analyze and formulate measures to manage the Group's exposure to financial risk. Generally, the Group employs a conservative strategy regarding its risk management.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(aa) Financial risk management objectives and policies (continued)*

*(i) Cash flow interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group monitors interest rate exposure and entered into a cross currency interest rate swap contract, in which the Group agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount, though the swap contract did not meet the criteria for hedge accounting. At 31 March 2006, after taking into account the effect of interest rate swaps, approximately 62% of the Group's borrowings are at fixed rate of interest.

The interest rates and the terms of repayment of the Group's bank and other borrowings are disclosed in note (s) of Section 6 above.

*(ii) Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group's monetary assets, loans and transactions are principally denominated in RMB, U.S.$ and JPY. The Group is exposed to foreign currency risk arising from the exposure of JPY and U.S.$ against RMB. At present, the Group reduce its exposure to JPY foreign exchange fluctuation by entering into a cross currency interest rate swap contract to partially offset against future repayments of certain Japanese Yen denominated loans and their related interest payments.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

*(iii) Credit risk*

The carrying amounts of cash and cash equivalents, available-for-sale equity investments, trade receivables, other receivables and other current assets except for prepayments and tax recoverable represent the maximum exposure of the Group to the credit risk in relation to financial assets. The majority of the Group's trade receivables are related to the sale of fertilizers which 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.

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.

## 6. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY (continued)

### *(aa) Financial risk management objectives and policies (continued)*

*(iii) Credit risk (continued)*

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

No other financial assets carry a significant exposure to credit risk.

*(iv) Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. In addition, banking facilities have been put in place for contingency purposes.

## 7. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The movements in the consolidated statements of changes in equity of the Group for the Relevant Periods and the three-month period ended 31 March 2005 prepared on the basis set out in Section 1 above are as follows:

*Group*

| | Attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|
| | **Paid-up capital** | **Statutory surplus reserves** | **Retained profits** | **Total** | **Minority interests** | **Total equity** |
| | **RMB'000** | **RMB'000 (Note i)** | **RMB'000 (Note i)** | **RMB'000** | **RMB'000 (Note ii)** | **RMB'000** |
| **As at 1 January 2003** | 1,302,416 | 31,599 | 12,737 | 1,346,752 | 124,627 | 1,471,379 |
| Net profit for the year | — | — | 137,151 | 137,151 | 28,393 | 165,544 |
| Arising from formation of a subsidiary | — | — | — | — | 4,900 | 4,900 |
| Dividends paid to minority shareholders | — | — | — | — | (10,341) | (10,341) |
| Capital contributions (note (p) of Section 6) | 517,727 | — | — | 517,727 | — | 517,727 |
| Dividends declared (note (j) of Section 5) | — | — | (567) | (567) | — | (567) |
| On capitalization of retained profits (note (p) of Section 6) | 105,717 | — | (105,717) | — | — | — |
| **As at 31 December 2003 and 1 January 2004** | 1,925,860 | 31,599 | 43,604 | 2,001,063 | 147,579 | 2,148,642 |
| Net profit for the year | — | — | 720,523 | 720,523 | 47,519 | 768,042 |
| Dividends paid to minority shareholders | — | — | — | — | (49,180) | (49,180) |
| Capital contributions (note (p) of Section 6) | 151,610 | — | — | 151,610 | — | 151,610 |
| Dividends declared (note (j) of Section 5) | — | — | (134,808) | (134,808) | — | (134,808) |
| Transfer from retained profits | — | 103,692 | (103,692) | — | — | — |
| On capitalization of retained profits (note (p) of Section 6) | 2,440 | — | (2,440) | — | — | — |
| **As at 31 December 2004** | 2,079,910 | 135,291 | 523,187 | 2,738,388 | 145,918 | 2,884,306 |

## 7. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

*Group (continued)*

| | Attributable to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-up capital | Statutory surplus reserves | Retained profits/ (accumulated losses) | Proposed Special Dividend | Total | Minority interests | Total equity |
| | RMB'000 | RMB'000 (Note i) | RMB'000 (Note i) | RMB'000 | RMB'000 | RMB'000 (Note ii) | RMB'000 |
| **As at 1 January 2005** | 2,079,910 | 135,291 | 523,187 | — | 2,738,388 | 145,918 | 2,884,306 |
| Net profit for the year | — | — | 943,830 | — | 943,830 | 39,325 | 983,155 |
| Acquisition of minority interests | — | — | — | — | — | (2,469) | (2,469) |
| Arising from formation of a subsidiary (note (a) of Section 8) | — | — | — | — | — | 115,400 | 115,400 |
| Transfer of a subsidiary to a CNOOC group company (note (b) of Section 8) | (2,449) | — | — | — | (2,449) | (482) | (2,931) |
| Transfer of available-for-sale equity investments (note (c) of Section 8) | (42,874) | — | — | — | (42,874) | — | (42,874) |
| Deregistration of a subsidiary | — | — | — | — | — | (5,979) | (5,979) |
| Dividends paid to minority shareholders | — | — | — | — | — | (253) | (253) |
| Capital contributions (note (p) of Section 6) | 150,250 | — | — | — | 150,250 | — | 150,250 |
| Dividends declared (note (j) of Section 5) | — | — | (1,012) | — | (1,012) | — | (1,012) |
| Proposed Special Dividend (note (j) of Section 5 ) | — | — | (1,210,801) | 1,210,801 | — | — | — |
| Transfer from retained profits | — | 137,845 | (137,845) | — | — | — | — |
| On capitalization of retained profits (note (p) of Section 6) | 209,207 | — | (209,207) | — | — | — | — |
| **As at 31 December 2005** | 2,394,044 | 273,136 | (91,848) | 1,210,801 | 3,786,133 | 291,460 | 4,077,593 |

## 7. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

*Group (continued)*

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid-up capital | Statutory surplus reserves | Capital reserve | Retained profits/ (accumulated losses) | Proposed Special Dividend | Total | Minority interests | Total equity |
| | RMB'000 | RMB'000 (Note i) | RMB'000 | RMB'000 (Note i) | RMB'000 | RMB'000 | RMB'000 (Note ii) | RMB'000 |
| **As at 1 January 2006** | 2,394,044 | 273,136 | — | (91,848) | 1,210,801 | 3,786,133 | 291,460 | 4,077,593 |
| Net profit for the period | — | — | — | 746,909 | — | 746,909 | 12,557 | 759,466 |
| Acquisition of a subsidiary (note (e) of Section 8) | — | — | — | — | — | — | 173,716 | 173,716 |
| Acquisition of minority interests | — | — | — | — | — | — | (5,656) | (5,656) |
| Dividends paid and payable to minority shareholders | — | — | — | — | — | — | (50,573) | (50,573) |
| Capital contribution (note (v) of Section 6) | — | — | 15,719 | — | — | 15,719 | — | 15,719 |
| Special Dividend declared (note (j) of Section 5) | — | — | — | — | (1,210,801) | (1,210,801) | — | (1,210,801) |
| **As at 31 March 2006** | 2,394,044 | 273,136 | 15,719 | 655,061 | — | 3,337,960 | 421,504 | 3,759,464 |
| **(Unaudited)** | | | | | | | | |
| **As at 1 January 2005** | 2,079,910 | 135,291 | — | 523,187 | — | 2,738,388 | 145,918 | 2,884,306 |
| Net profit for the period | — | — | — | 189,604 | — | 189,604 | 3,200 | 192,804 |
| On capitalization of retained profits (note (p) of Section 6) | 896 | — | — | (896) | — | — | — | — |
| **As at 31 March 2005** | 2,080,806 | 135,291 | — | 711,895 | — | 2,927,992 | 149,118 | 3,077,110 |

Notes:

(i) In accordance with the articles of association of the Company approved by the relevant government authorities on 25 April 2006, the profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRS following the listing of the Company's shares on the Stock Exchange.

Under the PRC Company law and the Company's articles of association approved on 25 April 2006, net profit after tax could only be distributed as dividends after an allowance has been made for the following:

(1) Making up prior years' cumulative losses, if any;

(2) Allocations to the statutory common reserve fund of at least 10% of profit after tax, until the fund aggregates to 50% of the Company's share capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders; and

(3) Allocations to the discretionary common reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

For dividend distribution purposes, the amount which the Company's subsidiaries and its jointly-controlled entity can legally distribute by way of a dividend is determined with reference to their profits available for distribution as reflected in their respective PRC statutory financial statements, which are prepared in accordance with PRC GAAP. These profits may differ from those reflected in this report which is prepared in accordance with IFRS.

## 7. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Notes: (continued)

(ii) The dividends paid and payable to minority shareholders represented dividends paid and payable to the minority interests of the Company's subsidiaries, amounting to RMB10,341,000, RMB49,180,000 and RMB253,000 and RMB50,753,000 during the Relevant Periods, respectively.

## 8. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods and the three-month period ended 31 March 2005 prepared on the basis set out in Section 1 above are as follows:

| | Notes | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2005 | 2006 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Profit before tax | | 182,744 | 794,925 | 1,030,671 | 195,985 | 777,146 |
| Adjustments for: | | | | | | |
| Finance costs | 5(d) | 7,709 | 14,990 | 15,532 | 4,147 | 10,750 |
| Foreign exchange differences, net | 5(e) | 56,111 | 39,996 | (189,536) | (41,856) | 6,167 |
| Share of profits of associates | | (855) | (1,564) | (1,913) | (435) | (476) |
| Interest income | 5(c) | (3,836) | (11,869) | (24,441) | (3,619) | (6,967) |
| Dividend income from listed and unlisted investments | 5(b) | (109) | (154) | (223) | — | (135) |
| Loss on disposal of items of property, plant and equipment | 5(e) | 624 | 342 | 156 | — | — |
| Depreciation | 5(e) | 123,157 | 257,900 | 264,362 | 66,002 | 107,060 |
| Amortization of patents and licenses | 5(e) | 25 | 25 | 25 | 6 | 6 |
| Amortization of a trademark | 5(e) | — | — | — | — | 65 |
| Amortization of other intangible assets | 5(e) | 55 | 115 | 114 | 28 | 28 |
| Amortization of prepaid land lease payments | 5(e) | 1,466 | 2,015 | 1,773 | 443 | 1,792 |
| Impairment of items of property, plant and equipment | 5(e) | — | — | 1,605 | — | — |
| Changes in fair value of derivative financial instruments | 5(b), (e) | (47,206) | (37,318) | 67,937 | 30,259 | (5,790) |
| Provision /(write-back of provision) for bad and doubtful receivables | 5(e) | (1,674) | 163 | (823) | (872) | — |
| Provision for defined benefit plans | | — | — | — | — | 1,152 |
| Gain on dissolution of a subsidiary | 8(d) | — | — | — | — | (586) |
| Excess over the cost of a business combination | 8(e) | — | — | — | — | (577,619) |
| Write-down/(write-back) of inventories to net realizable value | 5(e) | 88 | (88) | (1,426) | — | 7 |
| Operating profit before working capital changes | | 318,299 | 1,059,478 | 1,163,813 | 250,088 | 312,600 |
| Decrease/(increase) in other long term assets | | 47 | 519 | (376) | — | (248) |
| Decrease/(increase) in inventories | | (16,322) | 11,188 | (21,256) | 17,859 | 8,234 |
| Decrease/(increase) in trade and bills receivables, prepayments, deposits and other receivables | | (34,480) | 70,415 | (150,761) | (2,855) | 205,640 |
| Increase/(decrease) in trade payables, other payables and accruals and other long term liabilities | | (60,787) | (42,162) | (2,847) | (40,965) | 9,321 |
| Cash generated from operations | | 206,757 | 1,099,438 | 988,573 | 224,127 | 535,547 |
| Defined benefits paid | | — | — | — | — | (462) |
| Taxes paid | | (21,311) | (24,859) | (71,426) | (8,279) | (120) |
| Net cash inflow from operating activities | | 185,446 | 1,074,579 | 917,147 | 215,848 | 534,965 |

## 8. CONSOLIDATED CASH FLOW STATEMENTS (continued)

| | Notes | Year ended 31 December | | | Three-month period ended 31 March | |
|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2005 | 2005 | 2006 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Net cash inflow from operating activities | | 185,446 | 1,074,579 | 917,147 | 215,848 | 534,965 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Interest received | | 3,836 | 11,869 | 24,441 | 3,619 | 6,967 |
| Dividends received | | 149 | 48 | 38 | — | 135 |
| Purchases of items of property, plant and equipment | | (989,456) | (319,050) | (472,557) | (20,144) | (297,402) |
| Proceeds from disposal of items of property, plant and equipment | | 6,936 | 30 | 12 | — | — |
| Additions to prepaid land lease payments | 6(c) | (6,949) | — | (2,835) | — | (43,014) |
| Additions to intangible assets | 6(d) | — | (252) | — | — | — |
| Acquisitions of minority interests | | — | — | (2,469) | — | (5,494) |
| Acquisition of a subsidiary | 8(e) | — | — | — | — | (892,245) |
| Dissolution of a subsidiary | 8(d) | — | — | — | — | (21) |
| Decrease in available-for-sale equity investments | | 382 | 382 | — | — | — |
| Decrease/(increase) in loans receivable | | (2,800) | 2,800 | — | — | — |
| Increase in pledged bank deposits | | — | — | — | — | (7,202) |
| Decrease/(increase) in non-pledged time deposits with original maturity of three months or more when acquired | | — | (322,000) | 92,000 | (494,000) | (78,183) |
| Net cash outflow from investing activities | | (987,902) | (626,173) | (361,370) | (510,525) | (1,316,459) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Capital contributions | 6(p) | 517,727 | 151,610 | 150,250 | — | — |
| Capital contribution by a minority shareholder | 8(a) | — | — | 11,938 | — | — |
| Transfer of a subsidiary to a CNOOC group company | 8(b) | — | — | (1) | — | — |
| Advances from the ultimate holding company | 6(v) | — | — | — | — | 1,410,000 |
| New bank and other borrowings | | 373,434 | 152,993 | 154,120 | 82,421 | 191,656 |
| Repayment of bank and other borrowings | | (240,923) | (128,065) | (246,323) | (66,422) | (757,387) |
| Repayment of amounts due to the Finance Bureau | 8(e) | — | — | — | — | (416,596) |
| Repayment of finance lease obligations | | — | — | — | — | (125) |
| Dividends paid | | (567) | (134,808) | (1,012) | — | — |
| Interest paid | | (11,833) | (19,638) | (16,530) | (168) | (7,925) |
| Dividends paid to minority shareholders | | (10,341) | (49,180) | (253) | — | (75) |
| Net cash inflow/(outflow) from financing activities | | 627,497 | (27,088) | 52,189 | 15,831 | 419,548 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | (174,959) | 421,318 | 607,966 | (278,846) | (361,946) |
| Cash and cash equivalents at beginning of year/period | | 865,427 | 690,468 | 1,111,786 | 1,111,786 | 1,719,752 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD | | 690,468 | 1,111,786 | 1,719,752 | 832,940 | 1,357,806 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | | | | |
| Cash and bank balances | 6(o) | 638,968 | 1,023,786 | 1,551,752 | 832,940 | 1,327,806 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 6(o) | 51,500 | 88,000 | 168,000 | — | 30,000 |
| | | 690,468 | 1,111,786 | 1,719,752 | 832,940 | 1,357,806 |

Notes:

(a) Formation of a subsidiary

In 2005, the Company and Hainan SASAC established Hainan Basuo which was engaged in port operation. The Group contributed cash of RMB304,200,000 into Hainan Basuo, representing a 72.5% equity interest in Hainan Basuo while Hainan SASAC contributed net assets.

## 8. CONSOLIDATED CASH FLOW STATEMENTS (continued)

Notes: (continued)

(a) Formation of a subsidiary (continued)

The carrying amounts of the net assets contributed by Hainan SASAC at the date of formation of Hainan Basuo were as follows:

| | Notes | RMB'000 |
|---|---|---|
| Property, plant and equipment | 6(a) | 297,819 |
| Prepaid land lease payments | 6(c) | 57,407 |
| Available-for-sale equity investments | | 12,167 |
| Investment in an associate | | 978 |
| Trade receivables | | 35,097 |
| Prepayments, deposits and other receivables | | 79,040 |
| Tax recoverable | | 25 |
| Cash and bank balances | | 11,938 |
| Other payables and accruals | | (358,175) |
| Interest-bearing bank and other borrowings | | (20,896) |
| | | 115,400 |

(b) Transfer of a subsidiary to a CNOOC group company

The Group transferred its entire equity interest of 84% in Hainan CNOOC Agriculture Co., Ltd. to a CNOOC group company which was treated as a reduction in capital contributed by CNOOC with an effective date of 31 December 2005. Further details are set out in Section 1 above.

The carrying amounts of the assets and liabilities of Hainan CNOOC Agriculture Co., Ltd. as at the date of the equity transfer were as follows:

| | Notes | RMB'000 |
|---|---|---|
| Net assets transferred: | | |
| Property, plant and equipment | 6(a) | 3,625 |
| Prepaid land lease payments | 6(c) | 4,937 |
| Other long term assets | | 512 |
| Trade receivables | | 136 |
| Prepayments, deposits and other receivables | | 340 |
| Cash and bank balances | | 1 |
| Trade payables | | (1,652) |
| Income tax payable | | (99) |
| Other payables and accruals | | (2,097) |
| Interest-bearing bank and other borrowings | | (2,772) |
| Minority interests | Section 7 | (482) |
| | | 2,449 |

An analysis of the net outflow of cash and cash equivalents in respect of the transfer of a subsidiary to a CNOOC group company is as follows:

| | Year ended 31 December 2005 RMB'000 |
|---|---|
| Cash consideration | — |
| Cash and bank balances | (1) |
| Net outflow of cash and cash equivalents in respect of the transfer of a subsidiary | (1) |

## 8. CONSOLIDATED CASH FLOW STATEMENTS (continued)

Notes: (continued)

(b) Transfer of a subsidiary to a CNOOC group company (continued)

The results of the subsidiary transferred in the year ended 31 December 2005 had no significant impact on the Group's consolidated revenue or profit after tax for the year.

(c) Transfer of available-for-sale equity investments

Included in the available-for-sale equity investments as at 31 December 2004 were an amount of RMB27,874,000 and RMB15,000,000 invested in Haiwan Fudao Hotel and Sanya Resort Co., Ltd., respectively. The Group has transferred these investments to a CNOOC group company. The transfer of investments was treated as a reduction in capital contributed by CNOOC with an effective date of 31 December 2005. Further details are set out in Section 1 above.

(d) Dissolution of a subsidiary

Subsequent to the acquisition of Tianye, one of its subsidiaries, namely Inner Mongolia Jie Da Chemical Co., Ltd. ("Jie Da"), was declared bankrupt in March 2006. As at the date of Jie Da's bankruptcy, the carrying amounts of the assets and liabilities of Jie Da were as follows:

| | Notes | Carrying amounts |
|---|---|---|
| | | RMB'000 |
| Net liabilities disposed of: | | |
| Property, plant and equipment | 6(a) | 1,021 |
| Trade receivables | | 220 |
| Prepayments, deposits and other receivables | | 361 |
| Inventories | | 246 |
| Trade payables | | (3,656) |
| Other payables and accruals | | (1,338) |
| | | (3,146) |
| Group's receivables written off | | 2,539 |
| Gain on dissolution of a subsidiary | 5(b) | 586 |
| Net outflow of cash and cash equivalents in respect of the dissolution of a subsidiary | | (21) |

(e) Business combination

In November and December 2005, the Company entered into an equity transfer agreement with each of the four equity holders of Tianye to acquire a 90% equity interest in Tianye for an aggregate cash consideration of RMB964,641,000 (the "Acquisition"). The cash consideration was payable to three of the equity holders which together held 80.92% equity interests in Tianye. The remaining 9.08% equity interest in Tianye was transferred from the State-owned Assets Supervision and Administration Commission of the Inner Mongolia Autonomous Region People's Government to the Company at nil consideration. The transfer of the 9.08% equity interest in Tianye has given rise to a PRC corporate income tax provision of RMB8,120,000 which was capitalized as part of the Company's investment in Tianye.

Out of the total cash consideration of RMB964,641,000 paid for the acquisition of equity interests in Tianye by the Company, an amount of RMB891,118,000 for the acquisition of a 74.74% equity interest in Tianye from an equity holder was paid on 19 January 2006. The remaining cash consideration of RMB73,523,000 for the acquisition of a combined 6.18% equity interest in Tianye from the other two equity holders was fully paid on 7 March 2006.

## 8. CONSOLIDATED CASH FLOW STATEMENTS (continued)

Notes: (continued)

(e) Business combination (continued)

Tianye recorded an amount of interest-bearing bank loans denominated in Japanese Yen borrowed from the Export-Import Bank of China (the "Japanese Yen Loans"), related penalty interest and late fee payables thereon due to the late repayment of the Japanese Yen Loans (collectively the "Japanese Yen Loan Obligations") as at 19 January 2006. In addition, it also had an amount due to the Finance Bureau as at 19 January 2006 arising from the previous settlement of part of the Japanese Yen Loan obligations with the Export-Import Bank of China by the Finance Bureau on behalf of Tianye. Pursuant to the document Caijin [2006] No.3 issued by the Ministry of Finance on 12 January 2006 (the "MOF Document"), there was a waiver of the entire penalty interest and late fee payables, and 50% of certain related bank charges included in Tianye's Japanese Yen Loan Obligations as at 31 December 2005 (the "Waiver"). In connection with the Acquisition, and pursuant to the MOF Document, on 28 February 2006, Tianye entered into four tripartite loan transfer agreements with the Export-Import Bank of China and the Finance Bureau under which it transferred its Japanese Yen Loan Obligations to the Finance Bureau. After the completion of the above-mentioned transfer, Tianye, however, was required to pay the Finance Bureau 50% of the Japanese Yen Loan Obligations after the Waiver. Consequently, the Finance Bureau has in effect agreed to assume 50% of Tianye's Japanese Yen Loan Obligations after the Waiver. In addition, in connection with the four tripartite loan transfer agreements, the Finance Bureau has waived 50% of the amount due to it by Tianye arising from its previous settlement of part of the Japanese Yen Loan obligations on behalf of Tianye.

Upon completion of the aforesaid four tripartite loan transfer agreements and as a result of the waivers by the Finance Bureau, in February 2006, the total obligations of Tianye in respect of the Japanese Yen Loans, related penalty interest and late fee payables, and the amount due to the Finance Bureau would be reduced by a total amount of RMB1,019,296,000 or from a combined amount of RMB1,917,822,000 as at 19 January 2006 to RMB898,526,000. During the three-month period ended 31 March 2006, an amount of RMB416,596,000 was repaid to the Finance Bureau.

## 8. CONSOLIDATED CASH FLOW STATEMENTS (continued)

Notes: (continued)

(e) Business combination (continued)

The fair values of the identifiable assets and liabilities of Tianye as at the date of acquisition (i.e. 19 January 2006) and the corresponding carrying amounts immediately before the Acquisition are as follows:

| | Notes | Fair value recognized on acquisition | Carrying amount |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| Property, plant and equipment | 6(a) | 2,367,433 | 2,332,900 |
| Prepaid land lease payments | 6(c) | 249,659 | 80,624 |
| Intangible assets | 6(d) | 968 | 968 |
| Deferred tax assets | 6(i) | 27,850 | 27,850 |
| Inventories | | 90,990 | 87,617 |
| Trade receivables | | 11,158 | 11,158 |
| Bills receivable | | 12,221 | 12,221 |
| Prepayments, deposits and other receivables | | 12,204 | 12,204 |
| Pledged bank deposits | | 20,918 | 20,918 |
| Non-pledged time deposits with original maturity of three months or more when acquired | | 100,000 | 100,000 |
| Cash and cash equivalents | | 72,396 | 72,396 |
| Trade payables | | (5,064) | (5,064) |
| Other payables and accruals | | (1,087,772) | (1,087,772) |
| Interest-bearing bank and other borrowings | | (1,346) | (1,346) |
| Benefits liability | | (80,036) | (80,036) |
| Income tax payable | | (6,466) | (6,466) |
| Deferred tax liabilities | 6(i) | (61,017) | — |
| Minority interests | Section 7 | (173,716) | (159,124) |
| | | 1,550,380 | 1,419,048 |
| Excess over the cost of a business combination recognized in the consolidated income statement | | (577,619) | |
| | | 972,761 | |
| Satisfied by: | | | |
| Cash | | 964,641 | |
| Income tax payable | | 8,120 | |
| | | 972,761 | |

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition is as follows:

| | RMB'000 |
|---|---|
| Cash consideration | (964,641) |
| Cash and cash equivalents acquired | 72,396 |
| Net outflow of cash and cash equivalents in respect of the Acquisition | (892,245) |

The results of Tianye have been consolidated into the Group since 19 January 2006. Since its acquisition, Tianye contributed RMB215,010,000 to the Group's turnover and RMB42,110,000 to the consolidated net profit for the three-month period ended 31 March 2006.

Had the business combination taken place at the beginning of the current period, the consolidated turnover and consolidated net profit of the Group for the three-month period ended 31 March 2006 would have been RMB765,382,000 and RMB746,909,000, respectively.

## 9. POST BALANCE SHEET EVENTS

In accordance with the Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment notice (財政部關於印發<<企業公司制改建有關國有資本管理與財務處理的暫行規定>>的通知) issued by the Ministry of Finance (English title is a direct translation of Chinese title of the notice), which became effective from 27 August 2002, the Company is required to make a distribution (the "Pre-establishment Distribution") to CNOOC in an amount equal to its net profit, as determined in accordance with PRC GAAP, generated from 1 January 2006 to 24 April 2006, the date immediately prior to the date on which the Company was reorganized into a joint stock limited company.

Pursuant to a supplementary agreement to the Promotion Agreement dated 10 July 2006, the Company's existing shareholders agreed to distribute a Pre-establishment Distribution of RMB264,538,000 to the Company's then sole shareholder, CNOOC. The Company confirmed that the Pre-establishment Distribution will be settled in full prior to the listing of its shares on the Stock Exchange.

On 25 April 2006, the existing shareholders of the Company unanimously resolved that they will be entitled to, in the same proportion as their respective shareholdings in the Company, all of the undistributed profit, as determined in accordance with PRC GAAP, of the Company for the period from 25 April 2006, the date of the Company's reorganization into a joint stock limited company, to the last day of the month immediately preceding the listing of the Company's shares on the Stock Exchange. The Directors have preliminarily estimated that the amount of such distribution would be approximately RMB312,000,000.

Subsequent to 31 March 2006, the Company entered into various agreements with CNOOC and CNOOC group companies which constitute connected transactions under the Listing Rules. Further details can be found in the Section headed "Connected Transactions" of the Company's Prospectus.

## 10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2006.

Yours faithfully,

**Ernst & Young**
*Certified Public Accountants*
Hong Kong