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 Inner Mongolia Tianye Chemical Industry Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2003, 2004 and 2005 and the nineteen-day period ended 19 January 2006 (the "Relevant Periods") and the nineteen-day period ended 19 January 2005 (the "19 January 2005 Financial Information"), prepared for the group of companies as set forth in Section 4 below, for inclusion in the prospectus of China BlueChemical Ltd. dated 18 September 2006 (the "Prospectus").

The Company was established in the People's Republic of China (the "PRC") on 4 October 1991 as a state-owned enterprise under the ownership and supervision of the People's Government of the Inner Mongolia Autonomous Region. In December 2000, the Company was restructured into a limited liability company. It is principally engaged in the manufacture and sale of fertilizers. The Company and its subsidiaries were all established in the PRC and have adopted 31 December as their financial year end date. Particulars of the Company and its subsidiaries are set out in Section 4 below.

In November and December 2005, China BlueChemical Ltd. entered into an equity transfer agreement with each of the four equity holders of the Company to acquire a 90% equity interest in the Company. Upon completion of the acquisition in 2006, China BlueChemical Ltd. holds 90% of the equity interest in the Company, whilst the State-owned Assets Supervision and Administration Commission of the Inner Mongolia Autonomous Region (the "SASAC of Inner Mongolia') holds the remaining 10%. Details of the acquisition of the equity interest in the Company by China BlueChemical Ltd. are set out in note (k) of Section 6 below.

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

For the purpose of this report, the Directors have prepared the financial statements of the Group and of the Company for 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 nineteen-day period ended 19 January 2005 and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2003, 2004, 2005 and 19 January 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 nineteen-day periods ended 19 January 2005 and 19 January 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").

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 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 nineteen-day period ended 19 January 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 19 January 2005 Financial Information

For the purpose of this report, we have also performed a review of the 19 January 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 management and applying analytical procedures to the 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 and 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 opinion on the 19 January 2005 Financial Information.

Opinion in Respect of the Financial Information for the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Company and of the Group as at 31 December 2003, 2004, 2005 and 19 January 2006.

Review Conclusion in Respect of the 19 January 2005 Financial Information

On the basis of our review of the 19 January 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 nineteen-day period ended 19 January 2005.

1. FUNDAMENTAL ACCOUNTING CONCEPT

As at 19 January 2006, the current liabilities of the Company exceeded its current assets by approximately RMB574,697,000. Notwithstanding the net current liabilities, the Financial Information has been prepared on a going concern basis as the holding company, China BlueChemical Ltd., has undertaken to provide continuing financial support to enable the Company to meet its liabilities as and when they fall due. Therefore, the Company will have sufficient funds to meet its daily working capital requirements for the foreseeable future, and will not encounter going concern problems due to inadequate working capital.

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 32 (amended 2004)	Financial Instruments: Disclosure and Presentation
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. The Financial Information has been prepared in Renminbi and all values are rounded to the nearest thousand (RMB'000) except otherwise indicated.

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 and its subsidiaries for the Relevant Periods and the nineteen-day period ended 19 January 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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);

(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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 those 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

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 income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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.

Derecognition of financial liabilities

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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, 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, 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fiscal 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) 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

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

Employee benefits

Retirement benefits

The Group participates in a government-regulated defined contribution pension scheme, under which the Group makes 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, the Group 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 (m) 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 (d) of Section 5 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Medical benefit costs

The Group participates in a government-organized defined contribution medical benefit plan, under which the Group makes 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 (d) 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 the plan by the Group are expensed as incurred. Details of the housing fund plan are set out in note (d) of Section 5 below.

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.

Foreign currencies

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 7, IFRIC 8 and IFRIC 10 do not apply to the activities of the Group. IFRIC 7, IFRIC 8 and IFRIC 10 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006 and 1 November 2006, respectively.

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 the 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 COMPANIES COMPRISING THE GROUP

Particulars of the companies comprising the Group, 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 19 January 2006	Percentage of direct equity interests attributable to the Company					Principal activities
			31 December			19 January 2006	Date of this report	
			2003	2004	2005			
		(RMB'000)						
The Company								
Inner Mongolia Tianye Chemical Industry Ltd. (內蒙古天野化工(集團)有限責任公司)(1)	PRC 4 October 1991	1,981,690	N/A	N/A	N/A	N/A	N/A	Manufacture and sale of fertilizers
Subsidiaries								
i. Inner Mongolia Hong Feng Packaging Co., Ltd.(2) (內蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	3,297	60.80	60.80	60.80	60.80	70.60	Manufacture and sale of woven plastic bags
ii. Inner Mongolia Jie Da Chemical Co., Ltd.(3)(4) (內蒙古捷達石化發展公司)	PRC 20 May 1993	5,000	100.00	100.00	100.00	100.00	N/A	Declared bankrupt
iii. Inner Mongolia Tianye Property Management Co., Ltd.(3)(5) (內蒙古天野物業管理有限責任公司)	PRC 29 September 2000	510	98.04	98.04	98.04	98.04	N/A	Property management
iv. Inner Mongolia Tianye Group Hotel(3)(5) (內蒙古天野化工集團賓館)	PRC 10 November 1991	100	100.00	100.00	100.00	100.00	N/A	Provision of hotel services
v. Inner Mongolia Tianye Group Labour Service Company(3)(5) (內蒙古天野化工集團勞動服務公司)	PRC 30 April 2001	500	100.00	100.00	100.00	100.00	100.00	Provision of labor services

Notes:
N/A—not applicable.

(1) The financial statements for the years ended 31 December 2003 and 2004 were audited by Caixinda Certified Public Accountants Co., Limited and those for the year ended 31 December 2005 were audited by Ernst & Young Hua Ming Certified Public Accountants, both of which are certified public accountants registered in the PRC.

(2) The Company increased its shareholding in the subsidiary to 70.60% on 16 March 2006 at a purchase consideration of RMB379,000. The Directors are of the opinion that the impact arising from the acquisition is not material to the Financial Information and therefore no separate disclosure is made in this report. No auditors have been appointed by this subsidiary 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.

(3) No auditors have been appointed since its registration.

(4) The subsidiary was declared bankrupt on 15 March 2006. The Directors are of the opinion that the impact arising from the bankruptcy of this subsidiary is not material to the Financial Information and therefore no separate disclosure is made in this report.

(5) The Company was in the process of filing for deregistration for these subsidiaries as at 19 January 2006. The Directors are of the opinion that the impact arising from the deregistration is not material to the Financial Information and therefore no separate disclosure is made in this report.

4. PARTICULARS OF COMPANIES COMPRISING THE GROUP (continued)

The English names of the subsidiaries within the Group represent management's best effort 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 nineteen-day period ended 19 January 2005:

	Notes	Year ended 31 December			Nineteen-day period ended 19 January	
		2003	2004	2005	2005	2006
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE	(b)	595,065	844,379	745,383	44,533	67,725
Cost of sales		(630,931)	(748,601)	(681,585)	(35,603)	(49,318)
Gross profit/(loss)		(35,866)	95,778	63,798	8,930	18,407
Other income and gains	(b)	2,510	19,762	19,461	2,831	200
Selling and distribution costs		(2,120)	(4,876)	(5,062)	(404)	(750)
Administrative expenses		(58,122)	(61,752)	(66,464)	(3,794)	(4,849)
Other expenses		(41,124)	(63,966)	(16,646)	(46)	(12)
Finance revenue	(c)	3,529	2,976	6,006	104	119
Finance costs		(60,862)	(69,207)	(64,714)	(3,565)	(1,637)
Exchange gain/(loss), net		(193,390)	(47,836)	236,649	(28,035)	(22,857)
PROFIT/(LOSS) BEFORE TAX	(d)	(385,445)	(129,121)	173,028	(23,979)	(11,379)
Income tax credit/(expense)	(g)	18,161	(31,781)	7	—	—
PROFIT/(LOSS) FOR THE YEAR/ PERIOD		(367,284)	(160,902)	173,035	(23,979)	(11,379)
Attributable to:						
Equity holders of the parent	(h)	(367,393)	(161,064)	172,952	(23,969)	(11,380)
Minority interests		109	162	83	(10)	1
		(367,284)	(160,902)	173,035	(23,979)	(11,379)

(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.

Summary details of the business segments are as follows:

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

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

5. CONSOLIDATED INCOME STATEMENT (continued)

(a) Segment information (continued)

(iii) the "others" segment mainly comprises of segments engaged in the provision of hotel 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 customers or assets are presented as over 90% of the Group's customers and 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.

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 nineteen-day period ended 19 January 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	591,252	—	3,813	—	595,065
Intersegment sales	—	—	19,010	(19,010)	—
Other income	2,608	—	(98)	—	2,510
Total	593,860	—	22,725	(19,010)	597,575
Segment results	(133,567)	—	(1,155)	—	(134,722)
Finance revenue					3,529
Finance costs					(60,862)
Exchange loss, net					(193,390)
Loss before tax					(385,445)
Income tax credit					18,161
Loss for the year					(367,284)
As at 31 December 2003					
Segment assets	2,687,392	—	20,924	—	2,708,316
Corporate and other unallocated assets					52,718
Total assets					2,761,034
Segment liabilities	(305,449)	—	(15,176)	—	(320,625)
Corporate and other unallocated liabilities					(1,881,972)
Total liabilities					(2,202,597)
Other segment information:					
Depreciation and amortization	210,017	—	477	—	210,494
Impairment losses recognized in the consolidated income statement	35,299	—	—	—	35,299
Other non-cash expenses	14	—	—	—	14
Capital expenditure	13,761	—	253	—	14,014

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	840,128	—	4,251	—	844,379
Intersegment sales	—	—	17,694	(17,694)	—
Other income	20,120	—	160	(518)	19,762
Total	860,248	—	22,105	(18,212)	864,141
Segment results	(15,130)	—	76	—	(15,054)
Finance revenue					2,976
Finance costs					(69,207)
Exchange loss, net					(47,836)
Loss before tax					(129,121)
Income tax expense					(31,781)
Loss for the year					(160,902)
As at 31 December 2004					
Segment assets	2,580,848	83,785	25,263	—	2,689,896
Corporate and other unallocated assets					26,961
Total assets					2,716,857
Segment liabilities	(485,402)	—	(16,208)	—	(501,610)
Corporate and other unallocated liabilities					(1,817,874)
Total liabilities					(2,319,484)
Other segment information:					
Depreciation and amortization	184,692	—	383	—	185,075
Impairment losses recognized in the consolidated income statement	45,613	—	—	—	45,613
Other non-cash expenses	(193)	—	—	—	(193)
Capital expenditure	120,965	83,785	192	—	204,942

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	740,514	—	4,869	—	745,383
Intersegment sales	—	—	18,788	(18,788)	—
Other income	19,914	—	(453)	—	19,461
Total	760,428	—	23,204	(18,788)	764,844
Segment results	(2,701)	—	(2,212)	—	(4,913)
Finance revenue					6,006
Finance costs					(64,714)
Exchange gain, net					236,649
Profit before tax					173,028
Income tax credit					7
Profit for the year					173,035
As at 31 December 2005					
Segment assets	2,163,374	529,297	20,323	—	2,712,994
Corporate and other unallocated assets					27,850
Total assets					2,740,844
Segment liabilities	(703,499)	—	(16,027)	—	(719,526)
Corporate and other unallocated liabilities					(1,451,063)
Total liabilities					(2,170,589)
Other segment information:					
Depreciation and amortization	184,102	—	491	—	184,593
Impairment losses recognized in the consolidated income statement	8,370	—	—	—	8,370
Other non-cash expenses	(143)	—	—	—	(143)
Capital expenditure	140,248	445,512	600	—	586,360

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)
Nineteen-day period ended 19 January 2005					
Segment revenue:					
Sales to external customers	44,383	—	150	—	44,533
Intersegment sales	—	—	1,122	(1,122)	—
Other income	2,794	—	37	—	2,831
Total	47,177	—	1,309	(1,122)	47,364
Segment results	7,767	—	(250)	—	7,517
Finance revenue					104
Finance costs					(3,565)
Exchange loss, net					(28,035)
Loss before tax					(23,979)
Income tax expense					—
Loss for the period					(23,979)
Other segment information:					
Depreciation and amortization	9,860	—	25	—	9,885
Capital expenditure	3,791	11,993	—	—	15,784

5. CONSOLIDATED INCOME STATEMENT (continued)

(a) Segment information (continued)

Business segments (continued)

	Fertilizers RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Nineteen-day period ended 19 January 2006					
Segment revenue:					
Sales to external customers	67,677	—	48	—	67,725
Intersegment sales	—	—	525	(525)	—
Other income	200	—	—	—	200
Total	67,877	—	573	(525)	67,925
Segment results	13,663	—	(667)	—	12,996
Finance revenue					119
Finance costs					(1,637)
Exchange loss, net					(22,857)
Loss before tax					(11,379)
Income tax expense					—
Loss for the period					(11,379)
As at 19 January 2006					
Segment assets	2,174,407	539,319	17,280	—	2,731,006
Corporate and other unallocated assets					27,850
Total assets					2,758,856
Segment liabilities	(714,230)	—	(11,150)	—	(725,380)
Corporate and other unallocated liabilities					(1,474,600)
Total liabilities					(2,199,980)
Other segment information:					
Depreciation and amortization	9,686	—	23	—	9,709
Capital expenditure	912	10,068	—	—	10,980

(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 nineteen-day period ended 19 January 2005.

5. CONSOLIDATED INCOME STATEMENT (continued)

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

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

	Year ended 31 December			Nineteen-day period ended 19 January	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue					
Sale of goods	591,252	840,128	740,514	44,383	67,677
Rendering of services	3,813	4,251	4,869	150	48
	595,065	844,379	745,383	44,533	67,725
Other income and gains					
Subsidy income (Note)	—	18,085	17,684	2,794	—
Others	2,510	1,677	1,777	37	200
	2,510	19,762	19,461	2,831	200

Note:
Pursuant to documents Cai Shui (2004) No. 33 and Cai Shui (2005) No. 9 issued by the Ministry of Finance and the State Administration of Taxation of the PRC (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. This refund of VAT is recognized as subsidy income by the Group when there is reasonable assurance that the VAT refund will be received by the Group. The Group has received the refunds for 50% of its net VAT paid on the sale of urea products during the period from 1 January 2004 to 30 June 2005 and these amounts have been recorded as subsidy income accordingly.

Pursuant to 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 represents interest income earned during the Relevant Periods and the nineteen-day period ended 19 January 2005.

5. CONSOLIDATED INCOME STATEMENT (continued)

(d) Profit/(Loss) before tax

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

	Year ended 31 December			Nineteen-day period ended 19 January	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold	624,967	742,324	675,076	35,463	49,057
Cost of services provided	5,964	6,277	6,509	140	261
Depreciation	208,387	182,967	182,485	9,777	9,601
Amortization of a trademark	328	328	329	17	17
Amortization of prepaid land lease payments	1,779	1,780	1,779	91	91
Write-down of inventories to net realizable value	—	—	670	—	—
Auditors' remuneration	83	274	676	107	—
Employee benefits expense (including directors' and supervisors' remuneration—note (e) below):					
Wages, salaries and allowances	36,822	44,448	47,088	2,599	3,081
Defined contribution pension scheme (note i)	6,489	6,393	7,461	109	331
Early retirement benefits and post-employment allowances (note ii)	6,455	6,744	5,032	265	308
Medical benefit costs (note iii)	1,947	1,918	2,073	328	347
Housing fund (note iv)	2,596	2,557	2,984	154	202
	54,309	62,060	64,638	3,455	4,269
Foreign exchange differences, net	193,390	47,836	(236,649)	28,035	22,857
Provision/(write-back of provision) for bad and doubtful receivables*	14	(193)	(813)	—	—
Impairment of items of property, plant and equipment*	35,299	45,613	8,370	—	—
Loss on disposal of items of property, plant and equipment*	590	15,465	4,945	—	—

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

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 nineteen-day period ended 19 January 2005. The related pension costs are expensed as incurred.

(ii) Early retirement benefits and post-employment allowances

The Group 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 (m) of Section 6 below.

5. CONSOLIDATED INCOME STATEMENT (continued)

(d) Profit/(Loss) before tax (continued)

Notes: (continued)

(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 the plan by the Group are expensed as incurred.

(e) Directors' and supervisors' remuneration

Directors' and supervisors' remuneration for the Relevant Periods and the nineteen-day period ended 19 January 2005, is as follows:

Directors

	Year ended 31 December			Nineteen-day period ended 19 January	
	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	226	289	385	24	8
Discretionary bonuses	525	665	297	—	—
Pension scheme contributions	17	22	27	3	4
	768	976	709	27	12

Supervisors

	Year ended 31 December			Nineteen-day period ended 19 January	
	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	405	480	612	41	17
Discretionary bonuses	889	1,138	736	—	—
Pension scheme contributions	40	49	61	7	12
	1,334	1,667	1,409	48	29

5. CONSOLIDATED INCOME STATEMENT (continued)

(e) 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 and supervisors				
Zhang Yuguo	101	261	5	367
Yi Lina	67	168	6	241
Yang Zhaoji	58	96	6	160
Wang Zhensheng	—	—	—	—
Xiang Jun	—	—	—	—
Mei Yaping	—	—	—	—
En He	—	—	—	—
Chen Yanqing	—	—	—	—
Gao Guiheng	—	—	—	—
Gong Lili	—	—	—	—
Li Weisong	57	151	6	214
Han Qiu	57	127	6	190
Zhou Linfeng	57	128	6	191
Hu Lansong	57	121	6	184
Li Jingrong	57	101	6	164
Li Kehong	57	85	6	148
Miao Yu	63	176	4	243
	631	1,414	57	2,102

5. CONSOLIDATED INCOME STATEMENT (continued)

(e) *Directors' and supervisors' remuneration (continued)*

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 and supervisors				
Zhang Yuguo	117	256	8	381
Yi Lina	107	256	7	370
Yang Zhaoji	65	153	7	225
Wang Zhensheng	—	—	—	—
Xiang Jun	—	—	—	—
Mei Yaping	—	—	—	—
Wang Yi	—	—	—	—
En He	—	—	—	—
Chen Yanqing	—	—	—	—
Gong Lili	—	—	—	—
Li Weisong	86	205	7	298
Han Qiu	86	205	7	298
Zhou Linfeng	75	179	7	261
Hu Lansong	75	179	7	261
Li Jingrong	65	153	7	225
Li Kehong	65	153	7	225
Qi Yaping	28	64	7	99
	769	1,803	71	2,643

5. CONSOLIDATED INCOME STATEMENT (continued)

(e) 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 and supervisors				
Zhang Yuguo	165	19	8	192
Yi Lina	140	169	10	319
Wang Yao	—	—	—	—
Wang Henglei	—	—	—	—
Wang Zhensheng	—	—	—	—
Li Xianhong	—	—	—	—
Xiang Jun	—	—	—	—
Mei Yaping	—	—	—	—
Wang Yi	—	—	—	—
En He	—	—	—	—
Chen Yanqing	—	—	—	—
Li Weisong	110	139	10	259
Han Qiu	110	139	10	259
Zhou Linfeng	95	124	10	229
Hu Lansong	95	124	10	229
Li Jingrong	57	6	3	66
Yang Zhaoji	80	109	9	198
Li Kehong	80	110	9	199
Qi Yaping	65	94	9	168
	997	1,033	88	2,118

5. CONSOLIDATED INCOME STATEMENT (continued)

(e) Directors' and supervisors' remuneration (continued)

The remuneration of each of the directors and supervisors for the nineteen-day period ended 19 January 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 and supervisors				
Zhang Yuguo	9	—	1	10
Yi Lina	9	—	1	10
Yang Zhaoji	6	—	1	7
Wang Yao	—	—	—	—
Wang Henglei	—	—	—	—
Wang Zhensheng	—	—	—	—
Xiang Jun	—	—	—	—
Mei Yaping	—	—	—	—
Wang Yi	—	—	—	—
En He	—	—	—	—
Chen Yanqing	—	—	—	—
Li Weisong	6	—	1	7
Han Qiu	6	—	1	7
Zhou Linfeng	6	—	1	7
Hu Lansong	6	—	1	7
Li Jingrong	6	—	1	7
Li Kehong	6	—	1	7
Qi Yaping	5	—	1	6
	65	—	10	75

5. CONSOLIDATED INCOME STATEMENT (continued)

(e) Directors' and supervisors' remuneration (continued)

The remuneration of each of the directors and supervisors for the nineteen-day period ended 19 January 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 and supervisors				
Yi Lina	5	—	2	7
Yang Zhaoji	3	—	2	5
Wang Zhensheng	—	—	—	—
Xiang Jun	—	—	—	—
Mei Yaping	—	—	—	—
Wang Yao	—	—	—	—
Wang Henglei	—	—	—	—
Li Xianhong	—	—	—	—
Wang Yi	—	—	—	—
Li Weisong	3	—	2	5
Han Qiu	3	—	2	5
Zhou Linfeng	3	—	2	5
Hu Lansong	3	—	2	5
Li Jingrong	—	—	—	—
Li Kehong	3	—	2	5
Qi Yapiang	2	—	2	4
	25	—	16	41

During the Relevant Periods and the nineteen-day period ended 19 January 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.

(f) Five highest paid employees

The five highest paid employees of the Group during the Relevant Periods and the nineteen-day period ended 19 January 2005 are the directors and supervisors.

5. CONSOLIDATED INCOME STATEMENT (continued)

(g) Income tax (credit)/expense

Under the relevant PRC Income Tax Law and the respective regulations, except for certain preferential tax treatment available to the Company, the entities within the Group are subject to a corporate income tax rate of 33%.

Pursuant to document Neiguoshuibanhan (2005) No. 15 issued by the Local State Tax Bureau, the Company was granted a preferential income tax treatment by way of corporate income tax exemption for three financial years beginning from the year the Company started to produce urea and methanol using natural gas as raw materials, i.e., the year ended 31 December 2005.

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 nineteen-day period ended 19 January 2005.

Major components of income tax (credit)/expense for the Relevant Periods and the nineteen-day period ended 19 January 2005 are as follows:

Group

	Year ended 31 December			Nineteen-day period ended 19 January	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Current—PRC					
Charge for the year/period	126	6,024	882	—	—
Deferred (note (e) of Section 6)	(18,287)	25,757	(889)	—	—
Total tax (credit)/charge for the year/period	(18,161)	31,781	(7)	—	—

5. CONSOLIDATED INCOME STATEMENT (continued)

(g) Income tax (credit)/expense (continued)

Group (continued)

A reconciliation of the income tax (credit)/expense applicable to profit/(loss) before tax using the statutory rates for the country in which the Group are domiciled to the income tax (credit)/expense at the effective tax rates is as follows:

	Year ended 31 December			Nineteen-day period ended 19 January	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) before tax	(385,445)	(129,121)	173,028	(23,979)	(11,379)
Tax at the statutory tax rate of 33%	(127,197)	(42,610)	57,099	(7,913)	(3,755)
Expenses not deductible for tax(1)	43,658	42,859	3,133	1,848	3,219
Deferred tax assets not recognised(2)	—	—	17,266	—	—
Tax concession granted by the PRC Tax Authority	—	—	—	(3,311)	(7,126)
Foreign exchange differences(3)	65,132	31,571	(78,094)	9,252	7,543
Tax losses not recognized	246	—	589	108	119
Others	—	(39)	—	16	—
Income tax (credit)/expense in the consolidated income statement	(18,161)	31,781	(7)	—	—
The Group's effective income tax rate	4.7%	(24.6)%	0.0%	0.0%	0.0%

Notes:

(1) Expenses not deductible for tax are mainly made up of the following items:

- a portion of expenses exceeding the cap for income tax deduction purpose, such as salaries for local enterprises;
- expenses arising from the change in accounting policies due to the change from the PRC Accounting System for Industrial Enterprises to the PRC Accounting System for Enterprises as required by the relevant local regulations, such as the change in depreciation rates for items of property, plant and equipment.

(2) Deferred tax assets not recognized are mainly the tax effect of temporary differences, such as bonus accruals, which are expected to be realized in the tax exemption year.

(3) Foreign exchange differences arise from the translation of bank borrowings denominated in Japanese Yen ("JPY"), which were taken to the consolidated income statement but have not been recorded for tax purposes during the Relevant Periods. Pursuant to document Neidishui (2006) No. 100 issued by the Local Tax Bureau, the Company is allowed to report, for tax purposes, the aggregate foreign exchange differences in 2006. As the Company is exempted from corporate income tax in 2006, the tax effect arising from the exchange differences is expected to be realized at zero corporate income tax rate.

5. CONSOLIDATED INCOME STATEMENT (continued)

(h) Profit/(Loss) for the year/period attributable to equity holders of the parent

The profit/(loss) for the year/period attributable to the equity holders of the parent for each of the Relevant Periods and for the nineteen-day period ended 19 January 2005 dealt with in the financial statements of the Company (note (l) of Section 6) was as follows:

	RMB'000
Year ended 31 December 2003	(366,003)
Year ended 31 December 2004	(160,707)
Year ended 31 December 2005	176,130
Nineteen-day period ended 19 January 2005 (Unaudited)	(23,733)
Nineteen-day period ended 19 January 2006	(10,712)

(i) Dividends

For dividend distribution purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by 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.

(j) Related party transactions

The Company became a subsidiary of China BlueChemical Ltd. on 19 January 2006 (note (k) of Section 6), and other CNOOC group companies, over which CNOOC is able to exert control or significant influence are therefore the Group's related companies starting from 19 January 2006.

During the Relevant Periods and the nineteen-day period ended 19 January 2005, the Group had no material transactions with related parties, including other CNOOC group companies.

(1) Balances due to related parties

The balances due to related parties of the Group mainly resulted from other borrowings. Further details are set out in notes (n) and (q) of Section 6.

5. CONSOLIDATED INCOME STATEMENT (continued)

(j) Related party transactions (continued)

(2) 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 nineteen-day period ended 19 January 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.

Group

	Notes	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005	As at 19 January 2006
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	1,980,064	1,940,961	2,331,521	2,332,900
Prepaid land lease payments	(b)	84,274	82,494	80,715	80,624
Intangible assets	(c)	1,642	1,314	985	968
Deferred tax assets	(e)	52,718	26,961	27,850	27,850
		2,118,698	2,051,730	2,441,071	2,442,342
CURRENT ASSETS					
Inventories	(f)	173,187	114,536	111,380	87,617
Trade receivables	(g)	6,078	1,151	4,423	11,158
Bills receivable	(h)	152,953	—	—	12,221
Prepayments, deposits and other receivables	(i)	18,606	14,852	20,495	12,204
Pledged bank deposits	(j)	—	142,601	20,918	20,918
Cash and cash equivalents	(j)	291,512	391,987	142,557	172,396
		642,336	665,127	299,773	316,514
TOTAL ASSETS		2,761,034	2,716,857	2,740,844	2,758,856
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Paid-up capital	(k)	1,981,690	1,981,690	1,981,690	1,981,690
Reserves	Section 7	(1,424,774)	(1,585,838)	(1,412,886)	(1,424,266)
		556,916	395,852	568,804	557,424
Minority interests	Section 7	1,521	1,521	1,451	1,452
Total equity		558,437	397,373	570,255	558,876
NON-CURRENT LIABILITIES					
Benefits liability	(m)	72,950	77,517	79,958	80,036
Interest-bearing bank and other borrowings	(n)	1,503,893	1,469,014	1,207,685	1,225,073
		1,576,843	1,546,531	1,287,643	1,305,109
CURRENT LIABILITIES					
Trade payables	(o)	31,321	9,112	7,370	5,064
Other payables and accruals	(p)	216,348	409,306	625,661	633,814
Interest-bearing bank and other borrowings	(n)	378,079	348,860	243,378	249,527
Income tax payable		6	5,675	6,537	6,466
		625,754	772,953	882,946	894,871
TOTAL LIABILITIES		2,202,597	2,319,484	2,170,589	2,199,980
TOTAL EQUITY AND LIABILITIES		2,761,034	2,716,857	2,740,844	2,758,856

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 19 January 2006
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	1,976,018	1,938,250	2,329,061	2,330,439
Prepaid land lease payments	(b)	84,229	82,456	80,683	80,592
Intangible assets	(c)	1,642	1,314	985	968
Investments in subsidiaries	(d)	3,752	3,147	2,371	2,376
Deferred tax assets	(e)	52,718	26,961	27,850	27,850
		2,118,359	2,052,128	2,440,950	2,442,225
CURRENT ASSETS					
Inventories	(f)	171,373	108,939	106,000	84,485
Trade receivables	(g)	3,306	187	2,265	9,007
Bills receivable	(h)	152,953	—	—	12,221
Prepayments, deposits and other receivables	(i)	17,637	17,559	20,701	16,948
Pledged bank deposits	(j)	—	142,601	20,918	20,918
Cash and cash equivalents	(j)	281,501	379,683	137,917	167,755
		626,770	648,969	287,801	311,334
TOTAL ASSETS		2,745,129	2,701,097	2,728,751	2,753,559
EQUITY AND LIABILITIES					
Paid-up capital	(k)	1,981,690	1,981,690	1,981,690	1,981,690
Reserves	(l)	(1,423,982)	(1,584,689)	(1,408,559)	(1,419,271)
Total equity		557,708	397,001	573,131	562,419
NON-CURRENT LIABILITIES					
Benefits liability	(m)	72,950	77,517	79,958	80,036
Interest-bearing bank and other borrowings	(n)	1,503,893	1,469,014	1,207,685	1,225,073
		1,576,843	1,546,531	1,287,643	1,305,109
CURRENT LIABILITIES					
Trade payables	(o)	21,862	478	4,952	2,650
Other payables and accruals	(p)	210,637	402,485	613,938	628,775
Interest-bearing bank and other borrowings	(n)	378,079	348,860	243,378	249,527
Income tax payable		—	5,742	5,709	5,079
		610,578	757,565	867,977	886,031
TOTAL LIABILITIES		2,187,421	2,304,096	2,155,620	2,191,140
TOTAL EQUITY AND LIABILITIES		2,745,129	2,701,097	2,728,751	2,753,559

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 and impairment	782,704	1,368,542	10,761	34,990	5,705	7,624	2,210,326
Additions	—	1,853	2,269	107	488	9,297	14,014
Disposals	—	—	(261)	—	(329)	—	(590)
Impairment	(35,038)	(223)	—	(37)	(1)	—	(35,299)
Depreciation for the year	(44,533)	(135,773)	(4,215)	(21,176)	(2,690)	—	(208,387)
Cost as at 31 December 2003 and 1 January 2004, net of accumulated depreciation and impairment	703,133	1,234,399	8,554	13,884	3,173	16,921	1,980,064
Additions	7,476	514	1,063	1,365	956	193,568	204,942
Disposals	(3,735)	(11,042)	(409)	(189)	(90)	—	(15,465)
Transfers	6,227	891	—	124	—	(7,242)	—
Impairment	(10,229)	(35,268)	—	(96)	(20)	—	(45,613)
Depreciation for the year	(44,811)	(135,926)	(1,621)	(214)	(395)	—	(182,967)
Cost as at 31 December 2004 and 1 January 2005, net of accumulated depreciation and impairment	658,061	1,053,568	7,587	14,874	3,624	203,247	1,940,961
Additions	2,144	576	804	224	4,234	578,378	586,360
Disposals	(376)	—	(4,227)	—	(342)	—	(4,945)
Transfers	74,677	226,177	—	—	3,939	(304,793)	—
Impairment	(5,530)	—	—	—	—	(2,840)	(8,370)
Depreciation for the year	(45,383)	(135,159)	(1,162)	(171)	(610)	—	(182,485)
Cost as at 31 December 2005, and 1 January 2006, net of accumulated depreciation and impairment	683,593	1,145,162	3,002	14,927	10,845	473,992	2,331,521
Additions	—	—	—	—	127	10,853	10,980
Transfers	208	—	—	—	—	(208)	—
Depreciation for the period	(2,293)	(7,099)	(70)	(23)	(116)	—	(9,601)
Cost as at 19 January 2006, net of accumulated depreciation and impairment	681,508	1,138,063	2,932	14,904	10,856	484,637	2,332,900

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	984,976	1,999,276	26,361	266,521	32,206	7,624	3,316,964
Accumulated depreciation and impairment	(202,272)	(630,734)	(15,600)	(231,531)	(26,501)	—	(1,106,638)
Net carrying amount	782,704	1,368,542	10,761	34,990	5,705	7,624	2,210,326
As at 31 December 2003:							
Cost	984,976	2,001,129	28,288	266,628	32,329	16,921	3,330,271
Accumulated depreciation and impairment	(281,843)	(766,730)	(19,734)	(252,744)	(29,156)	—	(1,350,207)
Net carrying amount	703,133	1,234,399	8,554	13,884	3,173	16,921	1,980,064
As at 31 December 2004:							
Cost	994,148	1,982,353	24,530	264,337	31,644	203,247	3,500,259
Accumulated depreciation and impairment	(336,087)	(928,785)	(16,943)	(249,463)	(28,020)	—	(1,559,298)
Net carrying amount	658,061	1,053,568	7,587	14,874	3,624	203,247	1,940,961
As at 31 December 2005:							
Cost	1,055,733	2,138,873	14,489	262,741	39,415	476,832	3,988,083
Accumulated depreciation and impairment	(372,140)	(993,711)	(11,487)	(247,814)	(28,570)	(2,840)	(1,656,562)
Net carrying amount	683,593	1,145,162	3,002	14,927	10,845	473,992	2,331,521
As at 19 January 2006:							
Cost	1,055,941	2,138,892	14,489	262,741	39,499	487,477	3,999,039
Accumulated depreciation and impairment	(374,433)	(1,000,829)	(11,557)	(247,837)	(28,643)	(2,840)	(1,666,139)
Net carrying amount	681,508	1,138,063	2,932	14,904	10,856	484,637	2,332,900

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 and impairment	779,604	1,367,265	10,503	34,990	5,341	7,371	2,205,074
Additions	—	1,850	2,144	107	363	9,998	14,462
Disposals	—	—	—	—	(304)	—	(304)
Impairment	(35,038)	(223)	—	(37)	(1)	—	(35,299)
Depreciation for the year	(44,404)	(135,580)	(4,150)	(21,176)	(2,605)	—	(207,915)
Cost as at 31 December 2003 and 1 January 2004, net of accumulated depreciation and impairment	700,162	1,233,312	8,497	13,884	2,794	17,369	1,976,018
Additions	7,475	508	1,033	1,365	801	194,535	205,717
Disposals	(3,614)	(10,996)	(397)	(189)	(85)	—	(15,281)
Transfers	6,227	891	—	124	—	(7,242)	—
Impairment	(10,229)	(35,268)	—	(96)	(20)	—	(45,613)
Depreciation for the year	(44,699)	(135,755)	(1,603)	(214)	(320)	—	(182,591)
Cost as at 31 December 2004 and 1 January 2005, net of accumulated depreciation and impairment	655,322	1,052,692	7,530	14,874	3,170	204,662	1,938,250
Additions	2,144	576	804	224	3,477	578,535	585,760
Disposals	—	—	(4,237)	—	(342)	—	(4,579)
Transfers	74,677	226,177	—	—	3,939	(304,793)	—
Impairment	(5,530)	—	—	—	—	(2,840)	(8,370)
Depreciation for the year	(45,103)	(135,047)	(1,152)	(171)	(527)	—	(182,000)
Cost as at 31 December 2005, and 1 January 2006, net of accumulated depreciation and impairment	681,510	1,144,398	2,945	14,927	9,717	475,564	2,329,061
Additions	—	—	—	—	104	10,852	10,956
Transfers	208	—	—	—	—	(208)	—
Depreciation for the period	(2,293)	(7,099)	(70)	(23)	(93)	—	(9,578)
Cost as at 19 January 2006, net of accumulated depreciation and impairment	679,425	1,137,299	2,875	14,904	9,728	486,208	2,330,439

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

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

Company (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	981,283	1,997,416	25,919	266,521	31,601	7,371	3,310,111
Accumulated depreciation and impairment	(201,679)	(630,151)	(15,416)	(231,531)	(26,260)	—	(1,105,037)
Net carrying amount	779,604	1,367,265	10,503	34,990	5,341	7,371	2,205,074
As at 31 December 2003:							
Cost	981,283	1,999,266	28,063	266,628	31,624	17,369	3,324,233
Accumulated depreciation and impairment	(281,121)	(765,954)	(19,566)	(252,744)	(28,830)	—	(1,348,215)
Net carrying amount	700,162	1,233,312	8,497	13,884	2,794	17,369	1,976,018
As at 31 December 2004:							
Cost	990,702	1,980,598	24,297	264,337	30,795	204,662	3,495,391
Accumulated depreciation and impairment	(335,380)	(927,906)	(16,767)	(249,463)	(27,625)	—	(1,557,141)
Net carrying amount	655,322	1,052,692	7,530	14,874	3,170	204,662	1,938,250
As at 31 December 2005:							
Cost	1,053,064	2,137,118	14,256	262,741	37,739	478,404	3,983,322
Accumulated depreciation and impairment	(371,554)	(992,720)	(11,311)	(247,814)	(28,022)	(2,840)	(1,654.261)
Net carrying amount	681,510	1,144,398	2,945	14,927	9,717	475,564	2,329,061
As at 19 January 2006:							
Cost	1,053,272	2,137,137	14,256	262,741	37,888	489,048	3,994,342
Accumulated depreciation and impairment	(373,847)	(999,838)	(11,381)	(247,837)	(28,160)	(2,840)	(1,663,903)
Net carrying amount	679,425	1,137,299	2,875	14,904	9,728	486,208	2,330,439

The net book value of the Group's and the Company's fixed assets held under finance leases included in the total amount of plant and machinery at 19 January 2006, amounted to RMB1,976,000 (31 December 2003 and 2004: nil, 31 December 2005: RMB1,996,000).

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

As at 19 January 2006, the Group and the Company have yet to obtain building ownership certificates for certain buildings with net book value of approximately RMB209,021,000. Building ownership certificates for buildings with net book value of approximately RMB190,965,000 out of the amount of RMB209,021,000 were subsequently obtained as at the date of this report.

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

(b) Prepaid land lease payments

Group

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cost as at beginning of year/period, net of accumulated amortization	86,053	84,274	82,494	80,715
Amortization for the year/period	(1,779)	(1,780)	(1,779)	(91)
Cost as at end of year/period, net of accumulated amortization	84,274	82,494	80,715	80,624
At end of year/period:				
Cost (gross carrying amount)	112,935	112,935	112,935	112,935
Accumulated amortization	(4,451)	(6,231)	(8,010)	(8,101)
Impairment	(24,210)	(24,210)	(24,210)	(24,210)
Net carrying amount	84,274	82,494	80,715	80,624

Company

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cost as at beginning of year/period, net of accumulated amortization	86,003	84,229	82,456	80,683
Amortization for the year/period	(1,774)	(1,773)	(1,773)	(91)
Cost as at end of year/period, net of accumulated amortization	84,229	82,456	80,683	80,592
As at end of year/period:	112,873	112,873	112,873	112,873
Cost (gross carrying amount)	(4,434)	(6,207)	(7,980)	(8,071)
Accumulated amortization	(24,210)	(24,210)	(24,210)	(24,210)
Net carrying amount	84,229	82,456	80,683	80,592

As at 19 January 2006, the Group and the Company have yet to obtain the land use right certificate for a piece of land with an initial cost of RMB6,000,000, where the production facilities for methanol production are located. Pursuant to a state-owned land use rights grant contract dated 30 June 2006 entered into between the Company and the State-owned Land Resources Bureau of Huhhot City, this piece of land is granted to the Company for a term of 50 years. The land premium is RMB13,774,000 and the land use right certificate is currently under application.

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

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

(c) Intangible assets

Group and Company

	Trademark RMB'000
Cost as at 1 January 2003, net of accumulated amortization	1,970
Amortization for the year	(328)
Cost as at 31 December 2003, and 1 January 2004, net of accumulated amortization	1,642
Amortization for the year	(328)
Cost as at 31 December 2004 and 1 January 2005, net of accumulated amortization	1,314
Amortization for the year	(329)
Cost as at 31 December 2005, and 1 January 2006, net of accumulated amortization	985
Amortization for the period	(17)
Cost as at 19 January 2006, net of accumulated amortization	968
As at 1 January 2003:	
Cost	2,299
Accumulated amortization	(329)
Net carrying amount	1,970
As at 31 December 2003:	
Cost	2,299
Accumulated amortization	(657)
Net carrying amount	1,642
As at 31 December 2004:	
Cost	2,299
Accumulated amortization	(985)
Net carrying amount	1,314
As at 31 December 2005:	
Cost	2,299
Accumulated amortization	(1,314)
Net carrying amount	985
As at 19 January 2006:	
Cost	2,299
Accumulated amortization	(1,331)
Net carrying amount	968

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

(d) Investments in subsidiaries

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	7,478	7,478	7,478	7,478
Impairment loss	(3,726)	(4,331)	(5,107)	(5,102)
Net carrying amount	3,752	3,147	2,371	2,376

The Company's other receivables and other payables with its subsidiaries are disclosed in notes (i), and (p) of Section 6, respectively.

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

(e) Deferred tax assets

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

Group and Company

	Provision for impairment of assets	Provision for doubtful debts	Tax losses available for offset against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	2,368	8,141	22,711	1,211	34,431
Credited/(Charged) to the consolidated income statement (note (g) of Section 5)	11,648	6	7,037	(404)	18,287
As at 31 December 2003 and 1 January 2004	14,016	8,147	29,748	807	52,718
Credited/(Charged) to the consolidated income statement (note (g) of Section 5)	4,459	(65)	(29,748)	(403)	(25,757)
As at 31 December 2004 and 1 January 2005	18,475	8,082	—	404	26,961
Credited/(Charged) to the consolidated income statement (note (g) of Section 5)	937	(269)	—	221	889
As at 31 December 2005 and 19 January 2006	19,412	7,813	—	625	27,850

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

(f) *Inventories*

Group

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	70,931	76,759	68,465	54,126
Work in progress	13,076	23,291	26,948	11,016
Finished goods	89,180	14,486	15,967	22,475
Net book value	173,187	114,536	111,380	87,617

Company

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	70,124	75,778	66,545	52,204
Work in progress	12,803	20,154	23,851	10,167
Finished goods	88,446	13,007	15,604	22,114
Net book value	171,373	108,939	106,000	84,485

(g) *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.

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 dates of the Relevant Periods, is as follows:

Group

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within six months	3,308	709	3,969	11,150
Over six months but within one year	1,480	1	54	8
Over one year but within two years	1,012	170	—	—
Over two years but within three years	226	—	170	—
Over three years	52	271	230	—
	6,078	1,151	4,423	11,158

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

(g) Trade receivables (continued)

Company

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within six months	1,028	187	2,265	9,007
Over six months but within one year	1,020	—	—	—
Over one year but within two years	1,256	—	—	—
Over two years but within three years	2	—	—	—
	3,306	187	2,265	9,007

(h) Bills receivable

The bills receivable of the Group and of the Company as at 31 December 2003 and 19 January 2006 are all matured within six months.

(i) Prepayments, deposits and other receivables

Group

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	14,754	11,624	15,346	9,359
Deposits and other receivables	3,852	3,228	5,149	2,845
	18,606	14,852	20,495	12,204

Company

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	14,458	11,398	15,172	9,290
Deposits and other receivables	2,611	1,709	1,729	1,873
Due from subsidiaries	568	4,452	3,800	5,785
	17,637	17,559	20,701	16,948

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

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

(j) Cash and cash equivalents and pledged bank deposits

Group

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	291,512	234,588	63,475	93,314
Time deposits	—	300,000	100,000	100,000
	291,512	534,588	163,475	193,314
Less:				
Pledged bank deposits	—	(142,601)	(20,918)	(20,918)
Cash and cash equivalents in the consolidated balance sheet	291,512	391,987	142,557	172,396
Less:				
Non-pledged time deposits with original maturity of three months or more when acquired	—	(300,000)	(100,000)	(100,000)
Cash and cash equivalents in the consolidated cash flow statements	291,512	91,987	42,557	72,396

Company

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	281,501	222,284	58,835	88,673
Time deposits	—	300,000	100,000	100,000
	281,501	522,284	158,835	188,673
Less:				
Pledged bank deposits	—	(142,601)	(20,918)	(20,918)
	281,501	379,683	137,917	167,755

The Group's and the Company's pledged deposits of RMB142,601,000, RMB20,918,000 and RMB20,918,000 as at 31 December 2004, 2005 and 19 January 2006, respectively, were pledged to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

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 non-pledged deposits approximate to their fair values.

The Group's and the Company's cash and bank balances are denominated in RMB at each balance sheet date of the Relevant Period. 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 and the Company is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

(k) Paid-up capital

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Fully paid-up & registered capital	1,981,690	1,981,690	1,981,690	1,981,690

In November and December 2005, China BlueChemical Ltd. entered into an equity transfer agreement with each of the four equity holders of the Company to acquire a 90% equity interest in the Company for an aggregate cash consideration of RMB964,641,000. The cash consideration was payable to three of the equity holders which together held 80.92% equity interests in the Company. The remaining 9.08% equity interest in the Company was transferred from SASAC of Inner Mongolia to China BlueChemical Ltd. at nil consideration.

Out of the total cash consideration of RMB964,641,000 paid for the acquisition of equity interests in the Company by China BlueChemical Ltd., an amount of RMB891,118,000 for the acquisition of a 74.74% equity interest in the Company 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 the Company from two other equity holders was fully paid on 7 March 2006.

Upon the completion of the acquisition, China BlueChemical Ltd. holds 90% of the equity interest in the Company, whilst SASAC of Inner Mongolia holds the remaining 10%.

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

(l) Reserves

Group

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods and the nineteen-day period ended 19 January 2005 are presented in the consolidated statements of changes in equity set out in Section 7.

Company

	Notes	Capital reserve	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000
As at 1 January 2003		2,336	(1,060,315)	(1,057,979)
Net loss for the year	5(h)	—	(366,003)	(366,003)
As at 31 December 2003 and 1 January 2004		2,336	(1,426,318)	(1,423,982)
Net loss for the year	5(h)	—	(160,707)	(160,707)
As at 31 December 2004 and 1 January 2005		2,336	(1,587,025)	(1,584,689)
Net profit for the year	5(h)	—	176,130	176,130
As at 31 December 2005 and 1 January 2006		2,336	(1,410,895)	(1,408,559)
Net loss for the period	5(h)	—	(10,712)	(10,712)
As at 19 January 2006		2,336	(1,421,607)	(1,419,271)
As at 1 January 2005		2,336	(1,587,025)	(1,584,689)
Net loss for the period (Unaudited)	5(h)	—	(23,733)	(23,733)
As at 19 January 2005		2,336	(1,610,758)	(1,608,422)

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

(m) Benefits liability

The Group 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.

Group and Company

The details of net benefits expense by each type of benefits are as follows:

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Early retirement benefits:				
Current service cost	2,948	3,051	2,289	126
Interest cost on benefits obligation	1,485	1,549	1,749	72
Net actuarial gain recognized for the year/period	—	—	(493)	(5)
Net benefits expense	4,433	4,600	3,545	193
Post-employment allowances:				
Current service cost	1,180	1,221	776	64
Interest cost on benefits obligation	842	923	982	55
Net actuarial gain recognized for the year/period	—	—	(271)	(4)
Net benefits expense	2,022	2,144	1,487	115

The details of benefits liability by each type of benefits are as follows:

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Early retirement benefits:				
Defined benefit obligation	46,308	35,957	39,765	39,825
Unrecognized net actuarial gain	—	13,074	10,549	10,539
Benefit liability	46,308	49,031	50,314	50,364
Post-employment allowances:				
Defined benefit obligation	26,642	19,794	30,005	30,040
Unrecognized net actuarial gain/(loss)	—	8,692	(361)	(368)
Benefit liability	26,642	28,486	29,644	29,672

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

(m) Benefits liability (continued)

Group and Company (continued)

The details of changes in present value of the defined benefit obligation by each type of benefits are as follows:

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Early retirement benefits:				
Opening defined benefit obligation	43,838	46,308	35,957	39,765
Current service cost	2,948	3,051	2,289	126
Interest cost	1,485	1,549	1,749	72
Benefits paid	(1,963)	(1,877)	(2,262)	(144)
Actuarial (gains)/losses on obligation	—	(13,074)	2,032	(5)
Closing defined benefit obligation	46,308	35,957	39,765	39,814
Post-employment allowances:				
Opening defined benefit obligation	24,875	26,642	19,794	30,005
Current service cost	1,180	1,221	776	64
Interest cost	842	923	982	55
Benefits paid	(255)	(300)	(329)	(86)
Actuarial (gains)/losses on obligation	—	(8,692)	8,782	(4)
Closing defined benefit obligation	26,642	19,794	30,005	30,034

The Group and the Company is expected to incur a net benefits expense of RMB5,835,000 for the year ending 31 December 2006.

The principal assumptions used in determining the early retirement benefits obligation and post-employment allowances for the Group are shown below:

	As at 31 December			As at 19 January
	2003	2004	2005	2006
Discount rate	3.5%	5.0%	3.5%	3.5%
Early retirement rate	1.0%	1.0%	1.0%	1.0%
Inflation rate	4.0%	4.0%	4.0%	4.0%

The actuarial valuations as at 31 December 2003, 2004 and 2005 were 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)

(n) Interest-bearing bank and other borrowings

Group and Company

	Effective interest rate (%)	Maturity	31 December 2003	31 December 2004	31 December 2005	As at 19 January 2006
			RMB'000	RMB'000	RMB'000	RMB'000
Current						
Bank loans						
—Secured	5.31	2006	50,000	50,000	—	—
—Unsecured	2.5 – 2.6	2006	328,079	298,860	242,705	248,854
Other loans						
—Obligations under finance leases —note (q)	2.25	2006	—	—	673	673
			378,079	348,860	243,378	249,527
Non-current						
Bank loans						
—Unsecured	2.5 – 2.6	2007 – 2023	1,503,893	1,469,014	1,207,012	1,224,400
Other loans						
—Obligations under finance leases—note (q)	2.25	2007	—	—	673	673
			1,503,893	1,469,014	1,207,685	1,225,073
			1,881,972	1,817,874	1,451,063	1,474,600

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005	As at 19 January 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Analyzed into:				
Bank loans repayable:				
Within one year or on demand	378,079	348,860	242,705	248,854
In the second year	156,873	162,734	152,543	153,834
In the third to fifth years, inclusive	242,092	249,731	215,311	218,598
Beyond five years	1,104,928	1,056,549	839,158	851,968
	1,881,972	1,817,874	1,449,717	1,473,254
Other loans repayable:				
Within one year or on demand	—	—	673	673
In the second year	—	—	673	673
	—	—	1,346	1,346
	1,881,972	1,817,874	1,451,063	1,474,600

The Group's bank loans of RMB50,000,000 as at 31 December 2003 and 2004 were secured by:

(i) certain of the Group's machinery, which had an aggregate net book value of approximately RMB105,364,000 and RMB189,768,000 as at 31 December 2003 and 2004, respectively;

(ii) certain of the Group's land use rights, which had an aggregate net book value of approximately RMB14,647,000 as at 31 December 2004.

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

(n) *Interest-bearing bank and other borrowings (continued)*

Group and Company (continued)

The secured loans were fully repaid during the year ended 31 December 2005.

The unsecured bank loans which were guaranteed by a third party, the Inner Mongolia Finance Bureau, amounted to RMB1,831,972,000, RMB1,767,874,000, RMB1,449,717,000 and RMB1,473,254,000 as at 31 December 2003, 2004, 2005 and 19 January 2006, respectively. Except for the unsecured bank loans which are denominated in Japanese Yen, the secured bank loans and finance lease obligations are denominated in Renminbi. Details of the transfer of the unsecured bank loans and the partial waiver of the loans, penalty interest and amount due to the Inner Mongolia Finance Bureau in 2006 are set out in note (a) of Section 9 below.

As at 19 January 2006, the obligations under finance lease of RMB1,346,000 were due to a CNOOC group company, further details of which are set out in note (q) of Section 6.

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

(o) *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 19 January 2006
	2003	2004	2005	
	RMB'000	RMB'000	RMB'000	RMB'000
Within six months	6,650	1,160	873	898
Over six months but within one year	16,500	—	2,455	1,493
Over one year but within two years	6,624	637	2,166	689
Over two years but within three years	1,066	6,463	145	591
Over three years	481	852	1,731	1,393
	31,321	9,112	7,370	5,064

Company

	As at 31 December			As at 19 January 2006
	2003	2004	2005	
	RMB'000	RMB'000	RMB'000	RMB'000
Within six months	4,684	167	—	25
Over six months but within one year	9,916	—	2,238	1,277
Over one year but within two years	6,619	259	1,991	517
Over two years but within three years	613	4	5	451
Over three years	30	48	718	380
	21,862	478	4,952	2,650

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

(p) Other payables and accruals

Other payables are non-interest-bearing, unless otherwise stated and have an average term of three months.

Group

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	15,190	22,261	46,923	54,817
Accruals	3,260	3,606	7,164	9,682
Other payables	72,367	80,675	127,963	124,747
Deferred income	869	1,169	—	—
Penalty interest and late fee payables	55,912	80,402	73,553	74,510
Payables to the Inner Mongolia Finance Bureau	68,750	221,193	370,058	370,058
	216,348	409,306	625,661	633,814

Company

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	15,175	19,183	41,511	54,802
Accruals	3,246	3,604	6,976	9,073
Other payables	66,685	76,934	121,840	120,332
Deferred income	869	1,169	—	—
Penalty interest and late fee payables	55,912	80,402	73,553	74,510
Payables to the Inner Mongolia Finance Bureau	68,750	221,193	370,058	370,058
	210,637	402,485	613,938	628,775

As at 31 December 2004, 2005 and 19 January 2006, the amounts due to subsidiaries included in the above other payable balances are RMB819,000, RMB1,059,000 and RMB1,059,000, respectively. The balances are unsecured, non-interest-bearing and have no fixed repayment terms.

The penalty interest and late fee payables relate to the delay in the repayment of the Japanese Yen loans (note (n) of Section 6) by the Company. The payables to the Inner Mongolia Finance Bureau (the "Finance Bureau") represents the repayment of certain amounts of the Japanese Yen loans by the Finance Bureau, the guarantor, on behalf of the Company.

Subsequent to 19 January 2006, the Japanese Yen loans have been transferred to the Finance Bureau, and there was also a partial waiver of the loans, penalty interest, and amount due to the Finance Bureau. Details are set out in note (a) of Section 9 below.

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

(q) Obligations under finance lease

The Group and the Company have finance lease contracts for computer equipment with a CNOOC group company, details are set out in note (n) of Section 6. The lease has term of renewal but no purchase option and escalation clauses. Renewals are at the option of the Group and the Company.

At 31 December 2005 and 19 January 2006, the future minimum lease payments under finance leases and the present value of the minimum lease payments are as follows:

	Minimum Lease payments As at 31 December 2005	Minimum Lease payments As at 19 January 2006	Present value of minimum lease payment As at 31 December 2005	Present value of minimum lease payment As at 19 January 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Amount payable:				
Within one year	689	689	673	673
In the second year	689	688	673	673
Total minimum finance lease payments	1,378	1,377	1,346	1,346
Future finance charges	(32)	(32)		
Total net finance lease payables	1,346	1,346		
Portion classified as current liabilities—note (n)	(673)	(673)		
Non-current portion—note (n)	673	673		

(r) Commitments and contingent liabilities

The Group and the Company had the following capital commitments as at 31 December 2003, 2004, 2005 and 19 January 2006:

	As at 31 December			As at 19 January
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Acquisition of plant and machinery	17,752	68,033	30,769	—
Authorized, but not contracted for:				
Acquisition of plant and machinery	507,276	122,419	—	—
	525,028	190,452	30,769	—

As at 31 December 2003, 2004, 2005 and 19 January 2006, neither the Group nor the Company had any significant contingent liabilities.

(s) Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, other interest-bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise

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

(s) Financial risk management objectives and policies (continued)

finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are 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.

(i) Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates is minimal as its debt obligations are contracted at fixed interest rates.

The interest rates and the terms of repayment of the Group's bank and other borrowings are disclosed in note (n) and (p) 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 and JPY. The Group is exposed to foreign currency risk arising from its exposure of JPY against RMB. Subsequent to the balance sheet date, a portion of the Company's Japanese Yen loans has been transferred to the Finance Bureau and the remaining portion has been repaid. The repayment was financed by a RMB loan provided by China BlueChemical Ltd., as set out in note (b) of Section 9 below.

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, trade receivables, other receivables and other current assets except for prepayments 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.

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

(s) Financial risk management objectives and policies (continued)

(iii) Credit risk (continued)

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.

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.

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 nineteen-day period ended 19 January 2005 are as follows:

Group

	Attributable to equity holders of the parent						
	Paid-up capital	Capital reserve	Statutory surplus reserve	Accumulated losses	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000 (Note)	RMB'000 (Note)	RMB'000	RMB'000	RMB'000
As at 1 January 2003	1,981,690	2,336	34	(1,059,751)	924,309	1,412	925,721
Net loss for the year	—	—	—	(367,393)	(367,393)	109	(367,284)
As at 31 December 2003 and 1 January 2004	1,981,690	2,336	34	(1,427,144)	556,916	1,521	558,437
Net loss for the year	—	—	—	(161,064)	(161,064)	162	(160,902)
Transfer/appropriation to the statutory surplus reserve	—	—	27	(27)	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	(162)	(162)
As at 31 December 2004 and 1 January 2005	1,981,690	2,336	61	(1,588,235)	395,852	1,521	397,373
Net profit for the year	—	—	—	172,952	172,952	83	173,035
Transfer/appropriation to the statutory surplus reserve	—	—	42	(42)	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	(153)	(153)
As at 31 December 2005 and 1 January 2006	1,981,690	2,336	103	(1,415,325)	568,804	1,451	570,255
Net loss for the period	—	—	—	(11,380)	(11,380)	1	(11,379)
As at 19 January 2006	1,981,690	2,336	103	(1,426,705)	557,424	1,452	558,876
As at 1 January 2005	1,981,690	2,336	61	(1,588,235)	395,852	1,521	397,373
Net loss for the period (Unaudited)	—	—	—	(23,969)	(23,969)	(10)	(23,979)
As at 19 January 2005	1,981,690	2,336	61	(1,612,204)	371,883	1,511	373,394

Note:
In accordance with the PRC Company Law, the Company and its subsidiaries are required to appropriate a certain percentage of their net profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Company and its subsidiaries, the statutory reserve fund may be used either to offset losses, or to be converted to increase the paid-up capital. The reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

8. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods and the nineteen-day period ended 19 January 2005 are as follows:

	Notes	Year ended 31 December			Nineteen-day period ended 19 January	
		2003	2004	2005	2005	2006
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		(385,445)	(129,121)	173,028	(23,979)	(11,379)
Adjustments for:						
Finance costs		60,862	69,207	64,714	3,565	1,637
Foreign exchange differences, net		193,390	47,836	(236,649)	28,035	22,857
Interest income		(3,529)	(2,976)	(6,006)	(104)	(119)
Loss on disposal of items of property, plant and equipment	5(d)	590	15,465	4,945	—	—
Depreciation	5(d)	208,387	182,967	182,485	9,777	9,601
Amortization of a trademark	5(d)	328	328	329	17	17
Amortization of prepaid land lease payments	5(d)	1,779	1,780	1,779	91	91
Impairment of items of property, plant and equipment	5(d)	35,299	45,613	8,370	—	—
Early retirement benefits and post-employment allowances	5(d)	6,455	6,744	5,032	265	308
Provision/(write-back of provision) for bad and doubtful receivables	5(d)	14	(193)	(813)	—	—
Write-down of inventories to net realizable value	5(d)	—	—	670	—	—
Operating profit before working capital changes		118,130	237,650	197,884	17,667	23,013
(Increase)/decrease in inventories		(17,431)	58,651	2,485	(7,547)	23,763
(Increase)/decrease in trade receivables, bills receivable, prepayments, deposits and other receivables		(35,215)	161,827	(8,100)	(32,672)	(10,665)
(Decrease)/increase in trade payables, other payables and accruals		(10,059)	(8,215)	72,620	22,922	4,890
Cash generated from operations		55,425	449,913	264,889	370	41,001
Defined benefits paid		(2,218)	(2,177)	(2,591)	(191)	(230)
Taxes paid		(123)	(355)	(20)	—	(71)
Net cash inflow from operating activities		53,084	447,381	262,278	179	40,700
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		3,529	2,976	6,006	104	119
Purchases of items of property, plant and equipment	6(a)	(14,014)	(204,942)	(586,360)	(15,784)	(10,980)
(Increase)/decrease in pledged bank deposits		—	(142,601)	121,683	—	—
(Increase)/decrease in non-pledged time deposit with original maturity of three months or more when acquired		—	(300,000)	200,000	—	—
Net cash outflow from investing activities		(10,485)	(644,567)	(258,671)	(15,680)	(10,861)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank and other borrowings		50,000	50,000	—	—	—
Repayments of bank and other borrowings		(50,000)	(50,000)	(50,000)	—	—
Dividends paid to minority shareholders		—	(163)	(152)	—	—
Interest paid		(2,640)	(2,176)	(2,885)	—	—
Net cash outflow from financing activities		(2,640)	(2,339)	(53,037)	—	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		39,959	(199,525)	(49,430)	(15,501)	29,839
Cash and cash equivalents at beginning of year/period		251,553	291,512	91,987	91,987	42,557
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	6(j)	291,512	91,987	42,557	76,486	72,396

9. POST BALANCE SHEET EVENTS

(a) Transfer of interest-bearing bank borrowings

The Company recorded an amount of interest-bearing bank loans denominated in Japanese Yen borrowed from the Export-Import Bank of China, 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 Inner Mongolia Finance Bureau (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 the Company. Pursuant to the document Caijin (2006) No.3 (the "MOF Document") issued by the Ministry of Finance on 12 January 2006, there was a waiver of the entire penalty interest and late fee payables, and 50% of certain related bank charges included in the Company's Japanese Yen Loan Obligations as at 31 December 2005 (the "Waiver"). In connection with the acquisition of the Company by China BlueChemical Ltd., and pursuant to the MOF Document, on 28 February 2006, the Company 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, the Company, 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 the Company'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 the Company arising from its previous settlement of part of the Japanese Yen loan obligations on behalf of the Company.

Upon completion of the aforesaid four tripartite loan transfer agreements and as a result of the waiver by the Finance Bureau, in February 2006, the total obligations of the Company in respect of the Japanese Yen loans, 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 (as disclosed separately under note (n) and (p) of Section 6) to RMB898,526,000.

(b) Loan from China BlueChemical Ltd.

On 23 February 2006, the Group obtained an unsecured entrusted loan with contractual amount of RMB910 million from China BlueChemical Ltd., its immediate holding company, for the purpose of repaying the liabilities to the Finance Bureau mentioned in note (a) above. The loan is unsecured, bears interest at 2.07% per annum and is repayable by 23 August 2006.

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

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 19 January 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong