

## INDEPENDENT REVIEW REPORT



18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong  
18 September 2006

To the Board of Directors  
China BlueChemical Ltd.

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

We have been instructed by China BlueChemical Ltd. (the “Company”) to review the interim financial report of the Company and its subsidiaries (collectively referred to as the “Group”) for the six-month period ended 30 June 2006, as set out on pages IC-2 to IC-24.

***Respective responsibilities of directors and auditors***

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

***Review work performed***

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group’s management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

***Review conclusion***

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2006.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six-month period ended 30 June 2006*

	Notes	Six-month period ended 30 June	
		2006	2005
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
REVENUE .....	5	1,613,833	1,132,300
Cost of sales .....		(993,012)	(623,031)
Gross profit .....		620,821	509,269
Other income and gains .....	5	118,321	1,106
Excess over the cost of a business combination .....	6	577,619	—
Selling and distribution costs .....		(10,073)	(4,557)
Administrative expenses .....		(92,046)	(47,892)
Other expenses .....		(22,642)	(58,737)
Finance revenue .....		11,805	8,336
Finance costs .....		(27,909)	(8,282)
Exchange gain/(loss), net .....		(12,547)	79,043
Share of profits of associates .....		1,137	1,015
PROFIT BEFORE TAX .....	7	1,164,486	479,301
Income tax expense .....	8	(55,953)	(22,222)
PROFIT FOR THE PERIOD .....		<u>1,108,533</u>	<u>457,079</u>
Attributable to:			
Equity holders of the parent .....		1,084,821	437,011
Minority interests .....		23,712	20,068
		<u>1,108,533</u>	<u>457,079</u>
DIVIDENDS .....	9	<u>1,210,801</u>	—
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
—Basic for the period (RMB cents) .....	10	<u>36.16</u>	<u>14.57</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	6,053,710	3,479,133
Prepaid land lease payments	11	422,654	118,857
Intangible assets		1,147	398
Investments in associates		7,947	6,810
Available-for-sale equity investments		9,083	6,788
Other long term assets		1,130	881
Deferred tax assets		32,957	4,672
		<u>6,528,628</u>	<u>3,617,539</u>
<b>CURRENT ASSETS</b>			
Inventories		238,365	162,059
Trade receivables	12	37,622	171,652
Bills receivable		54,072	69,515
Prepayments, deposits and other receivables		95,550	168,523
Tax recoverable		—	13,984
Pledged bank deposits	13	35,160	—
Cash and cash equivalents	13	1,540,559	1,949,752
		<u>2,001,328</u>	<u>2,535,485</u>
<b>TOTAL ASSETS</b>		<u><u>8,529,956</u></u>	<u><u>6,153,024</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Paid-up capital	14	3,000,000	2,394,044
Reserves		781,936	181,288
Proposed Special Dividend	9	—	1,210,801
		<u>3,781,936</u>	<u>3,786,133</u>
<b>Minority interests</b>		<u>334,959</u>	<u>291,460</u>
<b>Total equity</b>		<u>4,116,895</u>	<u>4,077,593</u>
<b>NON-CURRENT LIABILITIES</b>			
Benefits liability		81,535	—
Interest-bearing bank and other borrowings		475,388	1,030,402
Other long term liabilities		32,299	22,430
Deferred tax liabilities		61,017	—
		<u>650,239</u>	<u>1,052,832</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	15	95,945	48,049
Other payables and accruals		721,098	588,536
Derivative financial instruments		25,937	50,634
Interest-bearing bank and other borrowings		1,660,282	335,380
Income tax payable		48,759	—
Dividend payable	9	1,210,801	—
		<u>3,762,822</u>	<u>1,022,599</u>
<b>TOTAL LIABILITIES</b>		<u>4,413,061</u>	<u>2,075,431</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>8,529,956</u></u>	<u><u>6,153,024</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six-month period ended 30 June 2006*

	Attributable to equity holders of the parent					Total equity
	Paid-up capital	Statutory surplus reserves	Retained profits	Total	Minority interests	
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	
<b>As at 1 January 2005</b> . . . . .	2,079,910	135,291	523,187	2,738,388	145,918	2,884,306
Net profit for the period . . . . .	—	—	437,011	437,011	20,068	457,079
Arising from formation of a subsidiary . . . . .	—	—	—	—	115,400	115,400
Deregistration of a subsidiary . . . . .	—	—	—	—	(5,979)	(5,979)
Capital contribution . . . . .	150,000	—	—	150,000	—	150,000
On capitalization of retained profits . . . . .	3,155	—	(3,155)	—	—	—
<b>As at 30 June 2005</b> . . . . .	<u>2,233,065</u>	<u>135,291</u>	<u>957,043</u>	<u>3,325,399</u>	<u>275,407</u>	<u>3,600,806</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six-month period ended 30 June 2006 (continued)

Notes	Attributable to equity holders of the parent							Total	Minority interests	Total equity
	Paid-up capital	Statutory surplus reserves	Capital reserve	Retained profits/accumulated losses	Proposed Special Dividend	Investment revaluation reserve				
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)			
<b>As at 1 January 2006</b> .....	2,394,044	273,136	—	(91,848)	1,210,801	—	3,786,133	291,460	4,077,593	
Net profit for the period .....	—	—	—	1,084,821	—	—	1,084,821	23,712	1,108,533	
Acquisition of a subsidiary .....	6	—	—	—	—	—	—	173,716	173,716	
Acquisition of minority interests .....	—	—	—	—	—	—	—	(5,656)	(5,656)	
Changes in fair value of available-for-sale equity investments .....	—	—	—	—	—	1,664	1,664	631	2,295	
Dividends paid to minority shareholders .....	—	—	—	—	—	—	—	(63,552)	(63,552)	
Capital contribution by a minority shareholder .....	(a)	—	—	—	—	—	—	27,160	27,160	
Capital contribution .....	(b)	—	—	7,607	—	—	7,607	—	7,607	
Special Dividend declared .....	9	—	—	—	(1,210,801)	—	(1,210,801)	—	(1,210,801)	
Capitalization as a result of the Reorganization ..	(c)	605,956	(273,136)	(220,308)	—	—	112,512	(112,512)	—	
<b>As at 30 June 2006</b> .....		<u>3,000,000</u>	<u>—</u>	<u>(212,701)</u>	<u>992,973</u>	<u>—</u>	<u>1,664</u>	<u>3,781,936</u>	<u>334,959</u>	<u>4,116,895</u>

## Notes:

(a) During the six-month period ended 30 June 2006, the registered and paid-up capital of Hainan Basuo Port Limited (“Hainan Basuo”), a 72.5%-owned subsidiary, increased from RMB419,596,000 to RMB518,356,000. Out of the increase in paid-up capital of RMB98,760,000, 72.5% was contributed by China BlueChemical Ltd. (the “Company”) by cash of RMB57,299,000 and the transfer of its entire 90% equity interest in Hainan CNOOC Transportation Co., Ltd. (“Transportation Co.”) to Hainan Basuo. The remaining 27.5% was contributed by the minority shareholder of Hainan Basuo in cash.

(b) In February and March 2006, the Company obtained unsecured entrusted loans with an aggregate contract amount of RMB1,410,000,000 from China National Offshore Oil Corporation (“CNOOC”), the ultimate holding company, which were unsecured, bore interest at a contract rate of 2.07% per annum and were repayable within six months from the respective dates of drawdown.

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

The entrusted loans obtained from CNOOC were early repaid in full in June 2006. As at the repayment date, there was a difference, amounting to RMB8,112,000, between the cash repaid to CNOOC and the estimated net present value of the entrusted loans, which was computed at the loans’ original effective interest rate and their remaining periods to maturity. As at the repayment date, the difference of RMB8,112,000 was adjusted against the capital reserve of RMB15,719,000 that was initially recognized, resulting a net capital contribution from CNOOC of RMB7,607,000 for the current period.

(c) Upon the reorganization of the Company into a joint stock limited company, its net assets were converted into the share capital of the joint stock limited company of RMB3,000,000,000 at RMB1 each with the capitalization of the then existing reserves. The resulting difference was dealt with in the capital reserve.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six-month period ended 30 June 2006*

	Six-month period ended 30 June	
	2006	2005
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES .....	1,012,939	511,022
NET CASH OUTFLOW FROM INVESTING ACTIVITIES .....	(1,346,300)	(318,398)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES .....	(104,014)	145,287
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS .....	(437,375)	337,911
Cash and cash equivalents at beginning of period .....	<u>1,719,752</u>	<u>1,111,786</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD .....	<u>1,282,377</u>	<u>1,449,697</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances .....	<u>1,282,377</u>	<u>1,449,697</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

30 June 2006

**1. Corporate information and principal activities**

The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, the People's Republic of China (the "PRC").

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sale of fertilizers.

In the opinion of the directors, the ultimate holding company of the Company is CNOOC, a state-owned enterprise established in the PRC.

**2. Reorganization**

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

- (a) Pursuant to a reorganization notice issued by CNOOC dated 13 February 2006, equity interests owned by the Company's wholly-owned fellow subsidiaries in the following companies (the "Relevant Companies") were transferred, effective on 31 December 2005, to the Company. These equity interests were transferred to the Company at an aggregate value of RMB15,777,000, representing the aggregate of the respective share of the net assets value, as determined in accordance with the PRC Enterprise Accounting Standards and PRC Enterprise Accounting System ("PRC GAAP"), in the Relevant Companies by these wholly-owned fellow subsidiaries as at 31 December 2005. The transfer of the equity interests in the Relevant Companies to the Company was treated as an additional capital contribution to the Company by CNOOC with an effective date of 31 December 2005.

	<b>Percentage of equity interests transferred</b>
Hainan CNOOC Plastic Company Limited ("Plastic Co.") . . . . .	30.23%
Transportation Co. . . . .	40%
CNOOC (Hainan) E&P Gas Limited ("E&P Gas") . . . . .	60%

As a consequence of the aforesaid transfer and after considering the equity interests already held by the Company in the Relevant Companies, Plastic Co. and Transportation Co. had been accounted for as a wholly-owned subsidiary and a 90%-owned subsidiary of the Company, respectively, from the outset while E&P Gas had been accounted for as a wholly-owned subsidiary of the Company since its establishment on 8 November 2004.

In addition, pursuant to the aforesaid reorganization notice, the Company transferred its entire equity interests of 9.21%, 60% and 84% in Sanya Resort Co., Ltd., Haiwan Fudao Hotel and Hainan CNOOC Agriculture Co., Ltd., respectively at an aggregate value of RMB45,323,000, representing the aggregate of the Company's total costs of investment in Sanya Resort Co., Ltd. and Haiwan Fudao Hotel, and the Company's share of net assets

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**2. Reorganization (continued)**

value, as determined in accordance with PRC GAAP, in Hainan CNOOC Agriculture Co., Ltd. as at 31 December 2005, to a wholly-owned fellow subsidiary of the Company.

The transfer of the equity interests in the aforesaid companies to the Company's wholly-owned fellow subsidiary was treated as a reduction in capital contribution to the Company by CNOOC with an effective date of 31 December 2005.

- (b) Pursuant to an equity transfer agreement dated 28 February 2006, the Company acquired a 30% equity interest in Hainan CNOOC Complex Fertilizer Co., Ltd. ("Complex Fertilizer") at a cash consideration of RMB2,363,000 from Hainan Agricultural Means of Production Group Limited. Pursuant to a resolution of the employee shareholders of Complex Fertilizer, who together held a 34.95% equity interest in Complex Fertilizer, dated 6 March 2006, the Company acquired the 34.95% equity interest in Complex Fertilizer at a cash consideration of RMB2,752,000 from the employee shareholders of Complex Fertilizer. As a consequence of the above acquisitions, Complex Fertilizer became a wholly-owned subsidiary of the Company.
- (c) Pursuant to the Promotion Agreement entered into among Zhejiang AMP Incorporation, Guangdong Agricultural Means of Production Corporation, Shanghai Municipal Agricultural Means of Production Corporation and Transammonia Inc., (together the "Other Four Promoters") and CNOOC in relation to the reorganization of the Company into a joint stock limited company dated 18 March 2006, each of the Other Four Promoters transferred their entire shareholding of 3.24% each in CNOOC Fudao Co., Limited ("Fudao") to the Company in exchange for a 0.83% equity interest each in the Company upon its reorganization into a joint stock limited company. Upon the completion of the exchange of shares, Fudao became a wholly-owned subsidiary of the Company.
- (d) Pursuant to an approval document Guo Zi Gai Ge [2006] No. 462 issued by the State-owned Assets Supervision and Administration Commission of the State Council on 24 April 2006, the Company was reorganized into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006.

**3. Basis of preparation and accounting policies**

The consolidated interim financial report has been prepared under the historical cost convention, except for the derivative financial instruments and certain equity investments, which have been measured at fair value, and has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board ("IASB") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**3. Basis of preparation and accounting policies (continued)**

The principal accounting policies and basis of preparation used in the preparation of this interim financial report are the same as those adopted by the Group in its financial information for each of the three years ended 31 December 2005 and the three-month period ended 31 March 2006 as set out in Appendix IA to the prospectus (the “Prospectus”) dated 18 September 2006 issued by the Company.

**4. Segment information**

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 and compound fertilizers;
- (ii) the methanol segment is engaged in the manufacture and sale of methanol; and
- (iii) the “others” segment mainly comprises of segments engaged in port operation, the provision of transportation services and the manufacture and sale of woven plastic bags.

In determining the Group’s geographical segments, revenues are attributed to the segments based on the location of the customers. No geographical analysis is presented as over 90% of the Group’s revenue is derived from customers based in the Mainland China.

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.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

## 4. Segment information (continued)

The following table presents revenue and profit/(loss) information for the Group's business segments for the six-month periods ended 30 June 2005 and 2006, respectively.

	<u>Fertilizers</u> RMB'000 (Unaudited)	<u>Methanol</u> RMB'000 (Unaudited)	<u>Others</u> RMB'000 (Unaudited)	<u>Elimination</u> RMB'000 (Unaudited)	<u>Total</u> RMB'000 (Unaudited)
<b>Six-month period ended 30 June 2006</b>					
<b>Segment revenue:</b>					
Sales to external customers . . . . .	1,477,849	55,332	80,652	—	1,613,833
Intersegment sales . . . . .	—	—	39,757	(39,757)	—
Other income . . . . .	92,347	—	411	—	92,758
Total . . . . .	<u>1,570,196</u>	<u>55,332</u>	<u>120,820</u>	<u>(39,757)</u>	<u>1,706,591</u>
<b>Segment results</b> . . . . .	<u>622,273</u>	<u>(3,538)</u>	<u>6,567</u>	<u>—</u>	<u>625,302</u>
Interest and dividend income and unallocated gains . . . . .					37,368
Corporate and other unallocated expenses . . . . .					(36,484)
Finance costs . . . . .					(27,909)
Exchange loss, net . . . . .					(12,547)
Share of profits of associates . . . . .	1,137	—	—	—	1,137
Excess over the cost of a business combination . . . . .					<u>577,619</u>
Profit before tax . . . . .					1,164,486
Income tax expense . . . . .					<u>(55,953)</u>
Profit for the period . . . . .					<u>1,108,533</u>
<b>Six-month period ended 30 June 2005</b>					
<b>Segment revenue:</b>					
Sales to external customers . . . . .	1,075,972	—	56,328	—	1,132,300
Intersegment sales . . . . .	—	—	25,259	(25,259)	—
Other income . . . . .	1,023	—	51	—	1,074
Total . . . . .	<u>1,076,995</u>	<u>—</u>	<u>81,638</u>	<u>(25,259)</u>	<u>1,133,374</u>
<b>Segment results</b> . . . . .	<u>465,656</u>	<u>—</u>	<u>1,848</u>	<u>—</u>	<u>467,504</u>
Interest and dividend income and unallocated gains . . . . .					8,368
Corporate and other unallocated expenses . . . . .					(68,347)
Finance costs . . . . .					(8,282)
Exchange gain, net . . . . .					79,043
Share of profits of associates . . . . .	1,015	—	—	—	1,015
Profit before tax . . . . .					479,301
Income tax expense . . . . .					<u>(22,222)</u>
Profit for the period . . . . .					<u>457,079</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**5. 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.

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

	Six-month period ended 30 June	
	2006	2005
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Revenue</b>		
Sale of goods .....	1,536,562	1,080,518
Rendering of services .....	77,271	51,782
	<u>1,613,833</u>	<u>1,132,300</u>
<b>Other income and gains</b>		
Dividend income from listed investments .....	135	—
Subsidy income (Note) .....	89,259	—
Fair value gain on derivative financial instruments .....	24,697	—
Gain on dissolution of a subsidiary .....	586	—
Income from the sale of other materials .....	2,942	868
Gross rental income .....	64	—
Others .....	638	238
	<u>118,321</u>	<u>1,106</u>

## 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. In October 2005, the Group received approval documents from the local finance authority of Hainan Province, the PRC for the refund of 50% of the net VAT paid by the Group on the sale of urea products, amounting to RMB65,768,000, for the year ended 31 December 2004. In addition, in January 2006, the Group also received approval documents from the local finance authority of Hainan Province, the PRC for the refund of 50% of the net VAT paid by the Group on the sale of urea products, amounting to RMB53,243,000, for the six-month period ended 30 June 2005. Pursuant to the payment notifications issued by the Hainan provincial government on 22 May 2006, the Group received cash refund of RMB89,259,000 in May 2006. The remaining VAT refund of RMB29,752,000 has yet to be received by the Group and will be recognized as subsidy income when there is reasonable assurance that the VAT refund will be received by the Group.

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

*30 June 2006***6. Excess over the cost of a business combination**

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

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

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

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

## 6. Excess over the cost of a business combination (continued)

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

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

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

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**6. Excess over the cost of a business combination (continued)**

The results of Tianye have been consolidated into the Group since 19 January 2006. Since its acquisition, Tianye contributed RMB510,880,000 to the Group's turnover and RMB95,943,000 to the consolidated net profit for the six-month period ended 30 June 2006.

Had the business combination taken place at the beginning of the current period, the consolidated turnover and consolidated net profit of the Group for the six-month period ended 30 June 2006 would have been RMB1,681,558,000 and RMB1,084,821,000, respectively.

**7. Profit before tax**

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

	Six-month period ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold . . . . .	936,527	584,960
Cost of services provided . . . . .	56,485	38,071
Depreciation . . . . .	238,947	135,997
Amortization of intangible assets . . . . .	219	69
Amortization of prepaid land lease payments . . . . .	3,632	1,140
Fair value loss/(gain) on derivative financial instruments . . . . .	(24,697)	54,547
Foreign exchange differences, net . . . . .	12,547	(79,043)
Write-back of provision for bad and doubtful receivables . . . . .	—	(2,172)
Dividend income from listed investments . . . . .	(135)	—
Loss/(gain) on disposal of items of property, plant and equipment . . . . .	(152)	145
	<u>          </u>	<u>          </u>

**8. Income tax expense**

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**8. Income tax expense (continued)**

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

<u>Name of company</u>	<u>Details of tax concessions</u>
The Company	Exemption from CIT for the two years ended 31 December 2005 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2008.
Hainan CNOOC Plastic Company Limited	Exemption from CIT for the two years ended 31 December 2005 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2008.
Hainan CNOOC Transportation Co., Ltd.	Exemption from CIT for the two years ended 31 December 2003 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2006.
Hainan CNOOC Complex Fertilizer Co., Ltd.	Exemption from CIT for the two years ended 31 December 2003 and a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2006.
Hainan Basuo Port Limited	Exemption from CIT for the five years ending 31 December 2009 and a 50% reduction in the applicable tax rate for CIT for the five years ending 31 December 2014.
Inner Mongolia Tianye Chemical Industry Limited	Exemption from CIT for the three years beginning from the year when Tianye started to produce urea and methanol using natural gas as raw material, i.e., the year ended 31 December 2005.
CNOOC Kingboard Chemical Limited	Exemption from CIT for its first two profitable years and a 50% reduction in the applicable tax rate for CIT for the subsequent three years. As at 30 June 2006, the company has yet to commence its operations.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six-month periods ended 30 June 2005 and 2006, respectively.

Major components of income tax expense for the six-month periods ended 30 June 2005 and 2006 are as follows:

	Six-month period ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Current—PRC		
Charge for the period	56,387	22,663
Deferred	(434)	(441)
Total tax charge for the period	<u>55,953</u>	<u>22,222</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**8. Income tax expense (continued)**

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

	Six-month period ended 30 June	
	2006	2005
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Profit before tax . . . . .	1,164,486	479,301
Tax at the statutory tax rate of 33% . . . . .	384,280	158,169
Lower tax rate for specific provinces/districts or concessions . . . . .	(287,614)	(134,700)
Effect on opening deferred tax of increase in tax rates . . . . .	—	(70)
Profits attributable to associates . . . . .	(171)	(152)
Income not subject to tax (Note) . . . . .	(43,322)	—
Expenses not deductible for tax . . . . .	1,400	551
Tax losses not recognized . . . . .	31	—
Others . . . . .	1,349	(1,576)
Income tax expense reported in the condensed consolidated income statement . . . .	<u>55,953</u>	<u>22,222</u>
The Group's effective income tax rate . . . . .	<u>4.8%</u>	<u>4.6%</u>

Note:

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

There was no share of tax attributable to associates for both periods as the Group's principal associate is exempt from CIT for the five years ending 31 December 2007.

**9. Dividends**

On 6 March 2006, the directors proposed to declare a dividend of RMB1,210,801,000 (the "Special Dividend") to CNOOC which was approved in the shareholders' meeting on the same date. As at 30 June 2006, the Special Dividend was recognized as a current liability. The Company confirmed that the Special Dividend will be settled in full prior to the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)***30 June 2006***9. Dividends (continued)**

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

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

The directors did not propose the payment of any interim dividend for the six-month period ended 30 June 2005.

Upon the listing of the Company's shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the profit after tax as determined under PRC GAAP and International Financial Reporting Standards issued by the IASB.

**10. Earnings per share attributable to ordinary equity holders of the parent**

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent for the six-month period ended 30 June 2006 of approximately RMB1,084,821,000 (Six-month period ended 30 June 2005: RMB437,011,000) and on the assumption that 3,000,000,000 domestic shares of RMB1 each issued as a result of the Reorganization had been in issue throughout the periods.

No diluted earnings per share is presented for the six-month periods ended 30 June 2005 and 2006 as no diluting events occurred during these periods.

**11. Property, plant and equipment and prepaid land lease payments**

During the six-month period ended 30 June 2006, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB447,661,000 (Six-month period ended 30 June 2005: RMB52,723,000). The Group also made prepaid land lease payments of approximately RMB57,770,000 (Six-month period ended 30 June 2005: Nil) for the six-month period ended 30 June 2006. Property, plant and equipment amounting to RMB1,570,000 (Six-month period ended 30 June 2005: RMB145,000) were disposed of for the six-month period ended 30 June 2006.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**11. Property, plant and equipment and prepaid land lease payments (continued)**

As at 30 June 2006, the Group has yet to obtain building ownership certificates for certain buildings with net book value of approximately RMB202,382,000. Building ownership certificates for buildings with net book value of approximately RMB184,556,000 out of the amount of RMB202,382,000 were subsequently obtained as at the date of this report.

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

**12. Trade receivables**

Sales of the Group's fertilizers are normally settled on an advance receipt basis, whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. However, in the case of long-standing customers with bulk purchases and a good repayment history, the Group may agree that the sales can be settled by commercial acceptance drafts. In the case of export sales, the Group may also accept irrevocable letters of credit issued in its favor.

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within six months . . . . .	34,234	168,830
Over six months but within one year . . . . .	2,538	2,135
Over one year but within two years . . . . .	457	18
Over two years but within three years . . . . .	195	600
Over three years . . . . .	198	69
	<u>37,622</u>	<u>171,652</u>

**13. Cash and cash equivalents and pledged bank deposits**

As at 30 June 2006, the Group's pledged time deposits of RMB35,160,000 (31 December 2005: Nil) were deposited to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

The Group's cash and bank balances are denominated in RMB at each balance sheet date, except for an amount of RMB4,970,000 (31 December 2005: RMB49,088,000), which is translated from U.S.\$620,000 (31 December 2005: U.S.\$6,083,000); and RMB1,438,000 (31 December 2005: Nil), which is translated from Japanese Yen 20,694,000 (31 December 2005: Nil) as at 30 June 2006.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**13. Cash and cash equivalents and pledged bank deposits (continued)**

The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

**14. Paid-up capital**

	<u>30 June 2006</u>	<u>31 December 2005</u>
	RMB'000 (Unaudited)	RMB'000 (Audited)
Registered capital .....	3,000,000	1,300,000
Paid-up capital .....	<u>3,000,000</u>	<u>2,394,044</u>

Pursuant to the Company's Reorganization, the Company was reorganized into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006.

**15. 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 as at the balance sheet date, is as follows:

	<u>30 June 2006</u>	<u>31 December 2005</u>
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within six months .....	85,704	39,270
Over six months but within one year .....	1,263	2,924
Over one year but within two years .....	2,658	615
Over two years but within three years .....	824	354
Over three years .....	5,496	4,886
	<u>95,945</u>	<u>48,049</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**16. Related party transactions**

The Group had the following material transactions with related parties for the six-month periods ended 30 June 2005 and 2006, respectively:

*(a) Recurring*

	Notes	Six-month period ended 30 June	
		2006	2005
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Purchases of raw materials from CNOOC group companies* . . . . .	(i)	154,338	168,798
Sales of goods to an associate . . . . .	(i)	117,137	65,373
Provision of transportation services to an associate . . . . .	(ii)	4,068	2,720
Interest income from a CNOOC group company* . . . . .	(iii)	4,424	4,636
Interest expense to a CNOOC group company* . . . . .	(iii)	521	60
Rental income from a jointly-controlled entity . . . . .	(iv)	64	—
Rental fees to CNOOC group companies* . . . . .	(v)	800	—
Provision of construction and installation services from CNOOC group companies . . . . .	(vi)	60,261	6,617
Use of CNOOC trademark . . . . .	(vii)	—	—

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

Notes:

- (i) These transactions were conducted in accordance with terms agreed between the Group and its associate; and CNOOC group companies.
- (ii) Transportation income was based on mutually agreed terms with reference to the market rate.
- (iii) Interest income/expense was based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.
- (iv) Rental income was based on mutually agreed terms.
- (v) Rental fees were based on mutually agreed terms with reference to the market rate.
- (vi) The construction and installation services were charged based on mutually agreed terms.
- (vii) The CNOOC trademark owned by CNOOC was used by the Group at nil consideration.

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

## 16. Related party transactions (continued)

## (b) Non-recurring

	Notes	Six-month period ended 30 June	
		2006	2005
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Provision of utilities to a CNOOC group company . . . . .	(i)	7,247	3,701
Interest expense to the ultimate holding company . . . . .	(ii)	8,897	—
Fees and charges to a CNOOC group company . . . . .	(iii)	5,569	—

Notes:

- (i) The transaction was conducted in accordance with terms agreed between the Group and the CNOOC group company.
- (ii) Interest expense was charged at a contract rate of 2.07% per annum.
- (iii) Fees and charges were based on mutually agreed terms.

## (c) Guarantees provided by/to related companies of the Group

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

	30 June 2006	31 December 2005
	RMB'000 (Unaudited)	RMB'000 (Audited)
Guarantees provided to the Group by:		
—the ultimate holding company . . . . .	—	1,070,461
—CNOOC group companies . . . . .	—	126,935
	—	1,197,396

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

As at 31 December 2005, the Group provided corporate guarantees totaling RMB294,000,000 to a bank in connection with banking facilities granted to and utilized by a CNOOC group company. Such guarantee was also released in full in June 2006.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

## 16. Related party transactions (continued)

## (d) Balances with related parties

As at 31 December 2005 and 30 June 2006, the amounts due from/to the ultimate holding company, CNOOC group companies, excluding CNOOC Finance Corporation Ltd. (“CNOOC Finance”), an associate and a jointly-controlled entity is summarized in the following table:

	Due from related parties		Due to related parties	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Unaudited)	RMB'000 (Audited)
The ultimate holding company . . . . .	—	—	(1,216,964)	(2,172)
CNOOC group companies (excluding CNOOC Finance) . . . . .	18,599	12,094	(36,148)	(35,741)
An associate . . . . .	538	—	(4,358)	(1,669)
A jointly-controlled entity . . . . .	1,761	1,226	(5,853)	—

As at 30 June 2006, the deposits placed by the Group with CNOOC Finance amounted to RMB277,972,000 (31 December 2005: RMB1,098,690,000). The Group also recorded an aggregate amount due to CNOOC Finance of RMB72,947,000 (31 December 2005: RMB63,265,000) as at 30 June 2006 which mainly represented short term loans of RMB36,947,000 (31 December 2005: RMB57,015,000) obtained from CNOOC Finance for discounting the Group’s commercial acceptance drafts with recourse.

## (e) Compensation of key management personnel of the Group

	Six-month period ended 30 June	
	2006	2005
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Short term employee benefits . . . . .	915	858
Post-employment benefits . . . . .	91	93
Total compensation paid to key management personnel . . . . .	1,006	951

## (f) 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 six-month periods ended 30 June 2005 and 2006, 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.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**16. Related party transactions (continued)***(f) Transactions with other state-owned enterprises in the PRC (continued)*

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.

**17. Operating lease arrangements***(a) As lessor*

As at 31 December 2005 and 30 June 2006, the Group had no significant future minimum lease receivables under non-cancellable operating leases.

*(b) As lessee*

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

As at 30 June 2006, the Group had total future minimum lease payments to CNOOC group companies under non-cancellable operating leases falling due within one year of RMB800,000. As at 31 December 2005, the Group had no significant future minimum lease payments under non-cancellable operating leases.

**18. Commitments and contingent liabilities**

In addition to the operating lease commitments detailed above, the Group had the following commitments and contingent liabilities as at the balance sheet date:

*(a) Capital commitments*

	<u>30 June 2006</u>	<u>31 December 2005</u>
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted, but not provided for:		
—Acquisition of land and buildings . . . . .	29,067	50,263
—Acquisition of plant and machinery . . . . .	18,762	58
Authorized, but not contracted for:		
—Acquisition of land and buildings . . . . .	195,169	196,842
—Acquisition of plant and machinery . . . . .	<u>1,651,674</u>	<u>1,781</u>
	<u>1,894,672</u>	<u>248,944</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

30 June 2006

**18. Commitments and contingent liabilities (continued)***(a) Capital commitments (continued)*

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted, but not provided for:		
—Acquisition of plant and machinery . . . . .	107,293	265,735
Authorized, but not contracted for:		
—Acquisition of plant and machinery . . . . .	234,103	260,613
	<u>341,396</u>	<u>526,348</u>

*(b) Contingent liabilities*

	<u>30 June 2006</u>	<u>31 December 2005</u>
	RMB'000 (Unaudited)	RMB'000 (Audited)
Guarantees given to a bank in connection with banking facilities granted to and utilized by a CNOOC group company . . . . .	—	<u>294,000</u>

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

**19. Post balance sheet events**

Subsequent to 30 June 2006, the Company entered into various agreements with CNOOC and CNOOC group companies which constitute connected transactions under the Listing Rules. Further details can be found in the Section headed "Connected Transactions" of the Company's Prospectus.

**20. Approval of the interim financial report**

The interim financial report for the six-month period ended 30 June 2006 were approved and authorized for issue by the board of directors on 18 September 2006.