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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China BlueChemical Ltd. (the “Company”), you should at once hand this circular and the accompanying proxy form to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock Code: 3983)

**MAJOR AND CONNECTED TRANSACTION
IN RESPECT OF THE PROPOSED ACQUISITION OF
83.17% EQUITY INTEREST IN HUBEI DAYUKOU CHEMICAL CO., LTD.*
AND
100% EQUITY INTEREST IN ZHJ MINING CO., LTD.*
AND
PROPOSED CONTINUING CONNECTED TRANSACTIONS**

Financial Advisers to China BlueChemical Ltd.



UBS Investment
Bank



中信証券國際
CITIC Securities International

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



CIMB

CIMB-GK Securities (HK) Limited

A letter from the board of directors of the Company is set out on pages 7 to 42 of this circular. A letter from the Independent Board Committee (as defined in this circular) containing its recommendation in respect of the Acquisition (as defined in this circular) and the Proposed Caps for the continuing connected transactions is set out on pages 43 to 44 of this circular. A letter from the Independent Financial Adviser (as defined in this circular) containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms and conditions of the Acquisition Agreement and the fairness and reasonableness of the Proposed Caps for the continuing connected transactions is set out on pages 45 to 65 of this circular.

A notice convening the extraordinary general meeting of the Company (the “Extraordinary General Meeting”) to be held at Conference Room, 3rd Floor, CNOOC Office Building B, No. 98 Guanhai Road, Longhua District, Haikou, Hainan Province, the People's Republic of China, at 10:00 a.m. on Monday, 16 February 2009 is set out at the end of this circular. There is a proxy form for use at the Extraordinary General Meeting (or any adjournment thereof) accompanying to this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are strongly urged to complete and sign the enclosed proxy form, in accordance with the instructions printed thereon, and to lodge them with the Company's Secretary Office of the Board of Directors in China (for holders of domestic shares or unlisted foreign shares) at No. 98 Guanhai Road, Longhua District, Haikou, Hainan Province, the People's Republic of China or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H shares), at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the Extraordinary General Meeting (or any adjournment thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the Extraordinary General Meeting (or any adjournment thereof) if you so wish.

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the proposed acquisition of the Equity Interests by the Company from CNOOC
“Acquisition Agreement”	the sale and purchase agreement dated 12 December 2008 entered into between the Company (as purchaser) and CNOOC (as vendor) in relation to the Acquisition
“Announcement”	the announcement of the Company dated 12 December 2008 in relation to the Acquisition and the proposed continuing connected transactions
“Associate(s)”	has the meaning ascribed to it under the Listing Rules
“Benchmark Loan Rates”	RMB benchmark loan rates for financial institutions published by the Peoples’ Bank of China one day before the date of the payment of the remaining consideration
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and PRC official public holidays)
“Category 2(a)”	the continuing connected transactions regarding the sales of products by the Group to the CNOOC Group as described in the section headed “Continuing Connected Transactions Arising From the Acquisition” in this circular
“Category 2(b)”	the continuing connected transactions regarding the purchases of products by DYK Chemical from the CNOOC Group as described in the section headed “Continuing Connected Transactions Arising From the Acquisition” in this circular
“CNCCC”	中國化工建設總公司 (China National Chemical Construction Corp.*), a company established in China and is currently a wholly-owned subsidiary of CNOOC
“CNOOC”	中國海洋石油總公司 (China National Offshore Oil Corporation*), a company established in China which is also the controlling shareholder of the Company holding approximately 59.41% of all of the shares of the Company in issue as at the Latest Practicable Date

DEFINITIONS

“CNOOC Group”	CNOOC and its Associates presented as a group, excluding the Group, CNOOC Limited (the shares of which are listed on the Stock Exchange and the New York Stock Exchange), China Oilfield Services Limited (the H shares of which are listed on the Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange) and Offshore Oil Engineering Co., Ltd. (the A shares of which are listed on the Shanghai Stock Exchange)
“CNOOC Investment”	中海石油投資控股有限公司 (CNOOC Investment Co., Ltd.*), a company established in China which is a wholly-owned subsidiary of CNOOC
“Company”	中海石油化學股份有限公司 (China BlueChemical Ltd.*), a company incorporated in the PRC and a subsidiary of CNOOC, the H shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“controlling shareholders”	has the meaning ascribed to it under the Listing Rules
“DAP”	di-ammonium phosphate, $(\text{NH}_4)_2\text{HPO}_4$, a type of phosphate fertilizer
“Dayukou Mine”	Hubei Province Dayukou Phosphate Mine owned and operated by DYK Chemical
“Director(s)”	director(s) of the Company
“DYK Chemical”	湖北大峪口化工有限責任公司 (Hubei Dayukou Chemical Co., Ltd.*), a company established in the PRC with limited liability
“Enlarged Group”	the Group after the Completion
“Equity Interests”	83.17% of the equity interest in DYK Chemical and 100% of the equity interest in ZHJ Mining
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting, and any adjournment thereof, of the Company proposed to be convened for the Independent Shareholders to consider and, if thought fit, approve (among other things) the transactions contemplated under the Acquisition Agreement, including but not limited to the Acquisition, and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b)

DEFINITIONS

“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“In Situ Quantity Resources”	estimates of total in ground tonnes and grades which meet the requirements of the PRC Code for reserves but do not meet either 43-101 or Joint Ore Reserves Committee’s recommendations
“Independent Board Committee”	an independent committee of the Board comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhì and Mr. Wang Wenshan, all of the three independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b)
“Independent Financial Adviser” or “CIMB”	CIMB-GK Securities (HK) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b)
“Independent Shareholders”	Shareholders other than those who have interest in the Acquisition and the continuing connected transactions as described in this circular
“Independent Technical Report”	An independent technical review report, which was commissioned by the Company, prepared by Minarco
“Interest for the Remaining Payment”	the simple interest on fifteen percent (15%) of the total consideration for the Interest Period calculated in accordance with the applicable Benchmark Loan Rates specified for the Interest Period multiplied by the total number of days of the Interest Period and divided by 365 days
“Interest Period”	the period between the next day of the first payment of consideration and the date of the payment of the remaining consideration
“JORC”	Joint Ore Reserves Committee

DEFINITIONS

“JORC Code”	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. It set out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves.
“kt”	kiloton, one thousand metric tonnes
“Latest Practicable Date”	24 December 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAP”	mono-ammonium phosphate, $\text{NH}_4\text{H}_2\text{PO}_4$, a type of phosphate fertilizer
“Minarco”	Minarco-MineConsult Pty Ltd, an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries
“Mineable Quantity Reserves”	estimates of recoverable in ground tonnes and grades which meet the requirements of the PRC Code for reserves but do not meet either 43-101 or Joint Ore Reserves Committee’s recommendations
“mRL”	metre(s) above sea level
“Parties”	the parties to the Acquisition Agreement
“Ph1”	orebody name as referred to in the Chinese geological literature
“Ph3”	orebody name as referred to in the Chinese geological literature
“ P_2O_5 ”	phosphorus oxide, the mineral contained in the ore being mined from both the Dayukou Mine and Wangji Mine and processed at the plant of DYK Chemical

DEFINITIONS

“Profit and Loss of the Relevant Period”	the aggregate sum of the difference between the amount of the net asset value for each of the Target Companies as of the date of the first payment of the consideration (which shall be the last day of the preceding month of the date of first payment of the consideration provided that if the date of the first payment of the consideration does not fall on the last day of the respective month) and the amount of net asset value for each of the Target Companies as of 30 June 2008 as determined in accordance with the applicable PRC accounting policies and principles in respect of the Equity Interests. If aggregate sum of such difference is a positive amount, it indicates that the net asset value for each of the Target Companies attributed to the Equity Interest has increased during the Relevant Period. If aggregate sum of such difference is a negative amount, it indicates that the net asset value for each of the Target Companies attributed to the Equity Interest has reduced during the Relevant Period
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Macau and Taiwan
“PRC Code”	Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999) issued by the Ministry of Land and Resources P.R.C.
“Properties Leasing Agreement”	the properties lease agreement entered into between the Company and CNOOC dated 1 September 2006 which was supplemented by an agreement dated 5 November 2008, details of which are set out in the announcement of the Company dated 5 November 2008
“Proposed Cap(s)”	the proposed maximum annual aggregate value(s) for the continuing connected transactions of the Company and not being exempt from independent shareholders’ approval requirements under the Listing Rules in respect of 2009 to 2011
“Relevant Period”	the period between the date of the valuation of the Target Companies (exclusive of such day) and the date of the first payment of the consideration (which shall be the last day of the preceding month of the date of first payment of the consideration provided that if the date of the first payment of the consideration does not fall on the last day of the respective month)
“Reserves”	reserve which have been estimated in accordance with the recommendations of the JORC Code
“Resources”	resource which have been estimated in accordance with the recommendations of the JORC Code

DEFINITIONS

“RMB” or “yuan”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	shareholder(s) of the Company
“Special Auditing Reports”	the audited financial statements showing the Profit and Loss for each of the Target Companies of the Relevant Period to be prepared by a qualified PRC accounting firm appointed as the auditor jointly by CNOOC and the Company as specified in the Acquisition Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning ascribed to it under the Listing Rules
“Target Companies”	DYK Chemical and ZHJ Mining
“Tianjian”	北京天健興業資產評估有限公司 (Beijing Pan-China Assets Appraisal Co., Ltd.*), a certified PRC public valuer approved and regulated by China Securities Regulatory Commission and Ministry of Finance
“Wangji Mine”	Hubei Province Wangji Phosphate Mine owned and operated by ZHJ Mining
“ZHJ Mining”	中化建礦業有限公司 (ZHJ Mining Co., Ltd.*), a company established in the PRC with limited liability
“%”	per cent

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Unless otherwise stated, amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB0.883 to HK\$1.00, which is a rate announced by The People’s Bank of China as at the date of the Announcement, for illustration purposes only. No representation is made that any amounts in RMB or HK\$ can be or could have been converted at the relevant dates at the above rate or any other rate at all.

LETTER FROM THE BOARD



中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock Code: 3983)

Executive Directors:

Mr. Yang Yexin
Mr. Fang Yong
Mr. Chen Kai

Non-executive Director:

Mr. Wu Mengfei

Independent non-executive Directors:

Mr. Tsui Yiu Wa, Alec
Mr. Zhang Xinzhi
Mr. Wang Wenshan

Registered Office:

No. 1 Zhu Jiang South Street
Dongfang City
Hainan Province
The People's Republic of China

*Principal place of business
in Hong Kong:*

65/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

31 December 2008

To the Shareholders:

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RESPECT OF THE PROPOSED ACQUISITION OF
83.17% EQUITY INTEREST IN HUBEI DAYUKOU CHEMICAL CO., LTD.*
AND
100% EQUITY INTEREST IN ZHJ MINING CO., LTD.*
AND
PROPOSED CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

On 12 December 2008, the Board announced that the Company and CNOOC had on the same date, entered into the Acquisition Agreement in respect of the Acquisition. Reference is made to the Company's announcement dated 12 December 2008 in relation to the Acquisition.

Pursuant to the Acquisition Agreement, the Company has agreed to purchase, and CNOOC has agreed to sell, the Equity Interests at a cash consideration of RMB1,262,847,026 (equivalent to approximately HK\$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK\$1,224,266,168) constitutes the

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LETTER FROM THE BOARD

consideration for the acquisition of 83.17% equity interest in DYK Chemical and RMB181,820,000 (equivalent to approximately HK\$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining.

Upon Completion, the Company will be directly interested in the Equity Interests.

The operations of both the Target Companies are in Jingmen City, Hubei Province of the PRC. The main businesses of these companies are phosphate mining and processing as well as the production and sale of phosphoric chemical products (mainly phosphate fertilizers). As at the Latest Practicable Date, the Company did not hold any equity interests in either DYK Chemical or ZHJ Mining.

As one of the applicable percentage ratios in respect of the Acquisition represents more than 25% but less than 100% for the Company while the other applicable percentage ratios represent less than 25%, the Acquisition constitutes a major transaction pursuant to Chapter 14 of the Listing Rules. Further, as CNOOC is a connected person of the Company, the Acquisition also constitutes a connected transaction under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

As soon as DYK Chemical and ZHJ Mining become subsidiaries of the Company, the continuing transactions between DYK Chemical or ZHJ Mining on one hand and CNOOC and/or its Associates on the other hand will become continuing connected transactions of the Company and will be subject to the reporting, announcement and/or independent shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules.

For the continuing connected transactions with the applicable percentage ratios that represent less than 2.5% but more than 0.1%, such transactions are only subject to the reporting and announcement requirements under the Listing Rules but not independent shareholders' approval. The Company made the Announcement on its plans for 2009 to 2011 with respect to those transactions to fulfil its announcement obligation. For the continuing connected transactions with the applicable percentage ratios that represent more than 2.5%, such transactions are subject to independent shareholders' approval requirements, approval from the Independent Shareholders on the Proposed Caps for those transactions will be sought at the Extraordinary General Meeting.

The Directors have appointed the Independent Board Committee, comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Wang Wenshan, all of the three independent non-executive Directors, to advise the Independent Shareholders in relation to the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b). An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further information in relation to (1) the terms of the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b); (ii) the recommendation of the Independent Board Committee in respect of (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b); (iii) the advice from the Independent Financial Adviser in respect of (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b); and (iv) a notice to the Shareholders of the EGM convening for the purposes of considering and, if thought fit, approving (1) the Acquisition Agreement and transactions contemplated thereunder; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

THE ACQUISITION AGREEMENT

Date of the Acquisition Agreement

12 December 2008

Parties

- (1) CNOOC, as vendor; and
- (2) The Company, as purchaser.

Assets to be acquired

Pursuant to the Acquisition Agreement, CNOOC has agreed to sell and the Company has agreed to purchase:

- (1) the 83.17% equity interest in DYK Chemical; and
- (2) the 100% equity interest in ZHJ Mining.

Consideration

The total consideration of the Acquisition is RMB1,262,847,026 (equivalent to approximately HK\$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK\$1,224,266,168) constitutes the consideration for the acquisition of 83.17% equity interest in DYK Chemical and RMB181,820,000 (equivalent to approximately HK\$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining. Eighty-five percent (85%) of such consideration will be payable in cash by the Company to CNOOC within five (5) Business Days from the date when all the conditions precedent set out below have been satisfied. The remaining fifteen percent (15%) of such consideration together with the Interest for the Remaining Payment will be payable in cash by the Company to CNOOC within ten (10) Business Days from the date of issuance of the Special Auditing Reports as specified under the Acquisition Agreement.

The consideration will be financed by the Company's internal resources.

LETTER FROM THE BOARD

The amount of the consideration was determined on the basis of normal commercial terms and arm's length negotiations between the Company and CNOOC, as well as taking into account of various factors, including (i) the assets valuation carried out by Tianjian, on each of DYK Chemical and ZHJ Mining as at 30 June 2008; (ii) the quality of the assets being acquired; (iii) the synergy and strategic value of the Target Companies that can be brought to the Group in order to enhance its future development; and (iv) the market positioning of DYK Chemical and ZHJ Mining.

The valuation prepared by Tianjian for the 100% equity interests in DYK Chemical and ZHJ Mining is RMB1,299,780,000 and RMB181,820,000 respectively. It follows that the valuation for 83.17% equity interest in DYK Chemical is approximately RMB1,081,027,026. More details on such valuation are contained in the assets appraisal reports set out in Appendices VI(A) and VI(B) to this circular.

Valuation Methodology and Assumptions

Tianjian has used both the asset-based approach and income approach in their valuation of the Target Companies. According to Tianjian, the income approach is one of the most recognised valuation approaches for State-owned assets in the PRC and has been adopted in recent cases. Tianjian has indicated in its assets appraisal reports for the Target Companies that it has mainly used the income approach, also known as discounted cash flow method, to assess the value of the Target Companies and that the income approach is its final concluded valuation approach.

The valuation of each of the Target Companies prepared by Tianjian, for which the income approach has been used, constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules and, accordingly, the requirements under Rule 14.62 of the Listing Rules are applicable to the Acquisition.

In the course of conducting the valuation, the principal assumptions upon which the profit forecast for each of DYK Chemical and ZHJ Mining have been made are presented as follows:

DYK Chemical

1. there are no major changes in the relevant state laws, regulations and policies observed by DYK Chemical;
2. there are no major changes in the social, political and economic environment in the place of DYK Chemical and its business places;
3. DYK Chemical will conduct going-concern operation in accordance with the laws and in line with the general trends in terms of business scope, mode and decision-making procedures;
4. the interest rate of financial credit, tax rate, foreign exchange rate and market conditions are changed within the normal or existing government guided scope;

LETTER FROM THE BOARD

5. there are no force majeure events or unforeseeable factors that result in major or significant negative impact on the production and operation of DYK Chemical;
6. DYK Chemical continues to maintain its current production and sales strategies to meet market demand;
7. DYK Chemical is able to conduct operations under the current business conditions without additional capital expenditures; and
8. DYK Chemical continues using the trademarks of “Xiangyan”⁽¹⁾ and “SACF”⁽²⁾ for free.

ZHJ Mining

1. there are no major changes in the relevant state laws, regulations and policies observed by ZHJ Mining;
2. there are no major changes in the social, political and economic environment in the place of ZHJ Mining and its business places;
3. ZHJ Mining will conduct going-concern operation in accordance with the laws and in line with the general trends in terms of business scope, mode and decision-making procedures;
4. the interest rate of financial credit, tax rate, foreign exchange rate and market conditions are changed within the normal or existing government guided scope;
5. there are no force majeure events or unforeseeable factors that result in major or significant negative impact on the production and operation of ZHJ Mining;
6. ZHJ Mining will continue to use the land through lease arrangement⁽³⁾ with CNOOC Investment and the rent will be maintained at the current level for future operation period; and
7. due to technical limitations, ZHJ Mining will no longer develop unprofitable phosphate processing business.

LETTER FROM THE BOARD

Notes:

- (1) A trademark assignment agreement signed between DYK Chemical and CNCCC on 21 August 2008 whereby CNCCC agreed to transfer the trademark of “Xiangyan” to DYK Chemical. As at the Latest Practicable Date, the registration of the transfer of “Xiangyan” is still under process.
- (2) The trademark of “SACF” is owned by 河北天人化工股份有限公司 (Hebei Tianren Chemical Co., Ltd.*) which is an independent third party to the Company and DYK Chemical. On 23 August 2008 and 2 September 2008, Hebei Tianren Chemical Co., Ltd. issued the authorization letters to DYK Chemical whereby DYK Chemical is allowed to use the “SACF” trademark for free until 21 August 2015.
- (3) According to the Company’s PRC legal counsel, Jun He Law Offices, ZHJ Mining does not own any land use right on its own. It leases land from CNOOC Investment for the purpose of general business and staff quarters. The total area of land leased amounts to approximately 2 million square metres. On 22 September 2008, a land use rights lease agreement has been signed between ZHJ Mining and CNOOC Investment for a term commencing from the date of the agreement and expiring on 31 December 2010. More details of that agreement are set out in the section headed “Continuing Connected Transactions Arising From the Acquisition — (1) Land use rights leasing” below.

The Directors are of the view that the valuation of DYK Chemical and ZHJ Mining prepared by Tianjian has been made after due care and enquiry by the Directors. A letter from the Company’s auditors and a joint letter from the Company’s financial advisers are included in Appendix VII to this circular for the purpose of Rule 14.62 of the Listing Rules.

Conditions Precedent

The Acquisition is conditional upon the fulfilment of the following conditions:

- (i) the approval of the Acquisition (including the method of transfer of the Equity Interests) and the transactions contemplated in the Acquisition Agreement by the SASAC;
- (ii) the passing of all necessary resolutions by the Independent Shareholders approving the Acquisition Agreement and the transactions contemplated thereunder at the Extraordinary General Meeting in accordance with the articles of association of the Company and the Listing Rules; and
- (iii) the approval from the Department of Commerce of Hubei Province in relation to the Acquisition.

None of the conditions above can be waived. The Company and CNOOC have agreed to use their reasonable endeavours to fulfil and/or procure the fulfilment of the above conditions within twelve (12) months from the execution of the Acquisition Agreement.

As at the Latest Practicable Date, none of the conditions referred above have been fulfilled.

LETTER FROM THE BOARD

Representations and Warranties

Both Parties have, according to the Acquisition Agreement, provided certain usual representations and warranties to each other in respect of the Acquisition. In particular, both Parties represent and warrant that CNOOC shall be entitled to or responsible for (as the case may be) the Profit and Loss of the Relevant Period. Within ten (10) Business Days after the first payment of the consideration, both parties shall jointly appoint a qualified PRC accounting firm as the auditor to prepare the Special Auditing Reports for the Relevant Period in accordance with the applicable PRC accounting policies and principles. The auditing cost in preparing the Special Auditing Reports shall be borne equally by CNOOC and the Company. If there is an increase in the net asset value of the Target Companies in respect of the Equity Interests in the Relevant Period, the Company shall within ten (10) Business Days after the issuance of the Special Auditing Reports pay the aggregate amount of the increase in the net asset value of the Target Companies in respect of the Equity Interests as determined by the auditor to CNOOC. If there is a reduction in the net asset value of the Target Companies in respect of the Equity Interests in the Relevant Period, CNOOC shall within ten (10) Business Days after the issuance of the Special Auditing Reports pay the aggregate amount of reduction in the net asset value of the Target Companies in respect of the Equity Interests as determined by the auditor to the Company.

Completion

The Company and CNOOC agreed to use their best endeavours to complete, or procure to complete, all the registration and filings with the Industrial and Commercial Administration Bureau of Hubei Province in respect of the transfer of the Equity Interests, within ninety (90) Business Days from the date when all of the conditions precedent set out above have been satisfied.

Completion shall take place upon completion of all the registration and filings with the Industrial and Commercial Administration Bureau of Hubei Province in respect of the transfer of the Equity Interests.

INFORMATION ON THE TARGET COMPANIES

The operations of both the Target Companies are in Jingmen City, Hubei Province of the PRC. Both of the Target Companies do not engage in any exploration of natural resources.

DYK Chemical

DYK Chemical is a company established in the PRC with limited liability in August 2005. It is principally engaged in phosphate mining and processing as well as production and sales of MAP and DAP fertilizers. DYK Chemical possesses a 30-year mining license for the Dayukou Mine. The mining permit covers an area of 8.1545 km² commencing from 18 April 2008 and will expire on 18 April 2038.

LETTER FROM THE BOARD

According to the Independent Technical Report, Dayukou Mine consists of 2 separate ore bodies within distinct geological units, namely Ph1 and Ph3. As at June 2008 and based on average P_2O_5 cut-off grade of 15% for Ph1 and 8% for Ph3, the In Situ Quantity Resources were estimated to be 124,016kt at an average grade of 19.6% P_2O_5 (Phosphorus Oxide), and the Mineable Quantity Reserves were estimated to be 77,753kt. The Mineable Quantity Reserves will be mined using a combination of open cut and underground mining methods. Please refer to Table 1 and 2 for the In Situ Quantity Resources and Mineable Quantity Reserves levels of Dayukou Mine.

Table 1: Estimates of In Situ Quantity Resources using the PRC Code (June 2008)

Type	Classification	Tonnes (kt)	Grade% P_2O_5
Economic	111b + 122b	85,326	19.23
	333	38,690	20.42
	Sub Total Economic	124,016	19.60
Sub Economic	2S21 + 2S22	158,338	—

Table 2: Estimates of Mineable Quantity Reserves using the PRC Code (June 2008)

Type	Classification	Tonnes (kt)	Grade% P_2O_5
Open Cut	111b + 122b + 333	14,447	—
Underground	111b + 122b + 333	63,306	—
Total	111b + 122b + 333	77,753	—

Note: Whilst the estimates do not comply with the JORC Code, they have been validated by Minarco using all data made available by the Company. Based on the review, the estimates as shown under the guidelines of the Chinese Code appear reasonable.

The mining production of Dayukou Mine in 2007 was 882kt.

ZHJ Mining

ZHJ Mining is a limited liability company established in the PRC in July 2006. Its main business activity is phosphate mining. ZHJ Mining possesses a 29-year mining permit for the Wangji Mine commencing on 5 June 2007 and expiring on 5 June 2036.

LETTER FROM THE BOARD

Similar to Dayukou Mine, the In Situ Quantity Resources of the Wangji Mine are made up of 2 separate ore bodies, Ph1 and Ph3. According to the Independent Technical Report, as at June 2008, the In Situ Quantity Resources were estimated to be 35,697kt at 21.57% P₂O₅ based on an average cut-off grade of 15% P₂O₅ for Ph1 and 8% for Ph3. The estimate In Situ Quantity Resources are broken down into their specific classification under the PRC Code in Table 3.

Table 3: In Situ Quantity Resources using the PRC Code (June 2008)

Type	Classification	Tonnes (kt)	Grade% P ₂ O ₅
Economic	111b + 122b	18,328	—
	331 + 332	1,399	—
	2M11 + 2M22	15,970	—
	Sub Total Economic	35,697	21.57
Sub Economic	2S21 + 2S22	13,783	—

Note: Whilst the estimates do not comply with the JORC Code, they have been validated by Minarco using all data made available by the Company. Based on the review, the estimates as shown under the guidelines of the Chinese Code appear reasonable.

According to the Independent Technical Report, the Mineable Quantity Reserves for the Wangji Mine were estimated to be 6,265.5kt at an average grade of 24.02% P₂O₅ as at June 2008. The Wangji Mine comprises of one producing underground mine in orebody Ph1 and one developing underground mine in orebody Ph3. Both underground mines adopted small scale room and pillar mining methodology. The estimates of Mineable Quantity Reserves were based on underground mine design applied to the 111b In Situ Quantity Resources classification under the PRC Code between elevations of 75 mRL and 10 mRL.

Additional 21,000kt of Mineable Quantity Reserves have been estimated to occur beneath the currently estimated Mineable Quantity Reserves of 6,265.5kt. The additional mineable quantities, based on the In Situ Quantity Resources shown in Table 3, were compiled by Northwest Hubei Province Hubei Geological Minerals Investigation Bureau* (湖北省鄂西北地質礦產調查所), an organization which is part of “Bureau of Geological Exploration & Development of Hubei Province” and specializes in mine exploration and geological research. Minarco has reviewed the underlying data and assumptions used in the estimation of the additional Mineable Quantity Reserves of 21,000kt, and considers the additional mineable quantities to be reasonable.

The mining production of ZHJ Mining in 2007 was 570.4kt at an average grade of 24.3% P₂O₅.

Further details on the reserves of the mines operated by DYK Chemical and ZHJ Mining are contained in the Independent Technical Report set out in Appendix V to this circular.

LETTER FROM THE BOARD

In Situ Quantity and Mineable Quantities are similar terms to Resources and Reserves under JORC Code respectively, but relate to material which is not in compliance to the recommendations of the JORC Code. In the present case, they are compiled in accordance with Chinese Code reserves. As part of the Independent Technical Report prepared by Minarco, the Chinese Code estimates of the In Situ Quantity have been validated. Minarco is of the view that should the In Situ Quantity be re-estimated under the recommendations of JORC Code they should yield similar results to the economic portions of the Chinese Code In Situ Quantity as stated in the Circular. Mineable Quantities as shown in this circular have been estimated under the Chinese Code. In Minarco's opinion, the Chinese Code estimates of Mineable Quantities appear reasonable and in line with the requirements for Chinese reserve reporting. These estimates of Mineable Quantities cannot however be reported under JORC Code without proper mine design and application of appropriate modifying factors (i.e. mining, metallurgical, economic, marketing, legal, environmental, social and governmental considerations). The Directors concur with the view of the technical consultant as stated above.

Relationship between the Target Companies

In order to achieve the development and synergy of the businesses of DYK Chemical and ZHJ Mining, ZHJ Mining supplies phosphoric ore to DYK Chemical for its fertilizers production. ZHJ Mining's expertise in mine exploitation is also shared with DYK Chemical so that DYK Chemical may further improve its own phosphate mine exploitation skills. The Acquisition will allow the Target Companies to continue advancing such synergy effect and technical know-how to complement their business operations in a cost-effective manner.

Previous Changes in the Equity Interests of the Target Companies

On 12 August 2005 (the date of establishment of DYK Chemical), CNCCC contributed RMB300,000,000 in cash to the registered capital of DYK Chemical to obtain 29.98% equity interest in DYK Chemical. On 5 May 2008, CNCCC acquired another 53.19% equity interest in DYK Chemical from 中國信達資產管理公司 (China Cinda Asset Management Corporation*) at a cash consideration of RMB532,247,900.

On 31 July 2006 (the date of establishment of ZHJ Mining), CNCCC contributed RMB50,000,000 in cash to the registered capital of ZHJ Mining to obtain 100% equity interest in ZHJ Mining.

Pursuant to a notice issued by the SASAC, CNCCC was merged with CNOOC and became a wholly-owned subsidiary of CNOOC from 13 October 2006.

In accordance with the "Interim Measures for the Administration of Gratuitous Transfer of State-owned Property Rights of Enterprises*" of the PRC 《企業國有產權無償劃轉管理暫行辦法》, CNCCC transferred its entire interests in DYK Chemical and ZHJ Mining to CNOOC at nil consideration on 1 September 2008 and 18 August 2008 respectively.

LETTER FROM THE BOARD

Selected Financial Information

(1) *DYK Chemical*

The following is a summary of the audited financial information of DYK Chemical for the period from 12 August 2005 (date of incorporation) to 31 December 2005, the two years ended 31 December 2007 and the six months period ended 30 June 2008:

	As at 31 December 2005 (RMB'000)	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Total assets	1,185,886	1,369,510	1,357,350	1,466,587
Total liabilities	296,886	465,046	402,824	426,898
Net assets	889,000	904,464	954,526	1,039,689
	12 August 2005 to 31 December 2005⁽¹⁾ (RMB'000)	For the year ended 31 December 2006 (RMB'000)	For the year ended 31 December 2007 (RMB'000)	Six months period ended 30 June 2008 (RMB'000)
Revenue	145,704	702,292	1,109,618	766,392
Cost of sales	163,139	615,810	907,397	612,056
Gross profit/(loss)	(17,435)	86,482	202,221	154,336
Profit/(loss) before tax	(165,320)	26,580	98,184	113,977
Profit/(loss) after tax	(111,624)	15,464	50,062	85,163

(2) *ZHJ Mining*

The following is a summary of the audited financial information of ZHJ Mining for the period from 31 July 2006 (date of incorporation) to 31 December 2006, the year ended 31 December 2007 and the six months period ended 30 June 2008:

	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Total assets	139,270	169,539	170,990
Total liabilities	76,559	78,488	66,440
Net assets	62,711	91,051	104,550

LETTER FROM THE BOARD

	31 July 2006 to 31 December 2006⁽²⁾ (RMB'000)	For the year ended 31 December 2007 (RMB'000)	Six months period ended 30 June 2008 (RMB'000)
Revenue	36,009	120,330	51,832
Cost of sales	9,180	42,584	17,025
Gross profit	26,829	77,746	34,807
Profit before tax	18,349	44,233	19,074
Profit after tax	12,711	28,340	13,499

Notes:

- (1) The financial year of 2005 for DYK Chemical began from 12 August 2005 (being its date of incorporation) to 31 December 2005.
- (2) The financial year of 2006 for ZHJ Mining began from 31 July 2006 (being its date of incorporation) to 31 December 2006.

The above financial information of each of the Target Companies was prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

As at the Latest Practicable Date, the Company did not hold any equity interests in either of the Target Companies.

Upon Completion, the Company will be directly interested in 83.17 % equity interest in DYK Chemical (the remaining 16.83% equity interest in DYK Chemical will continue to be held by the State-owned Assets Supervision and Administration Commission of Hubei Provincial Peoples' Government, an independent third party to the Company and its connected persons) and 100% equity interest in ZHJ Mining, and each of DYK Chemical and ZHJ Mining will become a subsidiary of the Company. Financial information of each of the Target Companies will be consolidated to the Company's accounts after the Company obtains effective control of the Target Companies.

INFORMATION ON CNOOC

CNOOC, established in 1982, is one of the largest State-owned oil companies in the PRC specializing in exploration of oil and gas in the PRC with its headquarter in Beijing. CNOOC is the largest offshore oil and gas producer in the PRC. Since its establishment, CNOOC has sustained continuous developments and had advanced from a company engaging only in exploitation of oil and gas to an integrated conglomerate with a complete production chain including upstream petroleum businesses (such as exploration, development, production and sales of oil and gas), downstream petroleum businesses (such as the natural gas, power generation, chemicals and fertilizer production), refining, natural gas and power generation, financial services, logistic services and new energies development.

LETTER FROM THE BOARD

CNOOC Investment is a subsidiary and therefore an Associate of CNOOC under Rule 19A.04 of the Listing Rules and is therefore the Company's connected person pursuant to Rule 14A.11(4) of the Listing Rules. CNOOC Investment primarily engages in asset investments and management of entrusted asset investments.

INFORMATION ON THE GROUP

The Group's current core business is the production and sale of urea (the most commonly used nitrogenous fertilizer in the PRC) and chemical products (primarily methanol).

MANAGEMENT DISCUSSION AND ANALYSIS

I. DYK Chemical

Management's Discussion and Analysis of Financial Condition and Results of Operation

Investors should read the following discussion and analysis in conjunction with the financial information of the DYK Chemical for the period from 12 August 2005 to 31 December 2005, the two years ended 31 December 2007, and the six months period ended 30 June 2008, all of which is included as Appendix II(A) to this circular and should not rely merely on the information contained in this section.

Overview

DYK Chemical was established in the PRC on 12 August 2005 with limited liability. During the relevant periods, DYK Chemical has been principally engaged in phosphate mining and processing as well as production the sale of DAP and MAP fertilizers.

Selected Financial Information

The following is a summary of the audited financial information of DYK Chemical for the period from 12 August 2005 (date of incorporation) to 31 December 2005, the two years ended 31 December 2007 and the six months period ended 30 June 2008:

	As at 31 December 2005 (RMB'000)	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Total assets	1,185,886	1,369,510	1,357,350	1,466,587
Total liabilities	296,886	465,046	402,824	426,898
Net assets	889,000	904,464	954,526	1,039,689

LETTER FROM THE BOARD

	12 August 2005 to 31 December 2005 (RMB'000)	For the year ended 31 December 2006 (RMB'000)	For the year ended 31 December 2007 (RMB'000)	Six months period ended 30 June 2008 (RMB'000)
Revenue	145,704	702,292	1,109,618	766,392
Cost of sales	163,139	615,810	907,397	612,056
Gross profit/(loss)	(17,435)	86,482	202,221	154,336
Profit/(loss) before tax	(165,320)	26,580	98,184	113,977
Profit/(loss) after tax	(111,624)	15,464	50,062	85,163

Financial information for the six months period ended 30 June 2008

Since its establishment in August 2005, DYK Chemical completed the maintenance of the existing production facilities for DAP and MAP within a short period of time and commenced operation in October 2005. With the implementation of the production techniques in processing low-medium P₂O₅ content phosphorus ores, DYK Chemical successfully reached its designed production capacity in 2007 and produced approximately 360kt of DAP and approximately 92kt of MAP in the same year.

In the first half of 2008, DYK Chemical maintained high level of production as a result of the efforts of its senior management and employees of the Company. The production of DAP for the first half of 2008 was approximately 180kt and that for MAP was approximately 30kt. Further, DYK Chemical achieved a remarkable financial result with effective cost control despite of increased in the cost of raw materials, particularly cost of sulphur.

In the first half of 2008, the total revenue of DYK Chemical was approximately RMB766.4 million, in which revenue for DAP and MAP accounted for approximately RMB699.6 million and approximately RMB64.1 million respectively. The sales volume of DAP and MAP was approximately 171.2kt and approximately 17.5kt respectively. Other income was mainly derived from sales of phosphoric ore, sulphur and sulphur acid.

The gross profit was approximately RMB154.3 million and the gross profit margin was 20.1%. The net profit was approximately RMB85.2 million. All these figures achieved historical high levels for DYK Chemical.

LETTER FROM THE BOARD

Comparison between the Year Ended 31 December 2007 and Year Ended 31 December 2006

Revenue

Total revenue in 2007 was mainly composed of revenue from the selling of DAP and MAP, each accounted for approximately RMB881.1 million and approximately RMB213.4 million respectively as compared to those of approximately RMB573.5 million and approximately RMB98.8 million respectively in 2006. Other income was mainly derived from sales of phosphoric ore, sulphur and sulphur acid. Sales volume of DAP and MAP in 2007 was approximately 363.5kt and 88.3kt respectively as compared to the sales volume of approximately 265.5kt and approximately 57.7kt respectively in 2006. The total revenue of DYK Chemical in 2007 was approximately RMB1,109.6 million, representing an increase of 58.0% from approximately RMB702.3 million in 2006. The increase in revenue mainly resulted from the increase in total sale volume of DAP and MAP of approximately 130kt in 2007, and the increase in average selling price for DAP and MAP by 11.1% in 2007.

The increase in the sales volume of DAP and MAP was primarily due to the increase in market demand for fertilizer products, particularly for DAP and MAP products, in the PRC. The ability of DYK Chemical to increase its production capacity to reach its designed production rate and thereby selling more products also contributed to the increase in the sales volume of DAP and MAP from 2006 to 2007. The increase in average selling price for DAP and MAP was due to an overall increase in selling prices for these products in both PRC and international markets and the increase in the cost of raw materials for the production of DAP and MAP products.

The sales of NPK only accounted for a small portion of the total revenue in 2006 and nil in 2007 as it was only produced under a trial test run for approximately 2 months in 2006. There was no production of NPK in 2007. DYK Chemical focuses mainly on production of DAP and MAP fertilizer products despite it is technically capable of producing other inter-related phosphate fertilizer products such as NPK.

Cost of sales

The cost of sales of DYK Chemical in 2007 were approximately RMB907.4 million, which had increased by approximately RMB291.6 million or 47.4% from approximately RMB615.8 million in 2006. The increase was primarily attributed to the increase in total sale volume of DAP and MAP products and the increase in prices of sulphur and sulfuric acid, which are the main raw materials used for the production of DAP and MAP products.

Gross profit

Based on the aforesaid, gross profit of DYK Chemical in 2007 was approximately RMB202.2 million, which had increased by approximately RMB115.7 million, or 133.8%, from approximately RMB86.5 million in 2006. The gross profit margin in 2007 was 18.2%, which had improved from the gross profit margin of 12.3% in 2006.

LETTER FROM THE BOARD

Selling and distribution costs

The selling and distribution costs of DYK Chemical in 2007 amounted to approximately RMB39.6 million, which had increased by approximately RMB25.1 million or 173.1% from approximately RMB14.5 million in 2006. The increase in selling and distribution costs was due to the increased production and sales of DAP and MAP.

Administrative expenses

DYK Chemical's administrative expenses in 2007 amounted to approximately RMB50.1 million, which increased by approximately RMB6.7 million or 15.4% from approximately RMB43.4 million in 2006. The increase was partly due to the increase in Environmental Health and Safety expenses.

Income tax expense

DYK Chemical's income tax expense in 2007 amounted to approximately RMB48.1 million, representing an increase of approximately RMB37.0 million, or 333.3%, comparing to approximately RMB11.1 million in 2006. The increase was mainly due to the surge in profit before tax in 2007 and the impact of the deferred tax arising from the change of corporate income tax rate from 33% in 2007 to 25% in 2008.

Net profit for the year

Based on the aforesaid, DYK Chemical's net profit was approximately RMB50.1 million in 2007, representing an increase of approximately RMB34.6 million, or 223.2%, comparing to approximately RMB15.5 million in 2006.

Financial information for the period from 12 August 2005 to 31 December 2005

The revenue of DYK Chemical in 2005 was approximately RMB145.7 million. DYK Chemical experienced a loss of approximately RMB17.4 million and a net loss of RMB111.6 million. The loss in 2005 was primarily due to the fact that it has only four months of business operation as it was established in August 2005. Such short period of business operation does not allow DYK Chemical to reach its optimum production level.

Liquidity and Financial Resources

As at 30 June 2008, based on the following analysis of current assets, current liabilities and financial resources, DYK Chemical has sufficient working capital for its on-going operation.

LETTER FROM THE BOARD

Current assets

As at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008, the total current assets of DYK Chemical were approximately RMB215.0 million, approximately RMB460.2 million, approximately RMB453.5 million and RMB588.6 million respectively. Current assets mainly comprised cash and cash equivalents, trade receivables, bills receivables, prepayments, deposits and other receivables and inventories. The growth in current assets was mainly due to the increase in scale of production and production capacity of DYK Chemical. Increase in inventory and trade payables attributed mainly from rising cost of raw materials also contribute to the growth in current assets.

Current liabilities

Current liabilities were mainly comprised of trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings and income tax payable. As at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008, the current liabilities of DYK Chemical were approximately RMB296.9 million, RMB464.9 million, RMB306.3 million and RMB345.5 million respectively.

Shareholders' equity

DYK Chemical's capital structure as at 31 December 2005 consisted of shareholders' equity of approximately RMB889.0 million, as compared to the shareholders' equity of approximately RMB904.5 million, RMB954.5 million and RMB1,039.7 million as at 31 December 2006, 31 December 2007 and 30 June 2008 respectively.

Financial resources

The gearing ratios (defined as interest bearing debts divided by total capital plus interest bearing debts) as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008 were 0%, 6%, 0%, and 4% respectively.

The current ratios (defined as current assets divided by current liabilities) as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008 were approximately 0.7, 1.0, 1.5 and 1.7 respectively and were considered to be healthy.

Cash and Cash Flow

DYK Chemical's existing business generate cash flow every year. DYK Chemical principally applies cash to its operating activities. DYK Chemical had cash and cash equivalents amounted to approximately RMB34.6 million as at 31 December 2005, approximately RMB205.2 million as at 31 December 2006, approximately RMB118.8 million as at 31 December 2007 and approximately RMB112.3 as at 30 June 2008.

LETTER FROM THE BOARD

The following table sets out selected cash flow statement data for the period from 12 August 2005 to 31 December 2005, the two years ended 31 December 2006 and 2007 and the six months period ended 30 June 2008:

	12 August 2005 to 31 December 2005 (RMB'000)	For the year ended 31 December 2006 (RMB'000)	For the year ended 31 December 2007 (RMB'000)	Six months period ended 30 June 2008 (RMB'000)
Net cash inflow/ (outflow) from operating activities	68,672	140,201	71,890	(25,755)
Net cash (outflow) from investing activities	(334,967)	(27,722)	(90,548)	(15,701)
Net cash inflow/ (outflow) from financing activities	300,850	58,160	(67,706)	34,923
Net increase/ (decrease) in cash and cash equivalents	34,555	170,639	(86,364)	(6,533)

Capital Commitment and Contingent Liabilities

The following table sets out the capital commitments of DYK Chemical as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008:

	As at 31 December 2005 (RMB'000)	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
contracted, but not provided for: — Acquisition of plant and Machinery	—	49,192	37,340	46,635

At each of the balance sheet dates, DYK Chemical did not have any significant contingent liabilities.

LETTER FROM THE BOARD

Indebtedness

DYK Chemical had interest-bearing borrowings as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008 as follows:

	As at 31 December 2005 (RMB'000)	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Current unsecured bank loans	—	60,000	—	40,000

Investments

As at 30 June 2008, DYK Chemical did not have any material investments.

Material acquisitions and disposals of subsidiaries and associated companies

During the financial years as discussed above, there were no material acquisitions or disposals of subsidiaries and associated companies by DYK Chemical.

Interest Rate and Foreign Currency Risks Management Objectives and Policies

DYK Chemical's exposure to the risk of changes in market interest rates relates primarily to its cash and cash equivalents and short term debt obligations. Borrowings at floating rates expose DYK Chemical to interest rate risk. Borrowings at fixed rates expose DYK Chemical to fair value interest rate risk. Since DYK Chemical mainly enters into short term fixed interest rate loans, there is no significant fair value interest rate risk. DYK Chemical has not used any interest rate swaps to hedge its exposure to interest rate risk. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short term.

DYK Chemical had minimal transactional currency exposures. DYK Chemical will constantly review the economic situation and its foreign exchange risk profile and will consider appropriate hedging measures in the future, as may be necessary.

Employees and Remuneration Policies

As at each of 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008, DYK Chemical had approximately 835, 875, 928 and 915 employees respectively. Total salaries and allowances incurred during the year ended 31 December 2005, 31 December 2006 and 31 December 2007 and the six months period ended 30 June 2008 were approximately RMB4.9 million, RMB22.1 million, RMB31.3 million and RMB19.4 million respectively. DYK Chemical ensures that the level of remuneration for its employees is competitive in the market.

LETTER FROM THE BOARD

Prospect of DYK Chemical

In the future, DYK Chemical will continue its existing business on phosphate mining and manufacture and sale of DAP and MAP fertilizers.

II. ZHJ Mining

Management's Discussion and Analysis of Financial Condition and Results of Operation

Investors should read the following discussion and analysis in conjunction with the consolidated financial information of ZHJ Mining for the period from 31 July 2006 to 31 December 2006, the year ended 31 December 2007, and the six months period ended 30 June 2008, all of which is included as Appendix II(B) to this circular, and should not rely merely on the information contained in this section.

Overview

ZHJ Mining was established in the PRC on 31 July 2006 with limited liability. ZHJ Mining was principally engaged in phosphate mining and production and sale of phosphoric ore.

Selected Financial Information

	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Total assets	139,270	169,539	170,990
Total liabilities	76,559	78,488	66,440
Net assets	62,711	91,051	104,550

	31 July 2006 to 31 December 2006 (RMB'000)	For the year ended 31 December 2007 (RMB'000)	Six months period ended 30 June 2008 (RMB'000)
Revenue	36,009	120,330	51,832
Cost of sales	9,180	42,584	17,025
Gross profit/(loss)	26,829	77,746	34,807
Profit before tax	18,349	44,233	19,074
Profit after tax	12,711	28,340	13,499

Financial information for the six months period ended 30 June 2008

Since the establishment of ZHJ Mining in July 2006, ZHJ Mining produced approximately 570kt of phosphoric ore in 2007.

LETTER FROM THE BOARD

In the first half of 2008, ZHJ Mining maintained high level of production as a result of the efforts of its senior management and staff. The total production of phosphoric ore was approximately 324.7kt for the first half of 2008. With effective cost control, ZHJ Mining achieved a remarkable financial result.

In the first half of 2008, the total revenue of ZHJ Mining was approximately RMB51.8 million. The total sales volume of phosphoric ore and concentrate was approximately 293.9kt and 1.8kt respectively and the average selling price for phosphoric ore and concentrate was approximately RMB183.8 per tonne and RMB396.7 per tonne respectively.

The gross profit was approximately RMB34.8 million and the gross profit margin was 67.2%. The net profit was approximately RMB13.5 million. All these figures represent a remarkable result.

ZHJ Mining has successfully completed the trial production of concentrate in the first half of 2008 but decided to continue to focus on the production phosphoric ore business.

Financial information for the year ended 31 December 2007

The total revenue of ZHJ Mining in 2007 was approximately RMB120.3 million. The total sales volume of phosphoric ore was approximately 565.8kt in 2007 and the average selling price before tax for phosphoric ore was approximately RMB205.6 per tonne in 2007. The average selling price of phosphate ore was relatively stable during 2006 and 2007 mainly because ZHJ Mining enjoyed long term sales relation with DYK Chemical.

The gross profit of ZHJ Mining in 2007 was approximately RMB77.7 million and the gross profit margin was 64.6%. The net profit was approximately RMB28.3 million.

Financial information for the period from 31 July 2006 to 31 December 2006

The total revenue of ZHJ Mining in 2006 was approximately RMB36.0 million. The sales volume of phosphoric ore was approximately 177kt in 2006 and the average selling price before tax for phosphate ore was approximately RMB203.5 per tonne in 2006.

The gross profit of ZHJ Mining in 2006 was approximately RMB26.8 million and the gross profit margin was approximately 74.5%. The net profit was approximately RMB12.7 million.

Liquidity and Financial Resources

As at 30 June 2008, based on the following analysis of current assets, current liabilities and financial resources, ZHJ Mining has sufficient working capital for its on-going operation.

LETTER FROM THE BOARD

Current assets

As at 31 December 2006, 31 December 2007 and 30 June 2008, the total current assets of ZHJ Mining were approximately RMB44.4 million, RMB42.4 million and RMB26.4 million respectively. Current assets mainly comprised cash and cash equivalents, trade receivables, bills receivable, prepayments, deposits and other receivables, loan receivable and inventories.

Current liabilities

Current liabilities of ZHJ Mining mainly comprised of trade payables, other payables and accruals and income tax payable. As at 31 December 2006, 31 December 2007 and 30 June 2008, the current liabilities of ZHJ Mining were approximately RMB73.4 million, RMB63.2 million and RMB49.6 million respectively.

Shareholders' equity

ZHJ Mining's capital structure as at 31 December 2006 consisted of shareholders' equity of approximately RMB62.7 million, as compared to the shareholders' equity of approximately RMB91.1 million as at 31 December 2007 and shareholders' equity of approximately RMB104.6 million as at 30 June 2008.

Financial resources

The gearing ratios (defined as interest bearing debts divided by total capital plus interest bearing debts) as at 31 December 2006, 31 December 2007 and 30 June 2008 were 0%, 0% and 0% respectively.

The current ratios (defined as current assets divided by current liabilities) as at 31 December 2006, 31 December 2007 and 30 June 2008 were approximately 0.6, 0.7 and 0.5 respectively and were considered to be healthy.

LETTER FROM THE BOARD

Cash and Cash Flow

The following table sets out selected cash flow statement data for the period from 31 July 2006 to 31 December 2006, the year ended 31 December 2007 and the six months period ended 30 June 2008:

	31 July 2006 to 31 December 2006 (RMB'000)	For the year ended 31 December 2007 (RMB'000)	Six months period ended 30 June 2008 (RMB'000)
Net cash inflow from operating activities	8,273	80,044	3,130
Net cash (outflow) from investing activities	(49,835)	(82,659)	(4,080)
Net cash inflow/(outflow) from financing activities	49,993	—	(16)
Net increase/(decrease) in cash and cash equivalents	8,431	(2,615)	(966)

Capital Commitment and Contingent Liabilities

The following table sets out the capital commitments of ZHJ Mining as at 31 December 2006, 31 December 2007 and 30 June 2008:

	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Contracted, but not provided for:			
— Acquisition of plant and machinery	—	3,284	—
Authorized, but not contracted for:			
— Acquisition of plant and machinery	—	28,532	35,860

At each of the balance sheet dates, ZHJ Mining did not have any significant contingent liabilities.

Indebtedness

No interest-bearing borrowings were incurred by ZHJ Mining as at 31 December 2006, 31 December 2007 and 30 June 2008.

LETTER FROM THE BOARD

Investments

As at 30 June 2008, ZHJ Mining did not have any material investments.

Material acquisitions and disposals of subsidiaries and associated companies

During the financial years as discussed above, there were no material acquisitions or disposals of subsidiaries and associated companies by ZHJ Mining.

Interest Rate and Foreign Currency Risks Management Objectives and Policies

ZHJ Mining's exposure to the risk of changes in market interest rates relates primarily to its cash and cash equivalents and short term debt obligations. Borrowings at floating rates expose ZHJ Mining to interest rate risk. Borrowings at fixed rates expose ZHJ Mining to fair value interest rate risk. Since there is no bank borrowing for the relevant periods, there is no fair value interest rate risk. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short term.

ZHJ Mining had minimal transactional currency exposures. ZHJ Mining will constantly review the economic situation and its foreign exchange risk profile and will consider appropriate hedging measures in the future, as may be necessary.

Employees and Remuneration Policies

As at each of 31 December 2006, 31 December 2007 and 30 June 2008, ZHJ Mining had approximately 449, 587 and 680 employees respectively. Total salaries and allowances incurred during the year ended 31 December 2006, 31 December 2007 and the six months period ended 30 June 2008 were approximately RMB6.9 million, RMB25.4 million and RMB13.8 million respectively. ZHJ Mining ensures that the level of remuneration for its employees is competitive in the market.

Prospect of ZHJ Mining

In the future, ZHJ Mining will continue its existing business on phosphate mining and production and sale of phosphoric ore.

FINANCIAL EFFECT ON THE ACQUISITION

Upon Completion, the Company will be directly interested in 83.17% equity interest in DKY Chemical and 100% equity interest in ZHJ Mining and each of DYK Chemical and ZHJ Mining will become a subsidiary of the Company. The financial results of each of DKY Chemical and ZHJ Mining, will henceforth, be consolidated into the consolidated financial statements of the Group after the Company obtains effective control over DYK Chemical and ZHJ Mining.

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group based on (i) the unaudited financial statements of the Company as at 30 June 2008 as set out in Appendix I to this circular; (ii) the audited

LETTER FROM THE BOARD

financial information of DYK Chemical as at 30 June 2008 as set out in Appendix II(A) to this circular; and (iii) the audited financial information of ZHJ Mining as at 30 June 2008 as set out in Appendix II(B) to this circular.

Effects on assets and liabilities

As shown in the unaudited pro forma financial information of the Enlarged Group, the respective pro forma total assets and pro forma total liabilities of the Enlarged Group following the Acquisition would amount to approximately RMB11,386 million and approximately RMB1,923 million as compared to the respective total assets and total liabilities of the Company amount to approximately RMB11,014 million as at 30 June 2008 and approximately RMB1,424 million as at 30 June 2008 before the Acquisition, representing an increase of 3.38% in total assets and 35% in total liabilities from those set out in the unaudited financial statements of the Company as at 30 June 2008.

Effects on earnings

The profit for the year attributable to the equity holders of the Group as at 31 December 2007 was approximately RMB1,448.3 million and the earnings per share attributable to ordinary equity holders of the Group was approximately RMB0.31. The net profit for DYK Chemical and ZHJ Mining based on their respective audited financial statements as of 31 December 2007 was approximately RMB50.1 and RMB28.3 million respectively. On the basis of the above and on the assumption that the Enlarged Group was formed as of 1 January 2007, the Directors are of the view that upon the completion of the Acquisition, the net profit and earnings per share for the Group are expected to increase.

Effects on gearing

The gearing level of the Group, which is calculated as interest bearing debts divided by total capital plus interest bearing debts, was 3.22% as at 30 June 2008. The gearing level of the Enlarged Group calculating on the same basis following the Acquisition would be 3.65%.

The transaction cost for the Acquisition is approximately RMB8,854,000, which consists mainly of the professional and legal fees directly attributable to the Acquisition and is estimated based on terms stipulated in the respective engagement letter of each professional party involve in the transaction.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources and financial facilities of the Enlarged Group and after due and careful enquiry, the Enlarged Group will have sufficient working capital for its normal business for the next twelve months from the date of this circular.

LETTER FROM THE BOARD

INDEBTEDNESS

At the close of business on 31 October 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the date of this circular, the Enlarged Group had outstanding bank borrowings of approximately RMB349,994,000 (equivalent to approximately HK\$397,472,000). The bank borrowings were unsecured, and the effective interest rates for bank borrowings ranged from 6.72% to 7.47% and at LIBOR plus 0.65% per annum.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, neither the Group nor either of the Target Companies have, as at 31 October 2008, any outstanding loan capital issued or agreed to be issued, bank overdrafts, other loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgage, charges, guarantees or other material contingent liabilities.

To the best of the knowledge of the Directors, having made all reasonable enquiries, there has been no material adverse change in the level of indebtedness of the Group since 31 October 2008.

VALUATION OF THE PROPERTY INTERESTS

To comply with the Listing Rules, the Company has engaged Jones Lang LaSalle Sallmanns Limited to value the property interests of DYK Chemical and ZHJ Mining. Details of the valuation reports are set out in Appendix IV to this circular. Disclosure of the reconciliation of net book value and the valuation as required under Rule 5.07 of the Listing Rules is set out below:

DYK Chemical

	<i>RMB'000</i>	<i>RMB'000</i>
Valuation of the property interest as at 31 October 2008 as set out in the valuation report included in Appendix IV to this circular		485,240
Net book value of the property interests as at 30 June 2008 (Note 1)	442,164	
Less: Depreciation for the period from 1 July 2008 to 31 October 2008	<u>(8,856)</u>	
Net book value of the property interest as at 31 October 2008		<u>433,308</u>
Net revaluation surplus		<u>51,932</u>

LETTER FROM THE BOARD

ZHJ Mining

	<i>RMB'000</i>	<i>RMB'000</i>
Valuation of the property interest as at 31 October 2008 as set out in the valuation report included in Appendix IV to this circular		37,842
Net book value of the property interests as at 30 June 2008 (<i>Note 2</i>)	30,713	
Add: Additional cost for buildings for the period from 1 July 2008 to 31 October 2008	9,018	
Less: Depreciation for the period from 1 July 2008 to 31 October 2008	<u>(3,101)</u>	
Net book value of the property interest as at 31 October 2008		<u>36,630</u>
Net valuation surplus		1,212

Notes:

1. Net book value of the property interests as at 30 June 2008 includes net book value of buildings of approximately RMB417,149,000, and prepaid land lease payment of approximately RMB25,015,000.
2. Net book value of the property interests as at 30 June 2008 includes net book value of buildings of approximately RMB11,389,000, and mining structures of approximately RMB19,324,000.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

In the future, the Group will on the one hand, continue the business development in its existing nitrogenous fertilizer and methanol operations and at the same time, explore new business and/or investment opportunities. The Company expects such new business initiatives will provide the opportunity to accelerate its production capacity and market expansion.

Upon Completion, the Company will obtain direct access to phosphate resource and production capacities of the Target Companies which allows the Company to share the future growth prospect in the phosphate fertilizer industry in the PRC. The Directors are of the view that the Acquisition, if implemented, will further enhance the Company's fertilizer production business. The Directors consider that the Acquisition would contribute positively to the results of the Group in the near future. The Company is particularly optimistic about the prospects of phosphate fertilizers industry in the PRC.

Presently, the Company continues to maintain the current management of the Target Companies to carry on the businesses.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group's current core operations involve the production and sale of urea (the most commonly used nitrogenous fertilizers in the PRC) and methanol. Besides, the Group manufactures and sells other fertilizers and chemical products.

The development objective of the Group is to become a leading fertilizer producer in the PRC. In order to achieve this objective, the Group plans to expand its fertilizer business to include the production and sales of phosphate fertilizers and compound fertilizers through acquisition of the Target Companies, such that the competitiveness of the Group could be further enhanced in both the domestic and international markets.

Through the Acquisition, together with prior joint venture project announced by the Company on 15 May 2008, the Group will obtain significant phosphate resources and reserves, expertise and technical know-how relating to phosphate mining and processing, as well as production of DAP, MAP and compound fertilizers.

The phosphate resources and reserves are important to the Group's phosphate fertilizer operations as they provide long term and stable phosphoric ore supply and reduce the risks of potential shortage of phosphate, dependence on external suppliers, and fluctuations in the price of phosphoric ore.

Furthermore, as high P_2O_5 content phosphorus ores are depleting rapidly and the low-medium P_2O_5 content phosphorus ores are expected to become the major phosphate resource in the PRC, the know-how and techniques in processing low-medium P_2O_5 content phosphorus ores possessed by the Target Companies are of strategic value to the Group.

The future integrated operation of the joint venture vehicle under the above-mentioned joint venture project, DYK Chemical and ZHJ Mining, together provide activities ranging from mining and processing of phosphoric ore as well as production and sale of various phosphate fertilizers, will allow the Group to enjoy significant cost advantages as a result of enlarged scale of production and share of sales network.

Based on the aforesaid, it is expected that the Group will be able to develop a major phosphate production base in Hubei Province of the PRC.

CONTINUING CONNECTED TRANSACTIONS ARISING FROM THE ACQUISITION

CNOOC is the controlling shareholder of the Company. CNOOC and its Associates (other than the Group) are the Company's connected persons under Rule 14A.11 of the Listing Rules.

CNOOC Investment is a subsidiary of CNOOC and therefore an Associate of CNOOC under Rule 19A.04 of the Listing Rules. It is also the Company's connected person pursuant to Rule 14A.11(4) of the Listing Rules.

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As soon as DYK Chemical and ZHJ Mining become subsidiaries of the Company, the continuing transactions between DYK Chemical or ZHJ Mining on one hand and CNOOC and its Associates on the other hand will become continuing connected transactions of the Company.

Set out below are the continuing connected transactions arising from the Acquisition which will not be qualified as de minimis transactions and thus will not be fully exempt from reporting, announcement and independent shareholders' approval requirements (where applicable) under the Listing Rules.

(1) Land use rights leasing

On 22 September 2008, CNOOC Investment and ZHJ Mining entered into a land use rights lease agreement (the "**Land Use Rights Lease Agreement**"), pursuant to which CNOOC Investment has agreed to lease the rights to use certain parcels of land in Hubei Province of the PRC to ZHJ Mining for general business and staff quarter uses.

The term of the Land Use Rights Lease Agreement commenced on the date of the agreement and will expire on 31 December 2010. Upon expiration of the lease term, the term of the Land Use Rights Lease Agreement will automatically be extended for one year provided that no party will give a three-month prior notice in writing to the other party to terminate the agreement and the requirements of the Listing Rules in relation to connected transactions are complied with. If the term of the Land Use Rights Lease Agreement is extended for one year, the Company will comply with the Listing Rules and make an announcement for the extended term of 2011. Upon expiration of the extended term, the Land Use Rights Lease Agreement may be renewed upon mutual agreement provided that the requirements of the Listing Rules are complied with. At any time during the term of the agreement, either party may, by giving not less than 30 days' prior written notice, terminate the agreement.

Pursuant to Rule 14A.41 of the Listing Rules, the Land Use Rights Lease Agreement is subject to applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Land Use Rights Lease Agreement.

The rent under the Land Use Rights Lease Agreement is RMB3,000,000 per annum.

As announced by the Company on 5 November 2008, the annual caps for leases of properties by the Group from the CNOOC Group under the Properties Leasing Agreement will be RMB13,325,000, RMB15,845,000 and RMB15,845,000 for the years ending 31 December 2009, 2010 and 2011 respectively. The Board expects that the annual caps for leases of properties will be revised to RMB16,325,000, RMB18,845,000 and RMB15,845,000 for the years ending 31 December 2009, 2010 and 2011 respectively after aggregating the annual figures for the Land Use Rights Lease Agreement.

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(2) Comprehensive Services and Product Sales Agreement

References are made to the Company's announcement dated 5 November 2008 and circular dated 14 November 2008 in relation to the continuing connected transactions.

The Company entered into a supplemental agreement to the comprehensive services and product sales agreement (the "**Comprehensive Services and Product Sales Agreement**") (as supplemented) on 5 November 2008 with CNOOC (such supplemental agreement and the annual caps will become effective upon approval of the Independent Shareholders at the extraordinary general meeting of the Company to be held on 30 December 2008 pursuant to the circular made on 14 November 2008), under which the term of the Comprehensive Services and Product Sales Agreement will be extended to commence on 1 January 2009 and expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

2(a) Sales of products by the Group to the CNOOC Group

DYK Chemical has been selling products such as DAP to the CNOOC Group and starting from January 2009, products such as MAP is expected to be sold to the CNOOC Group. As soon as DYK Chemical becomes a subsidiary of the Company, such transactions will be subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented). Further, the annual revenue generated from such sales will be aggregated with the annual revenue generated from other sales of products under the Comprehensive Services and Product Sales Agreement (as supplemented) for the purpose of determining the future annual caps for the years 2009 to 2011. As announced by the Company on 5 November 2008, the annual caps for such other sales of products for the years 2009 to 2011 are already subject to the Independent Shareholders' approval which is to be sought at the extraordinary general meeting of the Company to be held on 30 December 2008. Upon completion of the Acquisition, the annual revenue generated from sale of products by DYK Chemical to the CNOOC Group will increase the annual cap figures for other sales of products by the Group to the CNOOC Group under the Comprehensive Services and Product Sales Agreement (as supplemented) and should therefore be subject to reporting, announcement and independent shareholders' approval requirements.

The revenue of DYK Chemical from sales of products to the CNOOC Group was approximately RMB2,543,000, RMB4,336,000 and nil respectively for the two years ended 31 December 2007 and the six months ended 30 June 2008.

2(b) Purchases of products by DYK Chemical from the CNOOC Group

DYK Chemical has been purchasing products such as sulphur from the CNOOC Group for its business operation prior to the Acquisition and will continue to do so after the Acquisition. As soon as DYK Chemical becomes a subsidiary of the Company, such transactions will be subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented). This type of continuing connected transactions and the Proposed Caps under this category are expected to be subject to reporting, announcement and independent shareholders' approval requirements.

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The expenditure of DYK Chemical for purchases of products from the CNOOC Group was approximately RMB68,701,000, RMB152,120,000 and RMB175,639,000 respectively for the two years ended 31 December 2007 and the six months ended 30 June 2008.

PROPOSED ANNUAL CAPS IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

The table below sets out the annual caps for the continuing connected transactions in relation to the Comprehensive Services and Product Sales Agreement:

Category of continuing connected transactions		Amount in RMB'000		
		Year ending 31 December 2009 (Note 1)	Year ending 31 December 2010 (Note 1)	Year ending 31 December 2011 (Note 1)
2.	Comprehensive Services and Product Sales Agreement:			
2(a).	Sales of products by the Group to the CNOOC Group	Proposed Caps (Note 2)	500,563	531,147
2(b).	Purchases of products by DYK Chemical from the CNOOC Group			
•	continuing connected transactions arising from the Acquisition	Proposed Caps (Note 3)	280,000	308,000
			338,800	

Notes:

1. In respect of all continuing connected transactions, the Directors have estimated the annual transaction figures for the coming three financial years ending 31 December 2011 on the following basis:
 - (a) the continuing connected transactions will continue to be entered into on the terms and conditions set out in the relevant agreements (as may be supplemented);
 - (b) the continuing connected transactions will continue to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms;
 - (c) references have been made to the historical amounts (if any) for the two financial years ended 31 December 2007 and the six months ended 30 June 2008 as well as the estimated amounts for the year ending 31 December 2008; and
 - (d) there will not be any material adverse changes to the state of the PRC economy and the level of prices and demand for the Group's products and the materials and services needed by the Group for its operation.
2. As announced by the Company on 5 November 2008, the annual caps for sales of products by the Group to the CNOOC Group under the Comprehensive Services and Product Sales Agreement (as supplemented) (without taking into account the sales of products by DYK Chemical to the CNOOC

LETTER FROM THE BOARD

Group) will be RMB395,563,000, RMB426,147,000 and RMB447,147,000 for the years ending 31 December 2009, 2010 and 2011 respectively. The annual figures for sales of products by DYK Chemical to the CNOOC Group arising from the Acquisition will be RMB105,000,000, RMB105,000,000 and RMB105,000,000 for the years ending 31 December 2009, 2010 and 2011 respectively. When these annual cap figures are aggregated with the annual figures for sales of products by DYK Chemical under the same agreement, the Proposed Caps for this category of continuing connected transactions will be RMB500,563,000, RMB531,147,000 and RMB552,147,000 for the years ending 31 December 2009, 2010 and 2011 respectively.

The annual figures for sales of products by DYK Chemical arising from the Acquisition will increase the annual cap figures for other sales of products by the Group to the CNOOC Group under the Comprehensive Services and Product Sales Agreement (as supplemented) which are already subject to the Independent Shareholders' approval and therefore the Proposed Caps will be subject to another round of the Independent Shareholders' approval to be sought at the EGM.

3. The Proposed Caps are subject to the Independent Shareholders' approval at the EGM.

REASONS FOR AND BENEFITS OF THE NEW CONTINUING CONNECTED TRANSACTIONS

The connected transaction agreements were entered into for the business needs and benefits of the Group. The Company is one of the major subsidiaries of CNOOC which is one of the largest petroleum companies in China. In view of the extensive resources and experience of the CNOOC Group, it is desirable for the Group to seek supports and maintain business relationships with the CNOOC Group before and after completion of the Acquisition. The continuing connected transactions arising from the Acquisition are or will be entered into in the ordinary and usual course of business of the Group on normal commercial terms and the Board is of the general view that it is in the interests of the Company and the Shareholders as a whole to carry on the continuing connected transactions as those transactions have facilitated and will continue to facilitate the business operation of the Group (which will include DYK Chemical and ZHJ Mining after the Acquisition). The executive Directors and the non-executive Director are of the view that the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

With respect to the continuing connected transactions that are exempt from independent shareholders' approval requirements under the Listing Rules (Category 1), the Directors (including the independent non-executive Directors) are of the opinion that such transactions have been entered into, and will be carried out, in the ordinary and usual course of the Group's business, on an arm's length basis and on normal commercial terms, and that the terms and the annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FUND RAISING BY THE COMPANY IN THE PAST 12 MONTHS

The Company has not raised any funds in the past 12 months.

LISTING RULES IMPLICATIONS

As CNOOC is a connected person of the Company by virtue of CNOOC being a substantial shareholder of the Company, the Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules. Further, as one of the applicable percentage ratios in respect of the Acquisition represents more than 25% but less than 100% for the Company while the other applicable percentage ratios represent less than 25%, the Acquisition constitutes a major transaction pursuant to Rule 14.06(3) of the Listing Rules. Therefore, the Acquisition Agreement is subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.17 of the Listing Rules.

As soon as DYK Chemical and ZHJ Mining become subsidiaries of the Company, the continuing transactions between DYK Chemical or ZHJ Mining on one hand and CNOOC and its Associates on the other hand will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For the continuing connected transactions with the applicable percentage ratios that represent less than 2.5% but more than 0.1%, such transactions are only subject to the reporting and announcement requirements under the Listing Rules but not independent shareholders' approval. The Company makes the Announcement on its plans for 2009 to 2011 with respect to those transactions to fulfil its announcement obligation. For the continuing connected transactions with the applicable percentage ratios that represent more than 2.5%, such transactions are subject to independent shareholders' approval requirements, approval from the Independent Shareholders on the Proposed Caps for those transactions will be sought at the Extraordinary General Meeting.

The Company will convene an EGM for the Independent Shareholders to consider and, if thought fit, to approve, among other things:

- (1) the Acquisition Agreement and the transactions contemplated thereunder; and
- (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquires, no Shareholders apart from CNOOC and its Associates will be required to abstain from voting on the resolutions to approve the Acquisition Agreement together with the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

The Directors have appointed the Independent Board Committee, comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Wang Wenshan, the three independent non-executive Directors, to advise the Independent Shareholders in relation to the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b). The Independent Financial Adviser has been appointed to advise the

LETTER FROM THE BOARD

Independent Board Committee and the Independent Shareholders in relation to (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting will be convened and held at Conference Room, 3rd Floor, CNOOC Office Building-B, No. 98 Guanhai Road, Longhua District, Haikou, Hainan Province, the People's Republic of China, at 10:00 a.m on Monday, 16 February 2009 to consider and, and if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

A notice convening the Extraordinary General Meeting is set out on pages EGM-1 to EGM-4 to this circular. A reply slip and a proxy form for use at the Extraordinary General Meeting are enclosed. At the Extraordinary General Meeting, ordinary resolutions will be proposed to approve, among other things, the Acquisition Agreement and the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

As at the Latest Practicable Date, CNOOC and its Associates were interested in 2,813,999,878 shares of the Company, representing 61.04% of the total issued share capital of the Company. CNOOC, a substantial shareholder of the Company, together with its Associates are required to abstain from voting on the resolutions to be proposed at the Extraordinary General Meeting to approve the Acquisition and the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

Whether you are able to attend the Extraordinary General Meeting, please complete and return the reply slip in accordance with the instructions printed thereon on or before Monday, 26 January 2009. Shareholders who intend to appoint a proxy to attend the Extraordinary General Meeting shall complete and return the enclosed proxy form, in accordance with the instructions printed thereon, and to lodge them with the Company's Secretary Office of the Board of Directors in the PRC (for holders of domestic shares or unlisted foreign shares) at No. 98 Guanhai Road, Longhua District, Haikou, Hainan Province, the People's Republic of China or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H shares), at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not later than 24 hours before the time appointed for holding of the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the Extraordinary General Meeting or any adjournment thereof (as the case may be) and voting in person if you so wish.

LETTER FROM THE BOARD

A POLL AT GENERAL MEETING

Notwithstanding Article 78 of the Articles of Association of the Company, which states that at any general meeting of shareholders a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (1) by the chairman of the meeting;
- (2) by at least 2 shareholders present in person or by proxy who are entitled to vote;
or
- (3) by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting singly or in aggregate,

the resolutions to be considered, and if thought fit, to be passed at the EGM shall be passed by way of a poll.

RECOMMENDATIONS

Based on the relevant information disclosed herein, the Directors believe that the terms of the Acquisition Agreement are fair and reasonable and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. The Directors further believe that the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) are fair and reasonable. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting in relation to the Acquisition Agreement and the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

Your attention is drawn to the letter from the Independent Board Committee which is set out on pages 43 to 44 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Acquisition is fair and reasonable and is in the interests of the Company and its Shareholders as a whole and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Extraordinary General Meeting.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

A letter of recommendation from the Independent Board Committee is set out on pages 43 to 44 of this circular, which contains its recommendation to the Independent Shareholders, and the letter of advice from the Independent Financial Adviser is set out on pages 45 to 65 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders. Your attention is also drawn to the financial and general information set out in the appendices to this circular.

By Order of the Board
China BlueChemical Ltd.*
Wu Mengfei
Chairman

* *For identification purpose only*



中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock Code: 3983)

31 December 2008

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RESPECT OF THE PROPOSED ACQUISITION OF
83.17% EQUITY INTEREST IN HUBEI DAYUKOU CHEMICAL CO., LTD.*
AND
100% EQUITY INTEREST IN ZHJ MINING CO., LTD.*
AND
PROPOSED CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 31 December 2008 (the “**Circular**”) despatched to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. CIMB has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

We wish to draw your attention to the letter from the Board set out on pages 7 to 42 of the Circular and the letter from the Independent Financial Adviser containing its advice to us and the Independent Shareholders regarding the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) set out on pages 45 to 65 of the Circular.

Having considered the advice given by the Independent Financial Adviser, we are of the opinion that the terms and conditions of the Acquisition Agreement are fair and reasonable and the entering into of the Acquisition Agreement is in the interests of the Company and its Shareholders as a whole. Furthermore, we are of the opinion that the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) are fair and reasonable in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Acquisition Agreement and the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

Your faithfully,

Tsui Yiu Wa, Alec, Zhang Xinzhi and Wang Wenshan

Members of the Independent Board Committee



CIMB

CIMB-GK Securities (HK) Limited

25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

31 December 2008

*To the Independent Board Committee and the Independent Shareholders of
China BlueChemical Ltd.*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
IN RESPECT OF THE PROPOSED ACQUISITION OF
83.17% EQUITY INTEREST IN HUBEI DAYUKOU CHEMICAL CO., LTD.
AND
100% EQUITY INTEREST IN ZHJ MINING CO., LTD.;
AND
PROPOSED CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition, the terms of the proposed continuing connected transactions arising from the Acquisition (the "New Continuing Connected Transactions") and the Proposed Caps, details of which are contained in a circular of the Company (the "Circular") to the Shareholders dated 31 December 2008, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

An independent board committee comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Wang Wenshan, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the terms of the Acquisition, the terms of the New Continuing Connected Transactions and the Proposed Caps.

BASIS OF OUR OPINION

In formulating our recommendation, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information and facts contained or referred to in the Circular, the information provided by the Company and our review of the relevant public information. We have also assumed that the information, facts and representations contained or referred to in the Circular were true and accurate at the time they were made and up to the date of the Extraordinary General Meeting. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or

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the prospects of the Company, CNOOC, or any of their respective subsidiaries (as defined in the Listing Rules) or associates. We have no reason to doubt the truth, accuracy and completeness of the information, facts and representations provided and represented to us by the Company. We have also been advised by the Company and believe that no material facts have been omitted from the Circular.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors and reasons:

(A) Acquisition Agreement

(I) Background and reasons for entering into of the Acquisition Agreement

(i) Background

On 12 December 2008, the Company and CNOOC entered into the Acquisition Agreement, pursuant to which the Company has agreed to acquire and CNOOC has agreed to sell the Equity Interests, that is 83.17% equity interest in DYK Chemical and 100% equity interest in ZHJ Mining, at an aggregate cash consideration of RMB1,262,847,026 (equivalent to approximately HK\$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK\$1,224,266,168) constitutes the consideration for the acquisition of 83.17% equity interest in DYK Chemical, and RMB181,820,000 (equivalent to approximately HK\$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining. DYK Chemical is principally engaged in phosphate mining and processing and production and sales of phosphoric fertilizers including MAP and DAP, and ZHJ Mining is principally engaged in phosphate mining. Details of the principal terms of the Acquisition Agreement are set out in the letter from the board of the Circular (the “Letter from the Board”).

(ii) Reasons for entering into of the Acquisition Agreement

Strategies of the Group

As stated in the Company’s annual report for the financial year ended 31 December 2007 (the “2007 Annual Report”), the Group is a large-scale and modernized enterprise engaged in the development, production and sales of mineral fertilizers and chemical products and its products mainly include urea and methanol.

As advised by the Company, to enhance the Group’s competitiveness in the mineral fertilizer manufacturing industry in both domestic and international markets, the Group has been proactively seeking opportunities to expand the range of its mineral fertilizer products to include phosphate fertilizers and compound fertilizers. We note that, to

achieve its objective, the Company entered into an agreement to establish a joint venture company with the principal business of phosphate mining and processing in Hubei Province, the PRC, which was announced by the Company on 15 May 2008. We also note from the 2007 Annual Report that it is the Company's intention to continue to develop its mineral fertilizer business and focus on several tasks including, among others, effecting the acquisition of the phosphoric/compound fertilizers business and assets of DYK Chemical, and continue to advance other merger and acquisition opportunities in 2008. In this regard, we are of the view that the entering into of the Acquisition Agreement is in line with the diversification strategy of the Group as disclosed in the 2007 Annual Report.

The Company also considers that the entering into of the Acquisition Agreement will not only facilitate the Group's establishment of a strong base for the new business of manufacturing and sales of phosphoric fertilizers in the PRC by acquiring the expertise, technical know-how, in particular in respect of processing low-medium P_2O_5 content phosphorus ores, and phosphate ore resources of the Target Companies, but also benefit the business development of the Target Companies by leveraging on the Group's rich experience in the mineral fertilizer manufacturing industry as well as its established network in the relevant markets.

We note from information published on industry-related websites in the PRC in recent years that phosphate ore resources are important commercial resources and play an important role for the production of phosphoric fertilizers. We also note from announcements made in recent years by phosphoric fertilizer manufacturers listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange that the shortage of supply of phosphate resources in recent years has triggered several acquisitions of phosphate ore resources by domestic phosphoric fertilizer manufacturers with the purpose of securing a stable supply of the important raw materials for their respective production. We have discussed with the management of the Company in relation thereto and understand that it has been increasingly pressing for mineral fertilizer manufacturers, including the Company, to implement the strategy of integrating mining and fertilizer manufacturing in the long run so as to tackle the problem of unstable supply of raw materials presently faced by manufacturers in the industry.

As each of the Target Companies possesses phosphate ore resources, details of which are set out in the section headed "Phosphate ore resources possessed by the Target Companies" below, we concur with the view of the Company that the Acquisition would allow the Group to implement its strategy of business integration, enable the Group to gain access to significant phosphate ore resources, provide the Group with a stable source of phosphate rock supply for its phosphoric fertilizer

manufacturing, place the Group in a better position to compete with other mineral fertilizer manufacturers without self-owned phosphate rock mines, and improve the Group's overall operation efficiency and profitability.

The mineral fertilizer manufacturing industry in the PRC

We have reviewed statistics listed in the China Statistical Yearbook 2008 compiled by National Bureau of Statistics of China ("NBSC"), and note that during the period from 1990 to 2007, the gross domestic product of the PRC has increased from approximately RMB1,867 billion to RMB24,953 billion, representing a compound annual growth rate ("CAGR") of approximately 16.5%. During the same period, both the annual disposable income per capita of urban households and the annual per capita net income of rural households have increased dramatically, amounting to approximately RMB13,786 and RMB4,140 respectively in 2007, representing a CAGR of approximately 13.9% and approximately 11.2% respectively over the period from 1990 to 2007. Besides, according to the initial statistics compiled by NBSC, the gross domestic product of the PRC for the nine months ended 30 September 2008 amounted to approximately RMB20,163 billion, representing an increase of approximately 9.9% as compared with that of the corresponding period in 2007. Population of the PRC has increased gradually, reaching approximately 1.3 billion in 2007 and the average natural growth rate of population was approximately 5.6‰ during the five-year period from 2003 to 2007.

We also note that, in an attempt to stimulate the economy which has been hit by the global financial crisis, the central government of the PRC has recently announced a RMB4 trillion stimulus package, including, among others, speeding up of the rural infrastructure construction in the PRC and the increase of the minimum purchase price of grain in 2009 and farmers' income level.

Based on the above, we are of the view that the demand for agricultural food products in the PRC is expected to grow further in consideration of the increasing population and the income level of households as well as the aforesaid stimulus package announced recently by the central government of the PRC. With increasing demand for agricultural food products, demand for fertilizers will also increase as farmers strive to improve crop yield. Accordingly, the domestic demand for fertilizers remains positive.

We have also reviewed information published on industry-related websites in the PRC in August 2008 in relation to policies imposed on the mineral fertilizer manufacturing industry which principally includes nitrogenous fertilizer manufacturing, phosphoric fertilizer manufacturing, potassium fertilizer manufacturing and compound fertilizer manufacturing.

Based on our review, we note that, since early 2008, the central government of the PRC has imposed certain stringent policies on the mineral fertilizer industry in the PRC, including the introduction of special export tariff on mineral fertilizer products and phosphate rocks, one of the key raw materials for the manufacturing of phosphoric fertilizers, which serve to cool down the overheated export of mineral fertilizers and phosphate rocks by domestic manufacturers in the industry, secure domestic supply and control domestic prices of agricultural related inputs, so as to protect domestic farmers' interests. We also note that, in November 2008, the central government of the PRC announced to lower the aforesaid special export tariff on mineral fertilizer products and phosphate rocks.

We have discussed with the Company on the effects of the measures in respect of special export tariff to the prospects of the Target Companies and the Company considers that the aforesaid stringent measures, to a certain extent, help to regulate and consolidate the mineral fertilizer manufacturing industry in the PRC, and, in the long run, will be beneficial to the mineral fertilizer manufacturing industry in the PRC as a whole.

Our view

Having considered the above and given the fact that the future demand for mineral fertilizers is expected to remain positive, we concur with the view of the Directors that the Acquisition represents a strategic acquisition of the Group and is in the interests of the Company and the Shareholders as a whole.

(II) Information relating to the Target Companies

(i) Production capacity of each of the Target Companies

As advised by the Company, the designed production capacity of DYK Chemical's phosphate mining facilities is 1,500 kt per year and the actual production of its mining facilities amounted to 882 kt for the year ended 31 December 2007 and approximately 311 kt for the six months ended 30 June 2008.

The Company also advised that the respective designed production capacity of MAP and DAP of DYK Chemical is 150 kt per year and 350 kt per year, and its respective actual production of MAP and DAP amounted to approximately 92 kt and approximately 360 kt, respectively, for the year ended 31 December 2007 and approximately 30 kt and approximately 180 kt, respectively, for the six months ended 30 June 2008.

The designed production capacity of ZHJ Mining's phosphate mining facilities is 1,000 kt per year and the actual production of its mining facilities amounted to approximately 570 kt for the year ended 31 December 2007 and approximately 325 kt for the six months ended 30 June 2008.

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As stated in the Letter from the Board, in order to achieve the development and synergy of the businesses of DYK Chemical and ZHJ Mining, ZHJ Mining supplies phosphoric ore to DYK Chemical for its fertilizer production. We are advised by the Company that the purchase of phosphate rocks from ZHJ Mining accounted for approximately 16.3% and 44.4% of the total purchase of phosphate rocks by DYK Chemical in terms of volume for the year of 2007 and the nine-month period ended 30 September 2008, respectively.

(ii) Phosphate ore resources possessed by the Target Companies

As stated in the Letter from the Board, DYK Chemical possesses the mining license for the Dayukou Mine with a term of 30 years commencing on 18 April 2008 and expiring on 18 April 2038. The Dayukou Mine possesses a total economic phosphate resources of 124,016 kt at an average grade of 19.60% P₂O₅, being the latest updated figure in June 2008, details of which are set out in Appendix V to the Circular.

ZHJ Mining possesses the mining permit for the Wangji Mine with a term of 29 years commencing on 5 June 2007 and expiring on 5 June 2036. The Wangji Mine possesses a total economic phosphate resources of 35,697 kt at an average grade of 21.57% P₂O₅, being the latest updated figure in June 2008, details of which are set out in Appendix V to the Circular.

(iii) Financial position of each of the Target Companies

Set out below is a summary of the audited financial information of DYK Chemical, prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, for the two financial years ended 31 December 2007 and the six months ended 30 June 2008 (the “Review Period of DYK Chemical”):

	Year ended	Year ended	Six months
	31 December	31 December	ended
	2006	2007	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	702,292	1,109,618	766,392
Cost of sales	615,810	907,397	612,056
Gross profit	86,482	202,221	154,336
<i>Gross profit margin</i>	<i>12.3%</i>	<i>18.2%</i>	<i>20.1%</i>
Profit before tax	26,580	98,184	113,977
Profit after tax	15,464	50,062	85,163
<i>Net profit margin</i>	<i>2.2%</i>	<i>4.5%</i>	<i>11.1%</i>

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	As at 31 December 2006 <i>(RMB'000)</i>	As at 31 December 2007 <i>(RMB'000)</i>	As at 30 June 2008 <i>(RMB'000)</i>
Net assets	904,464	954,526	1,039,689

For the year ended 31 December 2007, DYK Chemical recorded a revenue of approximately RMB1,110 million, representing an increase of approximately RMB407 million, or approximately 58.0%, from that for the year ended 31 December 2006. Net profit of DYK Chemical for the year ended 31 December 2007 was approximately RMB50 million, representing an increase of approximately 223.7% from approximately RMB15 million in 2006. The gross profit margin and the net profit margin increased to approximately 18.2% and approximately 4.5% in 2007 as compared with that of approximately 12.3% and approximately 2.2% respectively in 2006, which, as advised by the Company, was principally attributable to the economies of scale achieved by DYK Chemical in 2007 as its production facilities commenced mass production since late 2006.

For the six months ended 30 June 2008, the gross profit margin and the net profit margin of DYK Chemical further increased to approximately 20.1% and approximately 11.1%, respectively, which, as advised by the Company, was principally attributable to the greater increase in the average selling prices of products manufactured by DYK Chemical than that of the average manufacturing costs incurred by it during the relevant period.

Based on our review, we note that DYK Chemical has experienced a stable and gradually-improving profitability during the Review Period of DYK Chemical.

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Set out below is a summary of the audited financial information of ZHJ Mining, prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, for the period from 31 July 2006 (date of its incorporation) to 31 December 2006, the financial year ended 31 December 2007 and the six months ended 30 June 2008:

	31 July 2006 to 31 December 2006^{Note} (RMB'000)	Year ended 31 December 2007 (RMB'000)	Six months ended 30 June 2008 (RMB'000)
Revenue	36,009	120,330	51,832
Cost of sales	9,180	42,584	17,025
Gross profit	26,829	77,746	34,807
<i>Gross profit margin</i>	74.5%	64.6%	67.2%
 Profit before tax	 18,349	 44,233	 19,074
Profit after tax	12,711	28,340	13,499
<i>Net profit margin</i>	35.3%	23.6%	26.0%
	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Net assets	62,711	91,051	104,550

Note: The financial year of 2006 for ZHJ Mining began from 31 July 2006 (being its date of incorporation).

For the period from 31 July 2006 to 31 December 2006, ZHJ Mining recorded a gross profit margin and a net profit margin of approximately 74.5% and approximately 35.3%, respectively. For the year ended 31 December 2007, its gross profit margin and net profit margin decreased to approximately 64.6% and approximately 23.6%, respectively, which, as advised by the Company, was principally attributable to the greater increase of cost of sales than that of revenue of ZHJ Mining and the increase in selling and distribution costs and administrative expenses incurred by ZHJ Mining in 2007 as compared with that of 2006 on a pro rata basis.

For the six months ended 30 June 2008, ZHJ Mining recorded a mild increase in both gross profit margin and net profit margin to approximately 67.2% and approximately 26.0%, respectively. As advised by the Company, the mild improvement in gross profit margin was principally attributable to the greater decrease in cost of sales than that of revenue of ZHJ Mining

during the first half of 2008 as compared with that of 2007 on a pro rata basis, and the mild improvement in net profit margin was principally attributable to the drop in selling and distribution costs and administrative expenses incurred by ZHJ Mining during the first half of 2008 as compared with that of 2007 on a pro rata basis.

(iv) Overview of the phosphoric fertilizer industry in the PRC

We have reviewed information provided by the Company in respect of the production and sales of DAP and MAP in the PRC for the first half of 2008. Based on our review, we note that, during the period, the volume of production and sales of DAP in the PRC amounted to approximately 4.0 million tonnes and approximately 3.8 million tonnes, respectively, and that of production and sales of MAP amounted to approximately 4.2 million tonnes and approximately 3.8 million tonnes, respectively. We are advised by the Company that the volume of production of MAP and DAP of DYK Chemical during the same period amounted to approximately 30 kt and approximately 180 kt, respectively, and the volume of sales of each of them during the same period amounted to approximately 18 kt and approximately 171 kt, respectively.

We also note that the total production capacity of DAP in the PRC for the year of 2008 is estimated to amount to 13 million tonnes and, as stated above, the current production capacity of DAP of DYK Chemical is 350 kt per year.

We have also reviewed information sourced from public domain in respect of the phosphate rock in the PRC, and note that the production of phosphate rock in the PRC amounted to approximately 45.4 million tonnes in 2007 and the ensured reserves of phosphorus ore (as defined in the China Statistical Yearbook 2008 compiled by NBSC) in the PRC amounted to approximately 3.7 billion tonnes in 2007. As stated above, the total production of phosphate rock of DYK Chemical and ZHJ Mining amounted to approximately 1.5 million tonnes in 2007, and, as stated in the Letter from the Board, the economic and sub-economic phosphate resources of the Dayukou Mine amounted to approximately 124.0 million tonnes and approximately 158.3 million tonnes, respectively, and the economic and sub-economic resources of the Wangji Mine amounted to approximately 35.7 million tonnes and approximately 13.8 million tonnes, respectively, details of which are set out in Appendix V to the Circular.

(III) Major terms of the Acquisition Agreement

(i) Consideration

The Acquisition Agreement stipulates that the total consideration of the Acquisition (the “Consideration”) shall be RMB 1,262,847,026 (equivalent to approximately HK\$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK\$1,224,266,168) constitutes the consideration for the acquisition of 83.17% equity interest in DYK Chemical and RMB181,820,000 (equivalent to approximately HK\$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining.

As stated in the Letter from the Board, the Consideration was determined on the basis of normal commercial terms and arm’s length negotiations between the Company and CNOOC, after taking into account various factors, including (i) the respective valuation of each of the Target Companies as at 30 June 2008, that is RMB1,299,780,000 for 100% equity interest in DYK Chemical (approximately RMB1,081,027,026 for 83.17% equity interest in DYK Chemical) and RMB181,820,000 for 100% equity interest in ZHJ Mining, as valued by a certified PRC public valuer approved and regulated by China Securities Regulatory Commission and Ministry of Finance; (ii) the quality of the assets being acquired; (iii) the synergy and strategic value of the Target Companies that can be brought to the Group in order to enhance its development in the future; and (iv) the market positioning of each of the Target Companies. We note that the respective consideration for acquisition of each of the Target Companies as stipulated in the Acquisition Agreement is the same as the aforesaid valuation of each of the Target Companies, details of which are set out in Appendices VI(A) and VI(B) to the Circular.

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To assess the fairness and reasonableness of the Consideration, we have, on a best effort basis, conducted a search of companies listed on the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange that have business of manufacturing and sales of phosphoric fertilizers, which we consider represent the closest comparison to the main business of the Target Companies. Based on the above criteria, we have, to the best of our knowledge, identified five Hong Kong or PRC listed companies whose principal businesses are similar to that of each of the Target Companies (the “Comparable Companies”) and compared their respective valuation multiples, including price earning ratio (“PER”) and price to book multiple (“P/B”) with the implied PER and the implied P/B for the Acquisition, details of which are set out below:

Company	Stock code	Principal business	Market capitalization (approximately billion)	PER (approximately times) ^{Note 1}	P/B (approximately times) ^{Note 1}
Anhui Liuguo Chemical Co. Ltd.	600470 CH	Manufactures, processes and sells mineral fertilizers. Main product is ammonium phosphate.	RMB1.61	15.80	1.61
Jiangsu Chengxing Phosph-chemicals Co. Ltd.	600078 CH	Manufactures and markets phosphoric acid, phosphates and other phosphoric chemicals.	RMB4.22	48.72	3.28
Hubei Xingfa Chemicals Co. Ltd.	600141 CH	Manufactures and markets phosphoric chemicals. Products include yellow phosphorus, sodium phosphate trimer, calgon, and other related chemical products.	RMB2.77	35.65	3.26
Hubei Yihua Chemical Industry Co. Ltd.	000422 CH	Manufactures and sells fertilizers and other chemical products.	RMB4.91	12.64	2.74
Sinofert Holdings Ltd.	297 HK	Manufactures and distributes fertilizers; produces and imports potash fertilizers, phosphate-based and nitrogen-based fertilizers, and compound fertilizers.	HK\$26.42	34.09	2.93
Average				29.38	2.76
Implied valuation of the acquisition of 83.17% equity interest in DYK Chemical				25.96 ^{Note 2}	1.25 ^{Note 2}
Implied valuation of the acquisition of 100% equity interest in ZHJ Mining				6.42 ^{Note 3}	1.74 ^{Note 3}
Implied valuation of the Acquisition				18.05 ^{Note 4}	1.30 ^{Note 5}

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Notes:

1. Data regarding the PERs and P/Bs of the Comparable Companies are sourced from Bloomberg as at 12 December 2008, being the date on which the Company and CNOOC entered into the Acquisition Agreement, with reference to the latest annual report published by the Comparable Companies.
2. The implied PER and P/B of the acquisition of 83.17% equity interest in DYK Chemical are calculated based on the consideration ascribed to the acquisition of 83.17% equity interest in DYK Chemical, 83.17% of the audited net profit of DYK Chemical for the financial year ended 31 December 2007, and 83.17% of the audited net asset value of DYK Chemical as at 30 June 2008.
3. The implied PER and P/B of the acquisition of 100% equity interest in ZHJ Mining are calculated based on the consideration ascribed to the acquisition of 100% equity interest in ZHJ Mining, the audited net profit of ZHJ Mining for the financial year ended 31 December 2007, and the audited net asset value of ZHJ Mining as at 30 June 2008.
4. For reference purpose, the implied PER of the Acquisition is calculated based on the Consideration divided by the sum of 100% of the audited net profit of ZHJ Mining and 83.17% of the audited net profit of DYK Chemical for the financial year ended 31 December 2007, the sum of which is unaudited and before elimination of inter-company sales and costs (if any).
5. For reference purpose, the implied P/B of the Acquisition is calculated based on the Consideration divided by the sum of 100% of the audited net asset value of ZHJ Mining and 83.17% of the audited net asset value of DYK Chemical as at 30 June 2008, the sum of which is unaudited and before elimination of inter-company sales and costs (if any).

As shown above, the PERs of the Comparable Companies range from approximately 12.64 times to approximately 48.72 times, with an average of approximately 29.38 times, and the P/Bs of the Comparable Companies range from approximately 1.61 times to approximately 3.28 times, with an average of approximately 2.76 times.

Given that the respective implied P/B and PER of each of the acquisition of DYK Chemical and the acquisition of ZHJ Mining is lower than the average P/B and PER of the Comparable Companies, we consider that the Consideration is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(ii) Warranties in relation to the Profit and Loss of the Relevant Period (the "Warranties")

As stated in the Acquisition Agreement, both parties have provided certain usual representations and warranties to each other in respect of the Acquisition. In particular, both parties represent and warrant that CNOOC shall be entitled to or responsible for (as the case may be) the Profit and Loss of the Relevant Period which shall be determined based on the Special Auditing Reports.

Particularly, the Acquisition Agreement stipulates that CNOOC shall pay to the Company the decrease of net asset value of each of the Target Companies in respect of the Equity Interests during the Relevant Period (if any), or the Company shall pay to CNOOC the increase of net asset value of each of the Target Companies in respect of the Equity Interests during the Relevant Period (if any), within 10 Business Days after the issuance of the Special Auditing Reports.

Having considered the aforesaid adjustment mechanism based on the actual results of each of the Target Companies during the Relevant Period, we concur with the view of the management of the Company that the terms of Warranties are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(iii) Terms of payment and transfer of Equity Interests

The Acquisition Agreement stipulates that the first instalment of the 85% of the Consideration, that is approximately RMB1,073,419,972 (the “First Instalment”), shall be paid in full by the Company in cash within five Business Days from the date when all the conditions as set out in the Acquisition Agreement have been fulfilled, and the remaining 15% of the Consideration, that is approximately RMB189,427,054, together with the Interest for the Remaining Payment, shall be paid in full by the Company in cash within 10 Business Days from the date on which the Special Auditing Reports are issued.

The Acquisition Agreement also stipulates that CNOOC shall make all reasonable efforts to ensure the Company’s rights as the shareholder of each of the Target Companies during the period from the next day after the Company pays the First Instalment to the date of the Completion, including, among others, the rights to appoint management of the Target Companies, to nominate directors of the Target Companies and to receive dividends or bonus.

(iv) Completion

Both parties to the Acquisition Agreement have agreed to use their reasonable endeavours to fulfil and/or procure the fulfilment of the conditions as set out in the Letter from the Board within 12 months from the execution of the Acquisition Agreement.

The Acquisition Agreement also stipulates that the Company and CNOOC should use their respective best endeavours to complete, or procure to complete, all the registration and filings with the Industrial and Commercial Administration Bureau of Hubei Province in respect of the transfer of the Equity Interests, within 90 Business Days from the date when all of the conditions as set out in the Acquisition Agreement are satisfied.

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Completion shall take place upon completion of all the registration and filings with the Industrial and Commercial Administration Bureau of Hubei Province in respect of the transfer of the Equity Interests.

Our view

Having considered the above, we are of the view that the terms of the Acquisition Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

(IV) Possible financial effects of the Acquisition

(i) Accounting treatment upon the Group's obtaining effective control of DYK Chemical and ZHJ Mining

As advised by the Company, as at the Latest Practicable Date, DYK Chemical was beneficially owned as to 83.17% by CNOOC and as to 16.83% by the State-owned Assets Supervision and Administration Commission of Hubei Province, and ZHJ Mining was beneficially wholly owned by CNOOC.

As stated in the Letter from the Board, upon the Group's obtaining effective control of DYK Chemical and ZHJ Mining, each of the Target Companies will be accounted for as a subsidiary of the Company and their respective results will be consolidated into the Company's accounts. As advised by the Company, there will be no significant impact on the earnings of the Group immediately upon Completion.

(ii) Net asset value

As noted from the unaudited pro forma financial information of the Enlarged Group as at 30 June 2008 as set out in Appendix III to the Circular, the net asset value of the Group would decrease by approximately RMB127 million from approximately RMB9,590 million as a result of the Acquisition, which is principally attributable to the merger reserve arising from the business combination, details of which are set out in Appendix III to the Circular. Having considered the net asset value stated in the aforesaid unaudited pro forma financial information of the Enlarged Group, we are of the view that the Acquisition has no material impact on the net asset value of the Group.

(iii) Working capital

As stated in the Letter from the Board, the Consideration will be paid in cash and is intended to be funded by the Company's internal resources.

We are advised by the Company that any shortfall of the payment of the Consideration is expected to be funded by realizing certain investments under available-for-sale investments of the Group, which amounted to approximately RMB3,046 million as at 30 June 2008.

Having considered that the aggregation of the unaudited pro forma cash and cash equivalents and the unaudited pro forma available-for-sale investments of the Enlarged Group amounted to approximately RMB2,858 million as at 30 June 2008 as set out in Appendix III to the Circular, we are of the view that the Group has sufficient internal resources to pay the Consideration and the Acquisition has no material impact on the Group's normal operation.

(B) New Continuing Connected Transactions

(I) Background, reasons for and benefits of entering into of the New Continuing Connected Transactions

As stated in the Letter from the Board and advised by the Company, DYK Chemical has been purchasing sulphur, one of the major raw materials for the manufacturing process of DYK Chemical, from the CNOOC Group for its manufacturing prior to the Acquisition and will continue such transactions with the CNOOC Group upon Completion.

We have reviewed information provided by the Company in respect of the purchase of sulphur by DYK Chemical and note that the purchase of sulphur by DYK Chemical from the CNOOC Group accounted for approximately 95.8%, 99.8% and 76.1% of the total purchase of sulphur by DYK Chemical in terms of volume for each of the two years ended 31 December 2007 and the six months ended 30 June 2008.

We are also advised by the Company that DYK Chemical has been selling its products of MAP to a PRC entity (the "PRC Entity"), the sales of which accounted for approximately 52.2%, 16.7% and 62.2% of the total sales of MAP by DYK Chemical for each of the two years ended 31 December 2007 and the six months ended 30 June 2008. The Company has advised that the PRC Entity will become an associate of CNOOC upon completion of its restructuring which is expected to occur in early 2009 (the "Restructuring"). In this regard, such transactions to be conducted between DYK Chemical and the PRC Entity shall constitute continuing connected transactions under the Listing Rules upon completion of the Acquisition and the Restructuring.

Given the nature of the New Continuing Connected Transactions as stated above and our discussion with the Company in relation thereto, we concur with the view of the management of the Company that the entering into of the New Continuing Connected Transactions between DYK Chemical and the CNOOC Group and the PRC Entity falls within the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole.

(II) Major terms of the New Continuing Connected Transactions

As stated in the Letter from the Board, the New Continuing Connected Transactions to be conducted between DYK Chemical and the CNOOC Group and the PRC Entity shall be regulated by the terms and conditions stipulated in the comprehensive services and product sales agreement dated 1 September 2006 (as supplemented on 5 November 2008 which is subject to the approval of the independent shareholders of the Company as announced by the Company on 5 November 2008) (collectively referred to as the “Agreements”, details of which are set out in the circular of the Company dated 14 November 2008 (the “Previous Circular”)) and on normal commercial terms.

We note from the Agreements that transactions regulated by the Agreements, including, among others, the New Continuing Connected Transactions, shall be conducted on normal commercial terms and conditions, including the pricing principle, which shall be no less favorable to the Group than those offered to independent third parties and priced in accordance with the following pricing principle:

- (i) price prescribed by the PRC government;
- (ii) where there is no government-prescribed price but there is a government guidance price, at a price not higher than the guidance price set by the PRC government;
- (iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and
- (iv) where none of the above is applicable, the price will be agreed between the relevant parties based on the cost plus a margin of up to 10% on cost.

As advised by the Company, as at the Latest Practicable Date, none of sulphur and MAP is subject to any PRC government prescribed or guidance price and given the active markets of sulphur and MAP, the Company adopts the pricing principle (iii) for relevant pricing.

We have reviewed the historical purchase records of sulphur of DYK Chemical in 2008 on a sample basis and note that prices offered to DYK Chemical by the CNOOC Group were comparable to those offered by independent sulphur suppliers of DYK Chemical. We have also reviewed the historical sales records of MAP of DYK Chemical in 2008 on a sample basis and note that prices charged by DYK Chemical to the PRC Entity were comparable to those charged by DYK Chemical to independent MAP purchasers of DYK Chemical.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we concur with the view of the management of the Company that the major terms, namely the pricing principle, of the New Continuing Connected Transactions are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

(III) Proposed Caps

Set out below are the details of the Proposed Caps for each of the three years ending 31 December 2011:

Category	Proposed Caps for the year ending 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Agreements:			
2(a). Sales of products by the Group to the CNOOC Group	500,563 <i>Note</i>	531,147 <i>Note</i>	552,147 <i>Note</i>
2(b). Purchase of products by DYK Chemical from the CNOOC Group	280,000	308,000	338,800

Note: As elaborated above, the sales of MAP by DYK Chemical to the PRC Entity shall constitute continuing connected transactions under the Listing Rules upon DYK Chemical becoming a subsidiary of the Group and the PRC Entity becoming an associate of CNOOC. Given the similar nature of such transactions and the category A4 (c) referred to in the Previous Circular, the expected annual figures in relation to such transactions shall be aggregated with the proposed caps in relation to the continuing connected transactions of sale of products by the Group to the CNOOC Group under the category A4(c) in the Previous Circular which are already subject to the approval of the independent shareholders of the Company at the extraordinary general meeting of the Company held on 30 December 2008, and therefore the Proposed Caps of Category 2(a) should be subject to another round of the Independent Shareholders' approval at the EGM.

As stated in the Letter from the Board, the Directors have determined the Proposed Caps based on the following factors:

- (a) references have been made to the historical transaction amounts for each of the two financial years ended 31 December 2007 and the six months ended 30 June 2008 as well as the estimated transaction amounts for the year ending 31 December 2008; and

- (b) there will not be any material adverse changes to the state of the PRC economy and the level of prices of and demands for the Group's products and the materials and/or services needed by the Group for its business operations.

Details of the basis of the determination and the analysis of the Proposed Caps are set out below:

2(a) Proposed caps for the continuing connected transactions in relation to sales of products by the Group to the CNOOC Group (the "Group Sales Caps")

As advised by the Company, the Group Sales Caps include (i) the proposed caps for the continuing connected transactions in relation to sale of products by the Group to the CNOOC Group contemplated under the Agreements (the "Sale of Products by the Group Cap" as defined in the Previous Circular); and (ii) the expected annual figures for the proposed continuing connected transactions in relation to sales of products by DYK Chemical to the PRC Entity with an annual amount of RMB105 million for each of the three years ending 31 December 2011 (the "DYK Chemical Sales Figures").

As stated in the Previous Circular, the Sale of Products by the Group Cap is determined by the Company after taking into account factors including, among others, the expected increase of demand from the CNOOC Group for products to be provided by the Group upon the commencement of the production of the CNOOC Group's several chemical plants projects located in the Hainan province, and the Group's estimates that certain existing transactions conducted between the Group and the PRC Entity will constitute continuing connected transactions under the Listing Rules upon completion of the Restructuring.

In assessing the reasonableness of the DYK Chemical Sales Figures, we have discussed with the management of the Company and understand that, besides the above, the Directors have taken into account the following principal factors when determining the DYK Chemical Sales Figures: (i) the historical amounts of sales of MAP by DYK Chemical to the PRC Entity with an amount of approximately RMB51.5 million, RMB35.6 million and RMB39.9 million, respectively, for each of the two years ended 31 December 2007 and the six months ended 30 June 2008, the historical transactions of which did not constitute continuing connected transactions under the Listing Rules until DYK Chemical becomes a subsidiary of the Group and the PRC Entity becomes an associate of CNOOC; (ii) the Group's estimates on the market price of MAP in the coming three years; (iii) the Group's estimates on the demand for MAP from the PRC Entity, which, as advised by the Company, are mainly based on the historical purchase of MAP and the

indicated demand of MAP of the PRC Entity; and (iv) a buffer of 5% in consideration of the possibility of fluctuation in the market price of MAP and/or the PRC Entity's demand for MAP in the coming three years.

We have reviewed information published on industry-related websites in the PRC in recent months in respect of MAP and the information provided by the Company in relation to the historical procurement of MAP from DYK Chemical by the PRC Entity, and note that the market price of MAP has experienced fluctuation during the past months of 2008. Given such fluctuation and the historical price offered by DYK Chemical to the PRC Entity, we consider that the Group's assumption in relation to the price of MAP when determining the DYK Chemical Sales Figures is justifiable.

We have also reviewed information provided by the Company in respect of the purchase of MAP by the PRC Entity from DYK Chemical for each of the two years ended 31 December 2007 and the six months ended 30 June 2008 and the indicated demand from the PRC Entity and consider the Group's assumption in relation to the demand for MAP from the PRC Entity when determining the DYK Chemical Sales Figures is also justifiable.

Having considered the above, we are of the view that the Group Sales Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

2(b) Proposed caps for the continuing connected transactions in relation to purchase of products by DYK Chemical from the CNOOC Group (the "DYK Chemical Purchase Caps")

In assessing the reasonableness of the DYK Chemical Purchase Caps, we have discussed with the management of the Company and understand that, besides the above, the Directors have taken into account the following principal factors when determining the DYK Chemical Purchase Caps: (i) the historical amounts of purchase of sulphur by DYK Chemical from the CNOOC Group with an amount of approximately RMB60.6 million, RMB119.0 million and RMB163.4 million, respectively, for each of the two years ended 31 December 2007 and the six months ended 30 June 2008, the historical transactions of which did not constitute continuing connected transactions under the Listing Rules until DYK Chemical becomes a subsidiary of the Group; (ii) the Group's estimates on the market price of sulphur in the coming three years; (iii) the Group's estimates on the demand for sulphur from DYK Chemical for its manufacturing purpose which, as advised by the Company, are mainly based on the historical usage of sulphur by DYK Chemical and the business development of DYK Chemical in the coming three years; and (iv) a buffer of 10% in consideration of the possibility of fluctuation in the market price of sulphur and/or DYK Chemical's demand for sulphur in the coming three years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed information published on industry-related websites in the PRC in recent months in respect of sulphur and the information provided by the Company in relation to the historical procurement of sulphur by DYK Chemical. Based on our review, we note that the market price of sulphur has experienced fluctuation during the past months of 2008. Given such fluctuation and the historical purchase price offered by the CNOOC Group to DYK Chemical, we consider that the Group's assumption in relation to the price of sulphur when determining the DYK Chemical Purchase Caps is justifiable.

We have also reviewed information provided by the Company in respect of the usage of sulphur of DYK Chemical for each of the two years ended 31 December 2007 and the six months ended 30 June 2008 and consider the Group's assumption in relation to sulphur demand of DYK Chemical when determining the DYK Chemical Purchase Caps is also justifiable.

Having considered the above, we are of the view that the DYK Chemical Purchase Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Our view

Having considered the above, we are of the view that the basis adopted by the management of the Company in determining the Proposed Caps is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

However, Shareholders should note that the Proposed Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the proposed continuing connected transactions of Category 2(a) and Category 2(b). Consequently, we express no opinion as to how closely the actual transaction amounts of the relevant continuing connected transactions correspond with the Proposed Caps as discussed above.

RECOMMENDATION

Having considered the principal factors and reasons referred to in the above, in particular that the Acquisition is in line with the Group's business strategies and the Consideration is fair and reasonable, we are of the opinion that (i) the terms of the Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole; (ii) the New Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole; (iii) the terms of the New Continuing Connected Transactions are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iv) the Proposed Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the entering into of the Acquisition Agreement, the New Continuing Connected Transactions and the Proposed Caps.

Yours Faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited
Alex Lau **Heidi Cheng**
Director *Director*
Head of Corporate Finance

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

(A) FINANCIAL SUMMARY

The following is a summary of the audited consolidated income statements of the Company for the three years ended December 31, 2007 and the consolidated balance sheets of the Company as at December 31, 2005, 2006 and 2007 with unqualified opinion, as extracted from the relevant annual reports of the Company.

Consolidated Income Statement

	2007 RMB'000	2006 RMB'000	2005 RMB'000
REVENUE	4,340,427	3,465,781	2,370,999
Cost of sales	<u>(2,552,162)</u>	<u>(2,164,164)</u>	<u>(1,293,095)</u>
Gross profit	1,788,265	1,301,617	1,077,904
Other income and gains	74,029	125,645	1,645
Excess over the cost of a business combination	—	577,619	—
Selling and distribution costs	(70,185)	(33,870)	(15,440)
Administrative expenses	(223,840)	(199,582)	(130,672)
Other expenses	(51,218)	(34,520)	(103,124)
Finance revenue	29,245	119,817	24,441
Finance costs	(18,291)	(61,738)	(15,532)
Exchange gain/(loss), net	14,434	(1,500)	189,536
Share of profits of associates	<u>4,041</u>	<u>1,836</u>	<u>1,913</u>
PROFIT BEFORE TAX	1,546,480	1,795,324	1,030,671
Income tax expense	<u>(67,116)</u>	<u>(120,102)</u>	<u>(47,516)</u>
PROFIT FOR THE YEAR	<u>1,479,364</u>	<u>1,675,222</u>	<u>983,155</u>
Attributable to:			
Equity holders of the parent	1,448,334	1,645,819	943,830
Minority interests	<u>31,030</u>	<u>29,403</u>	<u>39,325</u>
	<u>1,479,364</u>	<u>1,675,222</u>	<u>983,155</u>
DIVIDENDS	<u>368,800</u>	<u>635,830</u>	<u>1,211,813</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic for the year (RMB)	<u>0.31</u>	<u>0.48</u>	<u>0.31</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Consolidated Balance Sheet

	2007	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5,508,827	5,854,898	3,479,133
Prepaid land lease payments	404,821	413,862	118,857
Intangible assets	12,494	16,425	398
Investments in associates	11,937	8,646	6,810
Available-for-sale investments	600	9,465	6,788
Other long-term assets	—	—	881
Deferred tax assets	<u>47,299</u>	<u>27,819</u>	<u>4,672</u>
	<u>5,985,978</u>	<u>6,331,115</u>	<u>3,617,539</u>
CURRENT ASSETS			
Inventories	401,299	332,684	162,059
Trade receivables	21,426	133,557	171,652
Bills receivable	44,960	20,850	69,515
Available-for-sale investments	304,113	—	—
Prepayments, deposits and other receivables	153,213	86,153	168,523
Tax recoverable	—	—	13,984
Pledged bank deposits	5,774	10,904	—
Cash and cash equivalents	<u>2,780,762</u>	<u>2,195,619</u>	<u>1,949,752</u>
	<u>3,711,547</u>	<u>2,779,767</u>	<u>2,535,485</u>
TOTAL ASSETS	<u><u>9,697,525</u></u>	<u><u>9,110,882</u></u>	<u><u>6,153,024</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital	4,610,000	4,610,000	2,394,044
Reserves	3,107,310	2,029,717	181,288
Proposed dividend	<u>368,800</u>	<u>69,150</u>	<u>1,210,801</u>
	8,086,110	6,708,867	3,786,133
Minority interests	<u>396,430</u>	<u>340,045</u>	<u>291,460</u>
Total equity	<u>8,482,540</u>	<u>7,048,912</u>	<u>4,077,593</u>
NON-CURRENT LIABILITIES			
Benefits liability	72,426	79,958	—
Interest-bearing bank and other borrowings	180,041	384,793	1,030,402
Other long-term liabilities	50,840	38,057	22,430
Deferred tax liabilities	<u>49,076</u>	<u>61,017</u>	<u>—</u>
	<u>352,383</u>	<u>563,825</u>	<u>1,052,832</u>
CURRENT LIABILITIES			
Trade payables	26,985	94,686	48,049
Other payables and accruals	683,369	849,963	588,536
Derivative financial instruments	6,136	25,641	50,634
Interest-bearing bank and other borrowings	101,015	476,579	335,380
Income tax payable	<u>45,097</u>	<u>51,276</u>	<u>—</u>
	<u>862,602</u>	<u>1,498,145</u>	<u>1,022,599</u>
TOTAL LIABILITIES	<u>1,214,985</u>	<u>2,061,970</u>	<u>2,075,431</u>
TOTAL EQUITY AND LIABILITIES	<u><u>9,697,525</u></u>	<u><u>9,110,882</u></u>	<u><u>6,153,024</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

(B) AUDITED FINANCIAL INFORMATION OF THE GROUP

Set out below is the audited financial statements together with relevant notes to the financial statements of the Group as extracted from Annual Report 2007 of the Company.

Consolidated Income Statement

	<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
REVENUE	5	4,340,427	3,465,781
Cost of sales		<u>(2,552,162)</u>	<u>(2,164,164)</u>
Gross profit		1,788,265	1,301,617
Other income and gains	5	74,029	125,645
Excess over the cost of a business combination	39(b)	—	577,619
Selling and distribution costs		(70,185)	(33,870)
Administrative expenses		(223,840)	(199,582)
Other expenses		(51,218)	(34,520)
Finance revenue	6	29,245	119,817
Finance costs	7	(18,291)	(61,738)
Exchange gain/(loss), net		14,434	(1,500)
Share of profits of associates		<u>4,041</u>	<u>1,836</u>
PROFIT BEFORE TAX	8	1,546,480	1,795,324
Income tax expense	11	<u>(67,116)</u>	<u>(120,102)</u>
PROFIT FOR THE YEAR		<u><u>1,479,364</u></u>	<u><u>1,675,222</u></u>
Attributable to:			
Equity holders of the parent	12	1,448,334	1,645,819
Minority interests		<u>31,030</u>	<u>29,403</u>
		<u><u>1,479,364</u></u>	<u><u>1,675,222</u></u>
DIVIDENDS	13	<u><u>368,800</u></u>	<u><u>635,830</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic for the year (RMB)	14	<u><u>0.31</u></u>	<u><u>0.48</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Consolidated Balance Sheet

		2007	2006
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	5,508,827	5,854,898
Prepaid land lease payments	17	404,821	413,862
Intangible assets	18	12,494	16,425
Investments in associates	21	11,937	8,646
Available-for-sale investments	22	600	9,465
Deferred tax assets	23	<u>47,299</u>	<u>27,819</u>
		<u>5,985,978</u>	<u>6,331,115</u>
CURRENT ASSETS			
Inventories	24	401,299	332,684
Trade receivables	25	21,426	133,557
Bills receivable	26	44,960	20,850
Available-for-sale investments	22	304,113	—
Prepayments, deposits and other receivables	27	153,213	86,153
Pledged bank deposits	29	5,774	10,904
Cash and cash equivalents	29	<u>2,780,762</u>	<u>2,195,619</u>
		<u>3,711,547</u>	<u>2,779,767</u>
TOTAL ASSETS		<u><u>9,697,525</u></u>	<u><u>9,110,882</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

		2007	2006
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital	30	4,610,000	4,610,000
Reserves	31	3,107,310	2,029,717
Proposed dividend	31	<u>368,800</u>	<u>69,150</u>
		8,086,110	6,708,867
Minority interests		<u>396,430</u>	<u>340,045</u>
TOTAL EQUITY		<u>8,482,540</u>	<u>7,048,912</u>
NON-CURRENT LIABILITIES			
Benefits liability	32	72,426	79,958
Interest-bearing bank and other borrowings	33	180,041	384,793
Other long-term liabilities	34	50,840	38,057
Deferred tax liabilities	23	<u>49,076</u>	<u>61,017</u>
		<u>352,383</u>	<u>563,825</u>
CURRENT LIABILITIES			
Trade payables	35	26,985	94,686
Other payables and accruals	36	683,369	849,963
Derivative financial instruments	37	6,136	25,641
Interest-bearing bank and other borrowings	33	101,015	476,579
Income tax payable		<u>45,097</u>	<u>51,276</u>
		<u>862,602</u>	<u>1,498,145</u>
TOTAL LIABILITIES		<u>1,214,985</u>	<u>2,061,970</u>
TOTAL EQUITY AND LIABILITIES		<u><u>9,697,525</u></u>	<u><u>9,110,882</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Consolidated Statement of Changes in Equity

	Notes	Attributable to equity holders of the parent						Minority interests	Total equity
		Paid-up capital	Statutory surplus reserves	Capital reserve	Retained profits	Proposed dividend	Investment revaluation reserve		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2007		4,610,000	68,732	1,109,635	849,409	69,150	1,941	6,708,867	340,045
Changes in fair value of available-for-sale equity investments		—	—	—	—	—	(1,941)	(1,941)	(736)
Profit for the year		—	—	—	1,448,334	—	—	1,448,334	31,030
Total income and expense for the year		—	—	—	1,448,334	—	(1,941)	1,446,393	30,294
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(13,909)
Capital contribution by a minority shareholder	(a)	—	—	—	—	—	—	—	40,000
2006 final dividend declared		—	—	—	—	(69,150)	—	(69,150)	—
Proposed 2007 final dividend	13	—	—	—	(368,800)	368,800	—	—	—
Transfer from retained profits	31	—	113,006	—	(113,006)	—	—	—	—
As at 31 December 2007		4,610,000	181,738*	1,109,635*	1,815,937*	368,800	—*	8,086,110	396,430

* These reserve accounts comprise the consolidated reserves of RMB3,107,310,000 (2006: RMB2,029,717,000) in the consolidated balance sheet.

- (a) During the year, China BlueChemical Ltd. (the “Company”) and the State-owned Assets Supervision and Administration Committee of the municipal government of Jincheng City (“SASAC Jincheng”) agreed to establish CNOOC Jincheng Coal Chemical Industry Co., Ltd. (“CNOOC Jincheng”) in Jincheng City, Shanxi, as a limited liability company. The Company and SASAC Jincheng contributed a total of RMB160,000,000 to CNOOC Jincheng, among which the Company contributed RMB120,000,000 and therefore holds a 75% equity interest in CNOOC Jincheng.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

	Notes	Attributable to equity holders of the parent						Minority interests	Total equity
		Paid-up capital	Statutory surplus reserves	Capital reserve	Retained profits	Proposed dividend	Investment revaluation reserve		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006		2,394,044	273,136	—	(91,848)	1,210,801	—	3,786,133	291,460
Changes in fair value of available-for-sale equity investments		—	—	—	—	—	1,941	1,941	736
Profit for the year		—	—	—	1,645,819	—	—	1,645,819	29,403
Total income and expense for the year		—	—	—	1,645,819	—	1,941	1,647,760	30,139
Acquisition of a subsidiary	39(b)	—	—	—	—	—	—	—	173,716
Acquisition of minority interests		—	—	—	—	—	—	—	(5,656)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(64,262)
Capital contribution by a minority shareholder	(a)	—	—	—	—	—	—	—	27,160
Capital contribution	(b)	—	—	7,607	—	—	—	7,607	—
Capitalisation as a result of the Reorganisation	(c)	605,956	(273,136)	(220,308)	—	—	—	112,512	(112,512)
Special dividend declared	13	—	—	—	—	(1,210,801)	—	(1,210,801)	—
Pre-establishment distribution declared	13	—	—	—	(264,538)	—	—	(264,538)	—
Pre-IPO profit declared	13	—	—	—	(302,142)	—	—	(302,142)	—
Proposed 2006 final dividend	13	—	—	—	(69,150)	69,150	—	—	—
Transfer from retained profits	31	—	68,732	—	(68,732)	—	—	—	—
Issue of H shares	30	1,610,000	—	—	—	—	—	1,610,000	—
Share premium arising from the issuance of H shares	30	—	—	1,496,494	—	—	—	1,496,494	—
Share issue expenses	30	—	—	(174,158)	—	—	—	(174,158)	—
As at 31 December 2006		4,610,000	68,732	1,109,635	849,409	69,150	1,941	6,708,867	340,045

Notes:

- (a) During the year, the registered and paid-up capital of Hainan Basuo Port Limited (“Hainan Basuo”), the Company’s 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 the Company by a cash amount 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 amortised 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 period to maturity. The difference of RMB8,112,000 was adjusted against the capital reserve of RMB15,719,000 that was initially recognised, resulting in a net capital contribution from CNOOC of RMB7,607,000 for the year ended 31 December 2006.

- (c) Upon the reorganisation 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 capitalisation of the then existing reserves. The resulting difference was dealt with in the capital reserve.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Consolidated Cash Flow Statement

		2007	2006
	Notes	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,546,480	1,795,324
Adjustments for:			
Finance costs	7	18,291	61,738
Foreign exchange differences, net	8	(14,434)	1,500
Share of profits of associates		(4,041)	(1,836)
Interest income		(29,245)	(119,817)
Dividend income from listed and unlisted investments	8	—	(360)
Gain on disposal of listed investments	8	(28,763)	—
Gain on disposal of unlisted investments	8	(18,540)	—
Loss on disposal of items of property, plant and equipment	8	10,230	2,865
Depreciation	8	573,578	506,650
Amortisation of a trademark	8	328	311
Amortisation of patents and licences	8	—	26
Amortisation of other intangible assets	8	3,603	114
Amortisation of prepaid land lease payments	8	9,409	8,041
Write-back of impairment of items of property, plant and equipment	8	(13)	(7,962)
Changes in fair value of derivative financial instruments	5	(19,546)	(24,992)
Provision/(write-back of provision) for bad and doubtful receivables	8	(2,387)	2,350
Provision/(write back of provision) for defined benefit plans	32	(4,622)	2,918
Gain on dissolution of a subsidiary		—	(586)
Excess over the cost of a business combination	39(b)	—	(577,619)
Write-down of inventories to net realisable value	8	924	467
		2,041,252	1,649,132
Decrease in other long-term assets		—	881
Increase in inventories		(69,539)	(79,635)
Decrease in trade and bills receivables, prepayments, deposits and other receivables		24,793	33,145
Increase/(decrease) in trade payables, other payables and accruals and other long-term liabilities		(126,272)	231,976
Cash generated from operations		1,870,234	1,835,499
Defined benefits paid	32	(2,910)	(2,918)
Taxes paid		(104,717)	(67,805)
Net cash inflow from operating activities		1,762,607	1,764,776

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

	<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Net cash inflow from operating activities		<u>1,762,607</u>	<u>1,764,776</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		28,658	30,961
Dividends received		1,590	360
Purchases of items of property, plant and equipment		(347,420)	(404,641)
Proceeds from disposal of items of property, plant and equipment		8,147	1,180
Additions to prepaid land lease payments		(1,226)	(61,956)
Additions to intangible assets		—	(15,636)
Increase in unlisted investments		(304,113)	—
Increase of investment in an associate		(840)	—
Disposal of available-for sale investments		56,168	—
Acquisitions of minority interests		—	(5,494)
Acquisition of a subsidiary	39(b)	—	(892,245)
Dissolution of a subsidiary	39(a)	—	(21)
Increase in pledged bank deposits		5,130	(10,904)
Decrease in non-pledged time deposits with original maturity of three months or more when acquired		<u>146,160</u>	<u>83,840</u>
Net cash outflow from investing activities		<u>(407,746)</u>	<u>(1,274,556)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions by minority shareholder		40,000	27,160
Issue of H shares	30	—	2,932,336
Interest received from subscription monies of H shares		—	88,856
New bank and other borrowings		16,248	4,283,397
Repayment of bank and other borrowings		(580,947)	(4,698,328)
Repayment of amounts due to the Finance Bureau	39(b)	—	(898,526)
Repayment of finance lease obligations		(1,183)	(673)
Dividends paid		(69,150)	(1,777,481)
Interest paid		(16,526)	(52,992)
Dividends paid to minority shareholders		<u>(12,000)</u>	<u>(64,262)</u>
Net cash outflow from financing activities		<u>(623,558)</u>	<u>(160,513)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		731,303	329,707
Cash and cash equivalents at beginning of year		<u>2,049,459</u>	<u>1,719,752</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>2,780,762</u></u>	<u><u>2,049,459</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	2,780,762	1,897,459
Non-pledged time deposits with original maturity of less than three months when acquired	29	<u>—</u>	<u>152,000</u>
		<u><u>2,780,762</u></u>	<u><u>2,049,459</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Balance Sheet

		2007	2006
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,594,108	1,707,337
Investment properties	16	16,441	17,422
Prepaid land lease payments	17	40,535	42,391
Intangible assets	18	12,165	15,768
Interests in subsidiaries	19	2,368,154	2,236,154
Investment in a jointly-controlled entity	20	300,000	300,000
Deferred tax assets	23	<u>4,750</u>	<u>2,090</u>
		<u>4,336,153</u>	<u>4,321,162</u>
CURRENT ASSETS			
Inventories	24	114,425	91,503
Trade receivables	25	2,275	7,753
Prepayments, deposits and other receivables	27	94,915	148,909
Available for sale investment	22	250,000	—
Loans receivable	28	310,000	600,888
Pledged bank deposits	29	2,191	2,413
Cash and cash equivalents	29	<u>1,944,070</u>	<u>1,526,205</u>
		<u>2,717,876</u>	<u>2,377,671</u>
TOTAL ASSETS		<u><u>7,054,029</u></u>	<u><u>6,698,833</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

		2007	2006
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY AND LIABILITIES			
Paid-up capital	30	4,610,000	4,610,000
Reserves	31	1,826,693	1,181,053
Proposed dividend	31	<u>368,800</u>	<u>69,150</u>
TOTAL EQUITY		<u>6,805,493</u>	<u>5,860,203</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	—	73,106
Other long-term liabilities	34	<u>19,323</u>	<u>22,192</u>
		<u>19,323</u>	<u>95,298</u>
CURRENT LIABILITIES			
Trade payables	35	2,624	42,145
Other payables and accruals	36	142,561	207,744
Derivative financial instruments	37	6,136	25,641
Interest-bearing bank and other borrowings	33	71,284	446,056
Income tax payable		<u>6,608</u>	<u>21,746</u>
		<u>229,213</u>	<u>743,332</u>
TOTAL LIABILITIES		<u>248,536</u>	<u>838,630</u>
TOTAL EQUITY AND LIABILITIES		<u><u>7,054,029</u></u>	<u><u>6,698,833</u></u>

Notes**1 CORPORATE INFORMATION**

The Company was established in the People's Republic of China (the "PRC") on 3 July 2000 as a limited liability company under the name of CNOOC Chemical Limited (中海石油化學有限公司). The Company's name was changed to China BlueChemical Ltd. (中海石油化學股份有限公司) on 25 April 2006. The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, People's Republic of China ("PRC").

In September and October 2006, the Company issued an aggregate 1,610,000,000 new H shares at a price of HKD1.90 per share to the public and the H shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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

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

- (a) Pursuant to a reorganisation 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 wholly-owned subsidiaries respective share of the net asset value, as determined in accordance with the PRC Accounting Standards for Business Enterprises and PRC Accounting System for Business Enterprises ("PRC GAAP"), in the Relevant Companies 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.

	Percentage of equity interest transferred
Hainan CNOOC Plastic Company Limited ("Plastic Co.")	30.23%
Hainan CNOOC Transportation Co., Ltd.	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. have been accounted for as a wholly-owned subsidiary and a 90%-owned subsidiary of the Company, respectively, from the outset, while E&P Gas has been accounted for as a wholly-owned subsidiary of the Company since its establishment on 8 November 2004.

In addition, pursuant to the aforesaid reorganisation notice, the Company transferred to a wholly-owned fellow subsidiary 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 asset value, as determined in accordance with PRC GAAP, in Hainan CNOOC Agriculture Co., Ltd. as at 31 December 2005. The transfer of 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 Fertiliser Co., Ltd. ("Complex Fertiliser") for 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 Fertiliser, who together held a 34.95% equity interest in Complex Fertiliser, dated 6 March 2006, the Company further acquired the 34.95% equity interest in Complex Fertiliser for a cash consideration of RMB2,752,000 from the employee shareholders of Complex Fertiliser. As a consequence of the above acquisitions, Complex Fertiliser 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 reorganisation of the Company into a joint stock limited company dated 18 March 2006, each of the Other Four Promoters transferred its entire shareholding of 3.24% in CNOOC Fudao Limited ("Fudao") to the Company in exchange for a 0.83% equity interest each in the Company upon its reorganisation 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 reorganised into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006. The name of the Company was also changed from CNOOC Chemical Limited to China BlueChemical Ltd. on the same date.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements have been presented in RMB and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and jointly-controlled entity for the year ended 31 December 2007.

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

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

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

Minority interests represent the interests held by shareholders which are not within the Group in the results and net assets of certain subsidiaries of the Company. Acquisitions of minority interests are accounted for using the entity concept method.

2.2 IMPACT OF NEW AND AMENDED IFRS

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on the Group's financial statements.

IFRS 7	Financial Instruments: Disclosures
IAS 1 Amendment	Capital Disclosures
IFRIC Interpretation 8	Scope of IFRS 2
IFRIC Interpretation 9	Reassessment of Embedded Derivatives
IFRIC Interpretation 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to IAS 1 Presentation of Financial Statements — Capital disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 43 to the financial statements.

(c) IFRIC Interpretation 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) IFRIC Interpretation 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no material impact on the financial position or results of operations of the Group.

(e) IFRIC Interpretation 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 8	Operating Segments ¹
IAS 23 (Amendment)	Borrowing Costs ¹
IFRIC Interpretation 11	IFRS 2 — Group and Treasury Share Transactions ²
IFRIC Interpretation 12	Service Concession Arrangements ⁴
IFRIC Interpretation 13	Customer Loyalty Programmes ³
IFRIC Interpretation 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 January 2008

IFRS 8, which will replace IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IFRIC Interpretation 11 requires arrangements whereby an employee is granted rights to the group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Interpretation 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

IFRIC Interpretation 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. IFRIC-Interpretation 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangement, the interpretation is unlikely to have any financial impact on the Group.

IFRIC Interpretation 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC Interpretation 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs, upon initial application. These new and revised IFRSs, are unlikely to have a significant impact on the Group's results of operation and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Company, directly, or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entity

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

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

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

Associates

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

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

Excess over the cost of a business combination

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

Impairment of non-financial 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 recognised 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 recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised 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 Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the 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 Group 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 Group, or of any entity that is a related party of the 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 capitalised 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 8.33%
Plant and machinery	5.00% to 20.00%
Motor vehicles	6.00% to 20.00%
Computer and electronic equipment	18.00% to 20.00%
Office and other equipment	18.00% to 50.00%

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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant, 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 capitalised 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.

Investment properties

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised 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 capitalised 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 recognised 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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Computer software

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

Patents and licences

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

Trademark

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

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised 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. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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 recognised on the trade date that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separate embedded 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 recognised 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 subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the

impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

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, these securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised 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. These techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 recognised, the previously recognised impairment loss is reversed by adjusting the allowance. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 would have 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 amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the consolidated income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

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 derecognised 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 recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

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

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

Inventories

Inventories are valued at the lower of cost and net realisable 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 labour and an appropriate proportion of overheads

Net realisable 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 recognised 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 recognised 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 recognised in the consolidated income statement, or in equity if it relates to items that are recognised directly in equity in the same or a different period.

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised 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 utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at 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 utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised 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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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 recognised 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 recognised 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 instalments.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the provision of services is started and completed within the same financial year, revenue is recognised 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 recognised at the balance sheet date on the percentage of completion basis; when the outcome of a transaction cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are expected to be recoverable;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits*Retirement benefits*

The Group, its jointly-controlled entity and associates participate in a government-regulated defined contribution pension scheme, under which the Group, its jointly-controlled entity and associates make contributions into a government-regulated pension scheme at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred.

In addition to the benefits under the government-regulated defined contribution pension scheme above, CNOOC Tianye Chemical Limited (formerly known as Inner Mongolia Tianye Chemical Industry Limited) (“Tianye Chemical”), the Company’s 90%-owned subsidiary, also paid supplementary pensions to early retirees in accordance with an internal retirement plan and allowances to retired employees in accordance with the local labour regulations. As detailed in note 32 to the financial statements, these supplementary pensions and post employment allowances payable as at balance sheet date were assessed using the projected unit credit method; the cost of providing these pensions and allowances to the qualifying employees, including the active employees, is charged to the consolidated income statement as shown in the actuarial reports which contained full valuations of the obligations for 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. To the extent that any cumulative unrecognised actuarial gains or losses exceed ten percent of the present value of the obligation at a disclosure date, that portion is recognised in the consolidated income statement over the expected average remaining working lives of the active employees. Otherwise the actuarial gains or losses are not recognised and deferred.

Details of the government-regulated pension scheme and the supplementary pension benefits are set out in note 8 to the financial statements.

Medical benefit costs

The Group, its jointly-controlled entity and associates participate in government-organised defined contribution medical benefit plans, under which the Group, its jointly-controlled entity and associates make contributions into a government-organised 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 8 to the financial statements.

Housing fund

The Group contributes on a monthly basis to a defined contribution housing fund plan organised by the PRC government. Contributions to these plans by the Group are expensed as incurred. Details of the housing fund plans are set out in note 8 to the financial statements.

Cash housing subsidies costs

Cash housing subsidies represent payments to the housing subsidy plan implemented by the Group. Cash housing subsidies are charged as an expense to the consolidated income statement as incurred. Details of the cash housing subsidy plan are set out in note 8 to the financial statements.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these 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 capitalised.

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

Dividends

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

Foreign currencies

The financial records of the Group, its jointly-controlled entity and associates are maintained and these financial statements are stated in Renminbi (“RMB”), which is the functional currency of the Group, its jointly-controlled entity and associates.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**Judgements**

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in these financial statements:

Reclassification from construction in progress to property, plant and equipment

The Group determines when the construction in progress is in the location and condition to be operated in the manner intended by management (i.e. ready for use) and has developed criteria in making that judgement on an individual asset basis.

Estimation uncertainty

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 recognised 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 utilised. 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 realisable value

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

(c) Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of doubtful receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have impact on the carrying amounts of the receivables and doubtful debt expenses/write-back in the period in which these 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 note 2.4 to the financial statements. 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.

(e) Depreciation of property, plant and equipment

The cost of items of property, plant and equipment is depreciated on straight-line basis over their estimated useful lives. Management estimates the useful lives of plant and machinery to be 5 to 18 years, and other assets ranging from 2 to 35 years.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore depreciation charges might be revised in future.

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

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

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

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

	Fertilisers <i>RMB'000</i>	Methanol <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2007:					
Segment revenue:					
Sales to external customers	3,035,455	1,145,573	159,399	—	4,340,427
Intersegment sales	—	—	234,828	(234,828)	—
Other income	<u>4,975</u>	<u>1,492</u>	<u>713</u>	<u>—</u>	<u>7,180</u>
Total	<u>3,040,430</u>	<u>1,147,065</u>	<u>394,940</u>	<u>(234,828)</u>	<u>4,347,607</u>
Segment results	<u>868,688</u>	<u>680,358</u>	<u>36,089</u>	<u>—</u>	<u>1,585,135</u>
Interest and dividend income and unallocated gains					96,094
Corporate and other unallocated expenses					(134,933)
Finance costs					(18,291)
Exchange gain, net					14,434
Share of profits of associates					<u>4,041</u>
Profit before tax					1,546,480
Income tax expense					<u>(67,116)</u>
Profit for the year					<u>1,479,364</u>
As at 31 December 2007:					
Segment assets	4,416,063	1,503,345	1,103,464	(16,923)	7,005,949
Investments in associates	11,105	—	831	—	11,936
Corporate and other unallocated assets					<u>2,679,640</u>
Total assets					<u>9,697,525</u>
Segment liabilities	(525,477)	(239,786)	(357,718)	361,337	(761,644)
Corporate and other unallocated liabilities					<u>(453,341)</u>
Total liabilities					<u>(1,214,985)</u>
Other segment information:					
Depreciation and amortisation	469,825	94,191	22,902	—	586,918
Other non-cash expenses	(965)	—	(498)	—	(1,463)
Capital expenditure	<u>105,179</u>	<u>40,874</u>	<u>101,044</u>	<u>—</u>	<u>247,097</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

	Fertilisers RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2006:					
Segment revenue:					
Sales to external customers	2,989,161	308,700	167,920	—	3,465,781
Intersegment sales	—	—	83,897	(83,897)	—
Other income	99,223	—	484	—	99,707
Total	<u>3,088,384</u>	<u>308,700</u>	<u>252,301</u>	<u>(83,897)</u>	<u>3,565,488</u>
Segment results	<u>1,082,254</u>	<u>123,775</u>	<u>21,944</u>	<u>—</u>	<u>1,227,973</u>
Interest and dividend income and unallocated gains					145,755
Corporate and other unallocated expenses					(94,621)
Finance costs					(61,738)
Exchange loss, net					(1,500)
Share of profits of associates	1,779	—	57	—	1,836
Excess over the cost of a business combination					<u>577,619</u>
Profit before tax					1,795,324
Income tax expense					<u>(120,102)</u>
Profit for the year					<u>1,675,222</u>
As at 31 December 2006:					
Segment assets	5,613,626	1,331,566	958,152	(21,737)	7,881,607
Investments in associates	7,590	—	1,056	—	8,646
Corporate and other unallocated assets					<u>1,220,629</u>
Total assets					<u>9,110,882</u>
Segment liabilities	(592,448)	(196,869)	(374,654)	21,737	(1,142,234)
Corporate and other unallocated liabilities					<u>(919,736)</u>
Total liabilities					<u>(2,061,970)</u>
Other segment information:					
Depreciation and amortisation	446,356	54,482	14,304	—	515,142
Write-back of impairment losses recognised in the consolidated income statement	(7,962)	—	—	—	(7,962)
Other non-cash expenses	2,580	—	237	—	2,817
Capital expenditure	<u>124,454</u>	<u>301,983</u>	<u>163,241</u>	<u>—</u>	<u>589,678</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Geographical segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2007 and 2006:

	2007 RMB'000	2006 RMB'000
Sales to external customers:		
— PRC	4,113,695	3,393,877
— Others	226,732	71,904
	<u>4,340,427</u>	<u>3,465,781</u>

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 during the year.

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

	2007 RMB'000	2006 RMB'000
Revenue		
Sale of goods	4,189,294	3,303,539
Rendering of services	151,133	162,242
	<u>4,340,427</u>	<u>3,465,781</u>
Other income and gains		
Gain on disposal of unlisted investments	18,540	—
Gain on disposal of listed investments	28,763	—
Dividend income from listed investments	—	360
Subsidy income	—	89,259
Fair value gains on derivative financial instruments	19,546	24,992
Gain on dissolution of a subsidiary	—	586
Income from the sale of other materials	3,262	6,652
Others	3,918	3,796
	<u>74,029</u>	<u>125,645</u>

6 FINANCE REVENUE

Finance revenue represents interest income earned for the years ended 31 December 2007 and 2006.

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7 FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank loans and other loans wholly repayable within five years	5,130	60,208
Interest on other loans	13,161	16,257
Less: Interest capitalised in construction in progress	—	(14,727)
	<u>18,291</u>	<u>61,738</u>

8 PROFIT BEFORE TAX

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

	2007 RMB'000	2006 RMB'000
Cost of inventories sold	2,416,933	2,036,846
Cost of services provided	135,228	127,318
Depreciation	573,578	506,650
Amortisation of a trademark	328	311
Amortisation of patents and licences	—	26
Amortisation of other intangible assets	3,603	114
Amortisation of prepaid land lease payments	9,409	8,041
Write-down of inventories to net realisable value	924	467
Auditors' remuneration	2,680	2,100
Employee benefits expense (including directors' and supervisors' remuneration — <i>note 9</i> below):		
Wages and salaries	251,905	202,939
Defined contribution pension scheme (<i>note (i)</i>)	42,450	26,359
Early retirement benefits and post-employment allowances (<i>note (ii)</i>)	(4,622)	2,918
Medical benefit costs (<i>note (iii)</i>)	12,507	12,117
Housing fund (<i>note (iv)</i>)	10,478	8,242
	<u>312,718</u>	<u>252,575</u>
Foreign exchange differences, net	(14,434)	1,500
Provision/(write-back of provision) for bad and doubtful receivables*	(2,387)	2,350
Write-back of impairment of items of property, plant and equipment*	(13)	(7,962)
Loss on disposal of items of property, plant and equipment*	<u>10,230</u>	<u>2,865</u>

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

Notes:

(i) Defined contribution pension scheme

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 years ended 31 December 2007 and 2006. The related pension costs are expensed as incurred.

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

(ii) Early retirement benefits and post-employment allowances

Tianye Chemical, the Group's 90%-owned subsidiary, paid supplementary pensions to early retirees and allowances to retired employees in addition to the benefits under the government-regulated defined contribution pension scheme above. The benefits are assessed using the projected unit credit method and are charged to the consolidated income statement as shown in 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 32 to the financial statements.

(iii) Medical benefit costs

The Group contributes on a monthly basis to defined contribution medical benefit plans organised 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 organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

9 DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the directors' and supervisors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Companies Ordinance are as follows:

	Directors	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Fees	—	—
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	1,122	776
Discretionary bonuses	803	751
Pension scheme contributions	<u>91</u>	<u>80</u>
	<u>2,016</u>	<u>1,607</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

	Supervisors	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Fees	—	—
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	153	86
Discretionary bonuses	151	128
Pension scheme contributions	16	13
	<u>320</u>	<u>227</u>

The remuneration of each of the directors and supervisors of the Company for the year ended 31 December 2007 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Directors				
<i>Non-executive director</i>				
Wu Mengfei	<u>30</u>	<u>—</u>	<u>—</u>	<u>30</u>
<i>Executive directors</i>				
Yang Yexin	227	294	35	556
Fang Yong	159	241	23	423
Chen Kai	<u>209</u>	<u>268</u>	<u>33</u>	<u>510</u>
	<u>595</u>	<u>803</u>	<u>91</u>	<u>1,489</u>
<i>Independent non-executive directors</i>				
Zhang Xinzhi	93	—	—	93
Wu Xiaohua	87	—	—	87
Tsui Yiu Wa, Alec	233	—	—	233
Wang Wenshan	<u>84</u>	<u>—</u>	<u>—</u>	<u>84</u>
	<u>497</u>	<u>—</u>	<u>—</u>	<u>497</u>
	<u>1,122</u>	<u>803</u>	<u>91</u>	<u>2,016</u>
Supervisors				
Yin Jihong	19	—	—	19
Qu Bin	85	151	16	252
Huang Jinggui	<u>49</u>	<u>—</u>	<u>—</u>	<u>49</u>
	<u>153</u>	<u>151</u>	<u>16</u>	<u>320</u>

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The remuneration of the directors and supervisors of the Company for the year ended 31 December 2006 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Directors				
<i>Non-executive director</i>				
Wu Mengfei	15	—	—	15
<i>Executive directors</i>				
Yang Yexin	200	273	30	503
Fang Yong	140	226	21	387
Chen Kai	181	252	29	462
Wang Zhongan*	—	—	—	—
Cao Xinghe*	—	—	—	—
Zheng Baoguo*	—	—	—	—
Cheng Chi*	—	—	—	—
	521	751	80	1,352
<i>Independent non-executive directors</i>				
Zhang Xinzhi	38	—	—	38
Wu Xiaohua	38	—	—	38
Tsui Yiu Wa, Alec	126	—	—	126
Wang Wenshan	38	—	—	38
	240	—	—	240
	776	751	80	1,607
Supervisors				
Yin Jihong	—	—	—	—
Qu Bin	49	120	10	179
Huang Jinggui	19	—	—	19
Yin Gang**	18	8	3	29
Zhou Shengwei*	—	—	—	—
Fu Maosheng*	—	—	—	—
	86	128	13	227

* These directors and supervisors have not been in office since March 2006.

** The remuneration of Yin Gang was for the period from 1 January 2006 to 28 February 2006, the date of his resignation as a supervisor.

10 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the years ended 31 December 2007 and 2006 are analysed as follows:

	2007	2006
Directors and supervisors	3	3
Non-director and non-supervisor employees	<u>2</u>	<u>2</u>
	<u><u>5</u></u>	<u><u>5</u></u>

Details of the remuneration of the above non-director and non-supervisor, highest paid employees during the years ended 31 December 2007 and 2006 are as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Salaries, housing benefits, other allowances and benefits in kind	270	244
Discretionary bonuses	461	426
Pension scheme contributions	<u>44</u>	<u>38</u>
	<u><u>775</u></u>	<u><u>708</u></u>

The remuneration of all of these non-director and non-supervisor, highest paid employees fell within the band from nil to HKD1,000,000 for the years ended 31 December 2007 and 2006.

11 INCOME TAX EXPENSE

Major components of income tax expense for the years ended 31 December 2007 and 2006 are as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Current — PRC		
Charge for the year	98,537	115,399
Deferred (<i>note 23</i>)	<u>(31,421)</u>	<u>4,703</u>
Total tax charge for the year	<u><u>67,116</u></u>	<u><u>120,102</u></u>

(a) Corporate income tax

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

The Company, its subsidiaries and its jointly-controlled entity registered in Hainan Province or Pudong New Area, Shanghai, PRC, are entitled to a preferential CIT rate of 15%.

A two-year income tax exemption followed by a three-year 50% reduction in the applicable tax rate of CIT based on a CIT rate of 15% commencing from the first profitable year is applicable to the Company and all its subsidiaries in Hainan, PRC. In addition, as the Company was assessed as a high technology enterprise, it is entitled to benefit from the said reduction in the applicable tax rate of CIT until 31 December 2011.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Hainan Basuo Port Limited (“Hainan Basuo”) is entitled to an 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 as it is engaged in the infrastructure development and operation business.

CNOOC Kingboard Chemical Limited (“CNOOC Jiantao”), the Company’s jointly-controlled entity, is a foreign investment enterprise and is entitled to an 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. According to the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, enterprises with foreign investment which commence operations in the middle of a year and earn profits may, where the actual period of operations is less than six months, elect to use the following year as the first period to be entitled to tax exemption. However, in such circumstances, income tax shall be paid in accordance with the Tax Law on the assessable profits earned in the first profitable year. CNOOC Jiantao has elected to enjoy the tax holiday starting from the year ending 31 December 2007 and this has been approved by the local tax bureau of Dongfang, Hainan Province, the PRC.

Tianye Chemical is entitled to a preferential income tax treatment by way of a three-year exemption from CIT of 33% starting from the year ended 31 December 2005 in relation to the conversion of its facilities to use natural gas instead of residual oil as a raw material for its urea production.

During the 5th Session of the 10th National People’s Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the “New Corporate Income Tax Law”) was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The Company will continue to be entitled to the preferential CIT rates recalculated based on new tax rate during transition period.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the years ended 31 December 2007 and 2006, respectively.

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:

	2007 RMB'000	2006 RMB'000
Profit before tax	1,546,480	1,795,324
Tax at the statutory tax rate of 33%	510,338	592,457
Lower tax rate for specific provinces/districts or concessions	(413,762)	(431,359)
Overprovision of income tax expense in prior year	(4,478)	—
Profits attributable to associates	(640)	(267)
Income not subject to tax	(592)	(43,322)
Expenses not deductible for tax	5,583	919
Effect on deferred tax of changes in tax rates	(31,258)	—
Tax losses not recognised	374	92
Others	1,551	1,582
Income tax expense reported in the consolidated income statement	67,116	120,102
The Group’s effective income tax rate	4.3%	6.7%

12 PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit for the year attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB1,014,440,000 (2006: RMB1,190,051,000) dealt with in the financial statements of the Company (note 31).

13 DIVIDENDS

	<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Pre-establishment distribution	(i)	—	264,538
Pre-IPO profit	(ii)	—	302,142
Proposed final — RMB0.08 (2006: RMB0.015) per ordinary share	(iii)	<u>368,800</u>	<u>69,150</u>
		<u><u>368,800</u></u>	<u><u>635,830</u></u>

Notes:

- (i) In accordance with the Provisional Regulations Relating to Corporate Reorganisation 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 the 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, of the Company, generated from 1 January 2006 to 24 April 2006, the date immediately prior to the date on which the Company was reorganised into a joint stock limited company.

Pursuant to a supplementary agreement to the Promotion Agreement dated 10 July 2006, the Company’s promoters (i.e. CNOOC and the Other Four Promoters) agreed to distribute a Pre-establishment distribution of RMB264,538,000 to CNOOC, which was paid in 2006.

- (ii) On 25 April 2006, the promoters 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 (the “Pre-IPO profit”), as determined in accordance with PRC GAAP, of the Company for the period from 25 April 2006, the date of the Company’s reorganisation into a joint stock limited company, to the last day of the month immediately preceding the listing of the Company’s H shares on the Stock Exchange (i.e. 31 August 2006). On 30 December 2006, the directors resolved to distribute an aggregate amount of RMB302,142,000 to the promoters as the Pre-IPO profit which was paid in full in 2006.
- (iii) The proposed 2006 final dividend was approved at the annual general meeting on 15 June 2007. The proposed 2007 final dividend is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.

Upon listing of the Company’s shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the profit after tax as determined under PRC GAAP and IFRS. Further details are set out in note 31 to the financial statements.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

14 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2007 RMB'000	2006 RMB'000
Earnings		
Profit for the year attributable to equity holders of the parent	<u>1,448,334</u>	<u>1,645,819</u>
	Number of shares	
	'000	'000
Shares		
Weighted average number of shares in issue during the year	<u>4,610,000</u>	<u>3,400,438</u>

The weighted average number of shares in issue during the year ended 31 December 2006 used in the basic earnings per share calculation is determined on the assumption that 3,000,000,000 Domestic Shares of RMB1 each issued as a result of the Reorganisation had been in issue throughout the year ended 31 December 2006 and as adjusted to add the 1,610,000,000 H shares of RMB1 each issued to the public upon the listing of the Company's H shares on the Stock Exchange. Further details are set out in note 1 to the financial statements.

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during these years.

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 31 December 2006:							
Cost	2,532,158	6,312,343	74,745	325,090	42,496	160,329	9,447,161
Accumulated depreciation and impairment	<u>(817,615)</u>	<u>(2,421,022)</u>	<u>(50,889)</u>	<u>(271,392)</u>	<u>(31,345)</u>	<u>—</u>	<u>(3,592,263)</u>
Net carrying amount	<u>1,714,543</u>	<u>3,891,321</u>	<u>23,856</u>	<u>53,698</u>	<u>11,151</u>	<u>160,329</u>	<u>5,854,898</u>
Cost as at 1 January 2007, net of accumulated depreciation and impairment	1,714,543	3,891,321	23,856	53,698	11,151	160,329	5,854,898
Additions	255	25,524	10,934	3,744	3,236	202,178	245,871
Other transfers	(173,371)	139,077	1,945	12,311	20,038	—	—
Disposals	(15,045)	(2,242)	(814)	(48)	(228)	—	(18,377)
Transfers	203,147	20,308	642	1,856	895	(226,848)	—
Write-back of impairment	—	—	—	—	13	—	13
Depreciation for the year	<u>(107,224)</u>	<u>(421,618)</u>	<u>(7,805)</u>	<u>(15,587)</u>	<u>(21,344)</u>	<u>—</u>	<u>(573,578)</u>
Cost as at 31 December 2007, net of accumulated depreciation and impairment	<u>1,622,305</u>	<u>3,652,370</u>	<u>28,758</u>	<u>55,974</u>	<u>13,761</u>	<u>135,659</u>	<u>5,508,827</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE 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
As at 31 December 2007:							
Cost	2,538,402	6,493,548	83,039	342,179	65,880	135,659	9,658,707
Accumulated depreciation and impairment	(916,097)	(2,841,178)	(54,281)	(286,205)	(52,119)	—	(4,149,880)
Net carrying amount	<u>1,622,305</u>	<u>3,652,370</u>	<u>28,758</u>	<u>55,974</u>	<u>13,761</u>	<u>135,659</u>	<u>5,508,827</u>
As at 31 December 2005:							
Cost	947,794	3,211,272	46,470	32,436	4,733	478,517	4,721,222
Accumulated depreciation and impairment	(165,079)	(1,040,103)	(21,877)	(13,664)	(1,366)	—	(1,242,089)
Net carrying amount	<u>782,715</u>	<u>2,171,169</u>	<u>24,593</u>	<u>18,772</u>	<u>3,367</u>	<u>478,517</u>	<u>3,479,133</u>
Cost as at 1 January 2006, net of accumulated depreciation and impairment	782,715	2,171,169	24,593	18,772	3,367	478,517	3,479,133
Additions	26,850	22,200	8,159	21,397	644	432,836	512,086
Acquisition of a subsidiary (note 39(b))	681,508	1,138,063	2,932	14,904	10,810	519,216	2,367,433
Disposals	—	(636)	(365)	(355)	(2,689)	—	(4,045)
Dissolution of a subsidiary (note 39(a))	(415)	—	—	—	(606)	—	(1,021)
Transfers	323,103	932,045	—	14,199	893	(1,270,240)	—
Write-back of impairment/ (impairment)	2,678	5,340	—	—	(56)	—	7,962
Depreciation for the year	(101,896)	(376,860)	(11,463)	(15,219)	(1,212)	—	(506,650)
Cost as at 31 December 2006, net of accumulated depreciation and impairment	<u>1,714,543</u>	<u>3,891,321</u>	<u>23,856</u>	<u>53,698</u>	<u>11,151</u>	<u>160,329</u>	<u>5,854,898</u>
As at 31 December 2006:							
Cost	2,532,158	6,312,343	74,745	325,090	42,496	160,329	9,447,161
Accumulated depreciation and impairment	(817,615)	(2,421,022)	(50,889)	(271,392)	(31,345)	—	(3,592,263)
Net carrying amount	<u>1,714,543</u>	<u>3,891,321</u>	<u>23,856</u>	<u>53,698</u>	<u>11,151</u>	<u>160,329</u>	<u>5,854,898</u>

As at 31 December 2007, the net book value of the Group's property, plant and equipment held under finance leases amounted to RMB2,471,000 (2006: RMB2,297,000).

As at 31 December 2007, the Group has yet to obtain building ownership certificates for certain buildings with net book value of approximately RMB11,729,000 (2006: RMB34,952,000).

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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
As at 31 December 2006:							
Cost	463,168	1,677,404	19,825	17,718	4,326	900	2,183,341
Accumulated depreciation	(106,786)	(350,183)	(11,205)	(6,185)	(1,645)	—	(476,004)
Net carrying amount	<u>356,382</u>	<u>1,327,221</u>	<u>8,620</u>	<u>11,533</u>	<u>2,681</u>	<u>900</u>	<u>1,707,337</u>
Cost as at 1 January 2007, net of accumulated depreciation	356,382	1,327,221	8,620	11,533	2,681	900	1,707,337
Additions	—	4,027	574	1,214	—	27,551	33,366
Other transfers	30,984	(27,728)	(2,729)	2,006	(2,533)	—	—
Disposals	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Depreciation for the year	(27,986)	(111,473)	(2,377)	(4,721)	(38)	—	(146,595)
Cost as at 31 December 2007, net of accumulated depreciation	<u>359,380</u>	<u>1,192,047</u>	<u>4,088</u>	<u>10,032</u>	<u>110</u>	<u>28,451</u>	<u>1,594,108</u>
As at 31 December 2007:							
Cost	494,152	1,653,703	17,670	20,938	1,793	28,451	2,216,707
Accumulated depreciation	(134,772)	(461,656)	(13,582)	(10,906)	(1,683)	—	(622,599)
Net carrying amount	<u>359,380</u>	<u>1,192,047</u>	<u>4,088</u>	<u>10,032</u>	<u>110</u>	<u>28,451</u>	<u>1,594,108</u>
As at 31 December 2005:							
Cost	449,940	1,668,286	20,934	16,570	4,133	17,722	2,177,585
Accumulated depreciation	(79,745)	(237,516)	(10,304)	(3,334)	(1,273)	—	(332,172)
Net carrying amount	<u>370,195</u>	<u>1,430,770</u>	<u>10,630</u>	<u>13,236</u>	<u>2,860</u>	<u>17,722</u>	<u>1,845,413</u>
Cost as at 1 January 2006, net of accumulated depreciation	370,195	1,430,770	10,630	13,236	2,860	17,722	1,845,413
Additions	151	8,170	106	636	54	592	9,709
Disposals	(2,251)	—	(122)	(72)	—	—	(2,445)
Transfers	15,330	948	—	997	139	(17,414)	—
Depreciation for the year	(27,043)	(112,667)	(1,994)	(3,264)	(372)	—	(145,340)
Cost as at 31 December 2006, net of accumulated depreciation	<u>356,382</u>	<u>1,327,221</u>	<u>8,620</u>	<u>11,533</u>	<u>2,681</u>	<u>900</u>	<u>1,707,337</u>
As at 31 December 2006:							
Cost	463,168	1,677,404	19,825	17,718	4,326	900	2,183,341
Accumulated depreciation	(106,786)	(350,183)	(11,205)	(6,185)	(1,645)	—	(476,004)
Net carrying amount	<u>356,382</u>	<u>1,327,221</u>	<u>8,620</u>	<u>11,533</u>	<u>2,681</u>	<u>900</u>	<u>1,707,337</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

16 INVESTMENT PROPERTIES

Company

	As at 31 December 2007 <i>RMB'000</i>	As at 31 December 2006 <i>RMB'000</i>
Carrying amounts at end of year	<u>16,441</u>	<u>17,422</u>

Included in the Company's investment properties are buildings situated in the PRC, which are leased to its subsidiaries under operating leases. Further details are set out in note 40 to the financial statements.

In the opinion of the management, the carrying amounts of the Company's investment properties approximate their fair values.

17 PREPAID LAND LEASE PAYMENTS

Group

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Carrying amount as at 1 January	422,431	118,857
Additions	1,226	61,956
Acquisition of a subsidiary (<i>note 39(b)</i>)	—	249,659
Amortisation for the year	<u>(9,409)</u>	<u>(8,041)</u>
Carrying amount as at 31 December	414,248	422,431
Current portion included in prepayments, deposits and other receivables	<u>(9,427)</u>	<u>(8,569)</u>
Non-current portion	<u>404,821</u>	<u>413,862</u>

The Group's leasehold land is situated in Mainland China and is held under the following lease terms:

	<i>RMB'000</i>
Long-term leases	40,211
Medium-term leases	<u>374,037</u>
	<u>414,248</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Company

	2007 RMB'000	2006 RMB'000
Carrying amount as at 1 January	42,983	37,907
Additions	—	5,591
Amortisation for the year	(1,224)	(515)
Carrying amount as at 31 December	41,759	42,983
Current portion included in prepayments, deposits and other receivables	(1,224)	(592)
Non-current portion	40,535	42,391

The Company's leasehold land is situated in Mainland China and is held under the following lease terms:

	RMB'000
Long-term leases	8,487
Medium-term leases	33,272
	41,759

18 INTANGIBLE ASSETS

Group

	Computer software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Total RMB'000
Cost as at 1 January 2007, net of accumulated amortisation	15,768	—	657	16,425
Additions	—	—	—	—
Amortisation for the year	(3,603)	—	(328)	(3,931)
Impairment	—	—	—	—
Cost as at 31 December 2007, net of accumulated amortisation and impairment	12,165	—	329	12,494
As at 31 December 2007:				
Cost	16,207	253	2,299	18,759
Accumulated amortisation and impairment	(4,042)	(253)	(1,970)	(6,265)
Net carrying amount	12,165	—	329	12,494

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

	Computer software <i>RMB'000</i>	Patents and licences <i>RMB'000</i>	Trademark <i>RMB'000</i>	Total <i>RMB'000</i>
Cost as at 1 January 2006, net of accumulated amortisation	246	152	—	398
Additions	15,636	—	—	15,636
Acquisition of a subsidiary (<i>note 39(b)</i>)	—	—	968	968
Amortisation for the year	(114)	(26)	(311)	(451)
Impairment	—	(126)	—	(126)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cost as at 31 December 2006, net of accumulated amortisation and impairment	<u>15,768</u>	<u>—</u>	<u>657</u>	<u>16,425</u>
As at 31 December 2006:				
Cost	16,207	253	2,299	18,759
Accumulated amortisation and impairment	<u>(439)</u>	<u>(253)</u>	<u>(1,642)</u>	<u>(2,334)</u>
Net carrying amount	<u>15,768</u>	<u>—</u>	<u>657</u>	<u>16,425</u>
Company				

	Computer software <i>RMB'000</i>
Cost as at 1 January 2007, net of accumulated amortisation	15,768
Additions	—
Amortisation for the year	<u>(3,603)</u>
Cost as at 31 December 2007, net of accumulated amortisation	<u>12,165</u>
As at 31 December 2007:	
Cost	16,207
Accumulated amortisation	<u>(4,042)</u>
Net carrying amount	<u>12,165</u>
Cost as at 1 January 2006, net of accumulated amortisation	246
Additions	15,636
Amortisation for the year	<u>(114)</u>
Cost as at 31 December 2006, net of accumulated amortisation	<u>15,768</u>
As at 31 December 2006:	
Cost	16,207
Accumulated amortisation	<u>(439)</u>
Net carrying amount	<u>15,768</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

19 INTERESTS IN SUBSIDIARIES

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	2,326,154	2,206,154
Loans to subsidiaries	42,000	30,000
	<u>2,368,154</u>	<u>2,236,154</u>

The Company's trade receivables, other receivables, loans receivable, other long-term liabilities, trade payables, and other payable balances with its subsidiaries are disclosed in notes 25, 27, 28, 34, 35 and 36 to the financial statements, respectively.

The loans to subsidiaries included in the interests in subsidiaries above are unsecured, bear interest at a rate of 5.2% per annum and are repayable on 27 April 2008.

Particulars of the principal subsidiaries of the Company are set out as follows:

Company name	Place and date of establishment	Registered capital RMB'000	Percentage of equity interests attributable to the Company	Principal activities
CNOOC Fudao Limited* (海洋石油富島有限公司)	PRC 31 December 2001	463,000	Direct Indirect 100.00 —	Manufacture and sale of fertilisers
Hainan CNOOC Plastic Co., Ltd. (海南中海石油塑編有限公司)	PRC 28 April 2002	12,716	Direct Indirect 100.00 —	Manufacture and sale of woven plastic bags
Hainan CNOOC Complex Fertiliser Co., Ltd. (海南富島複合肥有限公司)	PRC 19 May 2000	7,500	Direct Indirect 100.00 —	Manufacture and sale of fertilisers
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	6,250	Direct Indirect — 66.70	Provision of transportation services
CNOOC (Hainan) E&P Gas Limited (中海石油(海南)環保氣體有限公司)	PRC 8 November 2004	6,900	Direct Indirect 100.00 —	Manufacture and sale of liquid carbon dioxide
CNOOC Jincheng Coal Chemical Industry Co., Ltd. (中海石油晉城煤化工產業有限公司)	PRC 26 November 2007	800,000	Direct Indirect 75.00 —	Manufacture and sale of fertilisers
Hainan Basuo Port Limited (海南八所港務有限責任公司)	PRC 25 April 2005	518,356	Direct Indirect — 72.50	Port operation
CNOOC Tianye Chemical Limited (formerly known as Inner Mongolia Tianye Chemical Industry Limited) (中海石油天野化工股份有限公司(原:內蒙古天野化工(集團)有限責任公司))	PRC 4 October 1991	1,981,690	Direct Indirect 90.00 —	Manufacture and sale of fertilisers and methanol
Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	3,297	Direct Indirect — 63.54	Manufacture and sale of woven plastic bags

* Upon the Reorganisation of the Company into a joint stock limited company on 25 April 2006, Fudao was restructured from a joint stock limited company into a limited liability company under the name of CNOOC Fudao Limited and became a wholly-owned subsidiary of the Company.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

The above table lists the subsidiaries of the Company which, in the opinion of the management, principally affects the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the management, result in particulars of excessive length.

20 INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	<u>300,000</u>	<u>300,000</u>

The Group and the Company's trade receivables, other receivables, other long-term liabilities, trade payables, and other payable balances with the jointly-controlled entity are disclosed in notes 25, 27, 34, 35 and 36 to the financial statements.

Particulars of the jointly-controlled entity of the Company and of the Group are set out as follows:

Company name	Place and date of establishment	Registered capital RMB'000	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	500,000	60.00	60.00	60.00	Manufacture and sale of methanol

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Non-current assets	619,837	666,263
Current assets	172,272	212,515
Non-current liabilities	(179,781)	(311,452)
Current liabilities	<u>(54,838)</u>	<u>(203,562)</u>
Net assets	<u>557,490</u>	<u>363,764</u>
	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entity's results:		
Revenue	797,071	106,562
Other income	<u>892</u>	<u>—</u>
	797,963	106,562
Total expenses	(359,153)	(33,145)
Tax	<u>(602)</u>	<u>(9,653)</u>
Profit after tax	<u>438,208</u>	<u>63,764</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

21 INVESTMENTS IN ASSOCIATES

Group

	2007 RMB'000	2006 RMB'000
Share of net assets	<u>11,937</u>	<u>8,646</u>

The Group's trade receivable and other payable balances with its associates are disclosed in notes 25 and 36 to the financial statements respectively.

Particulars of the associates of the Group are set out as follows:

Company name	Place and date of establishment	Registered capital RMB'000	Percentage of equity interests attributable to the Company	Principal activities
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	11,800	Direct Indirect	— 30.00 Trading of fertilisers
China Basuo Oversea Shipping Agency Co., Ltd. (中國八所外輪代理有限公司)	PRC 24 May 2000	1,800	Direct Indirect	— 36.25 Provision of overseas shipping services

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

	2007 RMB'000	2006 RMB'000
Assets	121,212	99,340
Liabilities	83,452	70,941
Revenue	615,359	504,673
Profit	<u>14,329</u>	<u>6,044</u>

22 AVAILABLE-FOR-SALE INVESTMENTS

Group

	2007 RMB'000	2006 RMB'000
Current		
Unlisted investments, at cost	<u>304,113</u>	<u>—</u>
Non-current		
Unlisted equity investments, at cost	600	600
Listed equity securities in the PRC, at cost	<u>—</u>	<u>8,865</u>
	<u>600</u>	<u>9,465</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Company

	2007 RMB'000	2006 RMB'000
Current		
Unlisted investments, at cost	250,000	—

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

The management is of the opinion that the carrying amounts of unlisted investments approximate their fair values.

23 DEFERRED TAXATION

The movements in deferred tax assets and liabilities of the Group and of the Company during the years ended 31 December 2007 and 2006 are as follows:

Group

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Provision for impairment of assets RMB'000	Wages and salaries RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2007	4,601	22,593	504	121	27,819
Credited/(charged) to the consolidated income statement (note 11)	8,188	(9,838)	18,584	2,546	19,480
As at 31 December 2007	12,789	12,755	19,088	2,667	47,299
As at 1 January 2006	2,469	2,203	—	—	4,672
Acquisition of a subsidiary (note 39(b))	—	27,225	504	121	27,850
Credited/(charged) to the consolidated income statement (note 11)	2,132	(6,835)	—	—	(4,703)
As at 31 December 2006	4,601	22,593	504	121	27,819

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Total RMB'000
As at 1 January 2007	61,017	—	61,017
Charged/(credited) to the consolidated income statement (note 11)	(14,792)	2,851	(11,941)
As at 31 December 2007	46,225	2,851	49,076
As at 1 January 2006	—	—	—
Acquisition of a subsidiary (note 39(b))	61,017	—	61,017
As at 31 December 2006	61,017	—	61,017

Company

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Provision for impairment of assets RMB'000	Total RMB'000
As at 1 January 2007	1,972	118	2,090
Credited/(charged) to the income statement	2,708	(48)	2,660
As at 31 December 2007	4,680	70	4,750
As at 1 January 2006	1,285	583	1,868
Credited/(charged) to the income statement	687	(465)	222
As at 31 December 2006	1,972	118	2,090

24 INVENTORIES

Group

	2007 RMB'000	2006 RMB'000
Raw materials and spare parts	311,318	252,387
Work in progress	55,914	50,732
Finished goods	34,067	29,565
Net book value	401,299	332,684

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Company

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Raw materials and spare parts	89,931	77,879
Work in progress	24,426	13,594
Finished goods	<u>68</u>	<u>30</u>
Net book value	<u>114,425</u>	<u>91,503</u>

25 TRADE RECEIVABLES

Sales of the Group's fertilisers 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 favour.

The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

An aging 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 is as follows:

Group

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within six months	13,624	127,212
Over six months but within one year	7,642	166
Over one year but within two years	<u>160</u>	<u>6,179</u>
	<u>21,426</u>	<u>133,557</u>

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the management is of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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As at 31 December 2007, the amount due from a CNOOC Group company included in the above trade receivable balances was RMB126,000 (2006: nil). The amount due from a jointly-controlled entity included in the above trade receivable balances was RMB nil (2006: RMB4,308,000). The amount due from an associate entity included in the above trade receivable balances was RMB1,934,000 (2006: nil). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

Company

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within six months	<u>2,275</u>	<u>7,753</u>

As at 31 December 2007, the amounts due from subsidiaries of the Company included in the above trade receivable balances were RMB2,248,000 (2006: RMB1,378,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

26 BILLS RECEIVABLE

The bills receivable of the Group as at 31 December 2007 and 2006 all mature within six months.

27 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Prepayments	70,947	47,040
Deposits and other receivables	<u>82,266</u>	<u>39,113</u>
	<u>153,213</u>	<u>86,153</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
CNOOC group companies	6,686	6,166
A jointly-controlled entity	<u>7,536</u>	<u>5,405</u>
	<u>14,222</u>	<u>11,571</u>

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

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Company

	2007 RMB'000	2006 RMB'000
Prepayments	7,694	3,650
Deposits and other receivables	<u>87,221</u>	<u>145,259</u>
	<u>94,915</u>	<u>148,909</u>

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

	2007 RMB'000	2006 RMB'000
CNOOC group companies	5,725	5,666
A jointly-controlled entity	13,255	7,014
Subsidiaries	<u>17,852</u>	<u>113,368</u>
	<u>36,832</u>	<u>126,048</u>

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

28 LOANS RECEIVABLE

As at 31 December 2007, loans receivable represented an entrusted loan with an amount of RMB310,000,000 which was provided to Tianye Chemical during the year and is unsecured, bears interest at a rate of 5.27% per annum and is repayable on 15 June 2008.

As at 31 December 2006, loans receivable represented an entrusted loan with a contract amount of RMB600,000,000 which was provided to Tianye Chemical during the year and was unsecured, bore interest at a rate of 5.27% per annum and was repaid on 15 June 2007.

29 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Group

	2007 RMB'000	2006 RMB'000
Cash and bank balances	2,786,536	1,908,363
Time deposits	<u>—</u>	<u>298,160</u>
	2,786,536	2,206,523
Less: Pledged bank deposits	<u>(5,774)</u>	<u>(10,904)</u>
Cash and cash equivalents in the consolidated balance sheet	2,780,762	2,195,619
Less: Non-pledged time deposits with original maturity of three months or more when acquired	<u>—</u>	<u>(146,160)</u>
Cash and cash equivalents in the consolidated cash flow statements	<u>2,780,762</u>	<u>2,049,459</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

As at 31 December 2007, the Group's pledged time deposits of RMB5,774,000 (2006: RMB10,904,000) 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 as at 31 December 2007 and 2006, except for amounts of RMB8,577,000 (2006: RMB171,000) which is translated from USD1,174,000 (2006: USD22,000); RMB13,279,000 (2006: RMB4,707,000) which is translated from JPY207,156,000 (2006: JPY71,727,000); and RMB2,800 (2006: RMB12,448,000) which is translated from HKD3,000 (2006: HKD12,390,000).

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

As at 31 December 2007, included in the Group's cash and cash equivalents was RMB184,346,000 (2006: RMB259,866,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"). The deposits with CNOOC Finance are entitled to interest at the rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

Company

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	1,946,261	1,528,618
Less: Pledged bank deposits	<u>(2,191)</u>	<u>(2,413)</u>
	<u>1,944,070</u>	<u>1,526,205</u>

As at 31 December 2007, the Company's pledged time deposits of RMB2,191,000 (2006: RMB2,413,000) were deposited to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

The Company's cash and bank balances are denominated in RMB as at 31 December 2007 and 2006, except for amounts of RMB299,000 (2006: RMB23,000) which is translated from USD41,000 (2006: USD3,000); RMB13,279,000 (2006: RMB4,707,000) which is translated from JPY207,156,300 (2006: 71,727,000); and RMB2,800 (2006: RMB12,448,000) which is translated from HKD3,000 (2006: HKD12,390,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2007, included in the Company's cash and cash equivalents was RMB69,705,000 (2006: RMB62,757,000) deposited in CNOOC Finance. The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

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

30 PAID-UP CAPITAL

	Number of shares '000	Nominal value RMB'000
Registered capital	4,610,000	4,610,000
<i>Issued and fully paid:</i>		
Domestic Shares of RMB1 each, currently not listed:		
— State-owned shares	2,739,000	2,739,000
— Other legal person shares	75,000	75,000
Unlisted Foreign Shares of RMB1 each	25,000	25,000
H shares of RMB1 each	<u>1,771,000</u>	<u>1,771,000</u>
As at 31 December 2007	<u><u>4,610,000</u></u>	<u><u>4,610,000</u></u>

Notes:

- (i) On 25 April 2006, the Company was reorganised into a joint stock limited company with a registered share capital of RMB3,000,000,000 divided into 3,000,000,000 shares with a nominal value of RMB1 each.

The Company issued 2,900,000,000 Domestic Shares to CNOOC, 25,000,000 Domestic Shares to each of Zhejiang AMP Incorporation, Guangdong Agricultural Means of Production Corporation and Shanghai Municipal Agricultural Means of Production Corporation, and 25,000,000 Unlisted Foreign Shares to Transammonia Inc, representing approximately 96.68%, 0.83%, 0.83%, 0.83% and 0.83%, respectively, of the Company's issued share capital as at 25 April 2006.

The Domestic Shares rank *pari passu*, in all material respects, with the H shares.

- (ii) In September 2006, the Company issued 1,400,000,000 new H shares to the public at a price of HKD1.90 per share and these H shares were listed on the Main Board of the Stock Exchange on 29 September 2006. In addition, 140,000,000 shares converted from certain Domestic Shares held by CNOOC were transferred to the National Council of the Social Security Fund of the PRC (the "NSSF").

In October 2006, as a result of the exercise of the over-allotment option as detailed in the Company's prospectus dated 18 September 2006, the Company issued 210,000,000 new H shares to the public at a price of HKD1.90 per share and these H shares were listed on the Main Board of the Stock Exchange on 16 October 2006. In addition, 21,000,000 shares converted from certain Domestic Shares held by CNOOC were transferred to the NSSF.

After deducting the share issue expenses of approximately RMB174,158,000, the Company raised net proceeds of approximately RMB2,932,336,000 from issuing a total of 1,610,000,000 H shares. The excess of the net proceeds over the paid-up capital of RMB1,610,000,000, amounting to RMB1,322,336,000, was credited to capital reserve.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

31 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2007 and 2006 are presented in the consolidated statement of changes in equity set out on pages 7 to 9 of the financial statements.

Company

		Statutory surplus reserves	Capital reserve	Retained profits/ (accumulated losses)	Proposed dividend	Total
	Notes	RMB'000 (note a)	RMB'000 (note b)	RMB'000 (note a)	RMB'000	RMB'000
As at 1 January 2006		273,136	—	(482,803)	1,210,801	1,001,134
Profit for the year	12	—	—	1,190,051	—	1,190,051
Capital contribution	(c)	—	7,607	—	—	7,607
Capitalisation as a result of the Reorganisation	(d)	(273,136)	(220,308)	—	—	(493,444)
Special dividend declared	13	—	—	—	(1,210,801)	(1,210,801)
Pre-establishment distribution declared	13	—	—	(264,538)	—	(264,538)
Pre-IPO profit declared	13	—	—	(302,142)	—	(302,142)
Proposed 2006 final dividend		—	—	(69,150)	69,150	—
Transfer from retained profits		68,732	—	(68,732)	—	—
Share premium arising from the issuance of H shares	30	—	1,496,494	—	—	1,496,494
Share issue expenses	30	—	(174,158)	—	—	(174,158)
As at 31 December 2006 and 1 January 2007		68,732	1,109,635	2,686	69,150	1,250,203
Profit for the year	12	—	—	1,014,440	—	1,014,440
Transfer from retained profits		113,006	—	(113,006)	—	—
2006 final dividend paid		—	—	—	(69,150)	(69,150)
Proposed 2007 final dividend		—	—	(368,800)	368,800	—
As at 31 December 2007		<u>181,738</u>	<u>1,109,635</u>	<u>535,320</u>	<u>368,800</u>	<u>2,195,493</u>

Notes:

- (a) In accordance with the articles of association of the Company approved by the relevant government authorities on 25 April 2006, the profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRS following the listing of the Company's shares on the Stock Exchange. On this basis, the net profit available for distribution (after the Pre-establishment Distribution and the Pre-IPO Profit and the appropriation of reserves, as further explained below) was approximately RMB71,836,000, being the amount determined in accordance with IFRS.

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

- (i) Making up prior years' cumulative losses, if any;
- (ii) Allocations to the statutory common reserve fund of at least 10% of profit after tax, until the fund aggregates to 50% of the Company's share capital. For the purpose of calculating the amount of transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders; and
- (iii) Allocations to the discretionary common reserve if approved by the shareholders.

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

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

- (b) As at 31 December 2007, the capital reserve account balance included the Company's share premium of RMB1,322,336,000 (note 30).
- (c) The details are set out in note (b) to the consolidated statement of changes in equity on page 9 of the financial statements.
- (d) The details are set out in note (c) to the consolidated statement of changes in equity on page 9 of the financial statements.

32 BENEFITS LIABILITY

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

The following tables summarise the components of net benefits expense recognised in the consolidated income statement and amounts recognised in the consolidated balance sheet.

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The details of net benefits expense by each type of benefits for the year ended 31 December 2007 and 2006 are as follows:

Group

	2007	
	Early retirement benefits	Post-employment allowances
	RMB'000	RMB'000
		Total
		RMB'000
Current service cost	2,168	3,372
Interest cost on benefits obligation	1,565	2,850
Net actuarial gain recognised for the year	230	154
Write off benefit liability	—	(10,998)
Net benefits expense	3,963	(4,622)

	2006	
	Early retirement benefits	Post-employment allowances
	RMB'000	RMB'000
		Total
		RMB'000
Current service cost	1,196	1,796
Interest cost on benefits obligation	679	1,201
Net actuarial gain recognised for the year	(45)	(79)
Net benefits expense	1,830	2,918

The details of benefits liability by each type of benefits as at 31 December 2007 and 2006 are as follows:

	2007	
	Early retirement benefits	Post-employment allowances
	RMB'000	RMB'000
		Total
		RMB'000
Defined benefit obligation	21,271	34,907
Unrecognised net actuarial gain	31,922	37,519
Benefits liability	53,193	72,426

	2006	
	Early retirement benefits	Post-employment allowances
	RMB'000	RMB'000
		Total
		RMB'000
Defined benefit obligation	39,948	69,926
Unrecognised net actuarial gain	10,455	10,032
Benefits liability	50,403	79,958

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

	Early retirement benefits <i>RMB'000</i>	Post- employment allowances <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2006			
Acquisition of a subsidiary	39,814	30,033	69,847
Current service cost	1,196	600	1,796
Interest cost	679	522	1,201
Benefits paid	(1,741)	(1,177)	(2,918)
Actuarial gains on obligation	10,455	(423)	10,032
As at 31 December 2006 and 1 January 2007	50,403	29,555	79,958
Current service cost	2,168	1,204	3,372
Interest cost on benefit obligation	1,565	1,285	2,850
Amortization of prior year's service cost	325	—	325
Amortization of net actuarial gains	(95)	(76)	(171)
Write off of benefit liability	—	(10,998)	(10,998)
Benefits paid	(1,173)	(1,737)	(2,910)
As at 31 December 2007	53,193	19,233	72,426

The group expects to contribute RMB1,735,000 to its defined benefit pension plans in 2008.

The principal assumptions used in determining the early retirement benefits obligation and post-employment allowances of the Group as at 31 December 2007 and 2006 are shown below:

	2007
Discount rate	4.75%
Early retirement rate	0%
Inflation rate	4%

The management has reviewed the actuarial valuation as at 31 December 2007 which was performed by Watson Wyatt Consultant (Shanghai) Ltd., an independent actuary service provider, using the valuation method detailed under the heading "Employee Benefits" in note 2.4 to the financial statements, and considered that the Group's current provision for the net benefits expenses were adequate for the year ended 31 December 2007.

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33 INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Effective interest rate (%)	Maturity	2007 RMB'000	2006 RMB'000
Current				
Bank loans				
— Unsecured				
— Yen loan	LIBOR + 0.6	2008	71,284	146,056
— USD loan	LIBOR + 0.85	2008	16,073	23,909
— RMB loan	LIBOR + 0.65	2008	<u>13,147</u>	<u>303,074</u>
			<u>100,504</u>	<u>473,039</u>
Other loans				
— Obligations under finance lease (note 38)	6.03	2008	511	908
— Unsecured	5.0–5.5	2007	<u>—</u>	<u>2,632</u>
			<u>511</u>	<u>3,540</u>
			<u>101,015</u>	<u>476,579</u>
Non-current				
Bank loans				
— Unsecured				
— Yen loan	LIBOR + 0.6	2008	—	73,106
— USD loan	LIBOR + 0.65	2014	179,782	239,023
— RMB loan	5.2–5.8	2016	<u>—</u>	<u>38,999</u>
			<u>179,782</u>	<u>351,128</u>
Other loans				
— Obligations under finance lease (note 38)	6.57	2009	259	236
— Unsecured	5.2–5.5	2016	<u>—</u>	<u>33,429</u>
			<u>259</u>	<u>33,665</u>
			<u>180,041</u>	<u>384,793</u>
			<u>281,056</u>	<u>861,372</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

	2007 RMB'000	2006 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	100,504	473,039
In the second year	43,829	115,878
In the third to fifth years, inclusive	131,483	128,318
Beyond five years	<u>4,470</u>	<u>106,932</u>
	<u>280,286</u>	<u>824,167</u>
Other loans repayable:		
Within one year or on demand	511	3,540
In the second year	259	5,379
In the third to fifth years, inclusive	—	15,429
Beyond five years	<u>—</u>	<u>12,857</u>
	<u>770</u>	<u>37,205</u>
	<u>281,056</u>	<u>861,372</u>

Company

	Effective interest rate (%)	Maturity	2007 RMB'000	2006 RMB'000
Current				
Unsecured bank loans	LIBOR + 0.6	2008	<u>71,284</u>	<u>446,056</u>
Non-current				
Unsecured bank loans	LIBOR + 0.6	2008	<u>—</u>	<u>73,106</u>
			<u>71,284</u>	<u>519,162</u>

Analysed into:

Bank and other loans repayable:		
Within one year or on demand	71,284	446,056
In the second year	—	73,106
In the third to fifth years, inclusive	—	—
Beyond five years	<u>—</u>	<u>—</u>
	<u>71,284</u>	<u>519,162</u>

As at 31 December 2007, the carrying amounts of the Group's and the Company's bank and other borrowings approximate their fair values.

34 OTHER LONG-TERM LIABILITIES

Group

As at 31 December 2007, other long-term liabilities of the Group mainly represented a government grant of RMB38,480,000 (2006: RMB25,470,000) received by Hainan Basuo from the Ministry of Communication of the PRC and deferred rental income of RMB5,522,000 (2006: RMB5,654,000), after elimination of the Group's 60% interest therein, received from the Group's jointly-controlled entity.

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

Company

As at 31 December 2007, other long-term liabilities of the Company mainly represented deferred rental income of RMB18,426,000 (2006: RMB21,295,000) received from its subsidiaries and its jointly-controlled entity.

35 TRADE PAYABLES

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

Group

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Within six months	26,070	89,021
Over six months but within one year	—	348
Over one year but within two years	690	2,753
Over two years but within three years	—	1,778
Over three years	<u>225</u>	<u>786</u>
	<u><u>26,985</u></u>	<u><u>94,686</u></u>

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

As at 31 December 2007, the amounts due to CNOOC group companies and a jointly-controlled entity included in the above trade payable balances were RMB2,047,000 (2006: RMB54,041,000) and RMB nil (2006: RMB1,265,000), respectively.

Company

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Within six months	2,624	42,077
Over six months but within one year	—	—
Over one year but within two years	—	—
Over two years but within three years	—	—
Over three years	<u>—</u>	<u>68</u>
	<u><u>2,624</u></u>	<u><u>42,145</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

The amounts due to CNOOC group companies, subsidiaries and a jointly-controlled entity included in the above can be analysed as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
CNOOC group companies	165	34,375
Subsidiaries	—	2,314
A jointly-controlled entity	—	3,162
	<u>165</u>	<u>39,851</u>

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

36 OTHER PAYABLES AND ACCRUALS

Group

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Advances from customers	83,883	146,878
Accruals	4,887	10,336
Accrued payroll	226,942	208,681
Tax payables	10,239	14,846
Other payables	25,140	12,730
Port construction fee payable	163,805	166,797
Professional fees payable	—	24,599
Safety costs	21,139	—
Payables in relation to the construction and purchase of property, plant and equipment	115,993	217,542
Due to the ultimate holding company	8,480	—
Due to CNOOC group companies	22,281	42,119
Due to an associate	448	5,303
Due to a jointly-controlled entity	132	132
	<u>683,369</u>	<u>849,963</u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

Company

	2007	2006
	RMB'000	RMB'000
Advances from customers	14,579	28,992
Accruals	36	3,915
Accrued payroll	30,298	34,438
Tax payables	1,285	912
Other payables	16,482	39,803
Port construction fees payable	—	—
Safety costs	6,945	—
Payables in relation to the construction and purchase of property, plant and equipment	34,162	7,259
Reserve funds for projects	15,500	—
Due to the ultimate holding company	8,480	—
Due to CNOOC group companies	8,925	2,466
Due to an associate	—	4,925
Due to subsidiaries	5,538	84,703
Due to a jointly-controlled entity	331	331
	<u>142,561</u>	<u>207,744</u>

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

37 DERIVATIVE FINANCIAL INSTRUMENTS

In 2001, the Company entered into a cross currency interest rate swap contract with a financial institution to sell United States dollars (“USD”) in exchange for Japanese Yen (“JPY”) in order to partially offset the potential fluctuation in future repayments of certain Japanese Yen denominated loans (the “Japanese Yen loans”) and their related interest payments in USD equivalent. The Japanese Yen loans are subject to floating six-month LIBOR plus 0.6% per annum while the interest rate stipulated in this swap contract for the USD is fixed at a rate of 3.93% per annum. The contractual exchange rate is JPY124/USD1.

This swap contract did not meet the criteria for hedge accounting of IAS 39 as the Company did not prepare the required formal designation and documentation specifying how the hedge effectiveness would be assessed throughout the life of hedge relationship from the outset. As such, changes in the fair values of this non-hedging cross currency interest rate swap contract have been reported as other income and gains or other expenses in the consolidated income statement for the years ended 31 December 2007 and 2006.

The notional/contract amount of this swap contract indicates the volume of transaction outstanding as at the balance sheet date, i.e. the outstanding Japanese Yen loan amounts or their USD equivalents as at that date. The notional amount changes according to a fixed amortised schedule with a notional amount of USD97,434,000 or JPY11,127,257,000 as at 31 December 2007. The cross currency interest rate swap contract is carried as an asset when the fair value is positive and a liability when the fair value is negative as at each balance sheet date. The fair value of the cross currency interest rate swap contract as of 31 December 2007 and 2006 is detailed as follows:

Group and Company

	2007	2006
	RMB'000	RMB'000
Cross currency interest rate swap contract	<u>(6,136)</u>	<u>(25,641)</u>

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38 OBLIGATIONS UNDER FINANCE LEASE

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

As at 31 December 2007, the future minimum lease payments under finance leases and the present value of the minimum lease payments are as follows:

	Minimum lease payments <i>RMB'000</i>	Present value of minimum lease payments <i>RMB'000</i>
Amounts payable:		
Within one year (<i>note 33</i>)	511	503
In the second year (<i>note 33</i>)	<u>259</u>	<u>241</u>
Total minimum finance lease payments	770	<u>744</u>
Future finance charges	<u>(26)</u>	
Total net finance lease payables	<u>744</u>	

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Dissolution of a subsidiary

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

	Notes	2006 <i>RMB'000</i>
Net liabilities disposed of:		
Property, plant and equipment	15	1,021
Trade receivables		220
Prepayments, deposits and other receivables		361
Inventories		246
Trade payables		(3,656)
Other payables and accruals		<u>(1,338)</u>
		(3,146)
Group's receivables written off		2,539
Gain on dissolution of a subsidiary	5	<u>586</u>
Net outflow of cash and cash equivalents from dissolution of a subsidiary		<u>(21)</u>

(b) Business combination

In November and December 2005, the Company entered into an equity transfer agreement with each of the four equity holders of Tianye Chemical to acquire a 90% equity interest in Tianye Chemical 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 an 80.92% equity interests in Tianye Chemical. The remaining 9.08% equity interest in Tianye Chemical was transferred from the SASAC 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 Chemical has given rise to a PRC corporate income tax provision of RMB8,120,000, which was capitalised as part of the Company's investment in Tianye Chemical.

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

Tianye Chemical 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 ("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 Chemical. 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 Chemical'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 Chemical 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 Chemical, 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 Chemical'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 Chemical arising from its previous settlement of part of the Japanese Yen Loan obligations on behalf of Tianye Chemical.

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 Chemical in respect of the Japanese Yen Loans, related penalty interest and late fee payables, and the amount due to the Finance Bureau were reduced by a total amount of RMB1,019,296,000, from an aggregate amount of RMB1,917,822,000 as at 19 January 2006 to RMB898,526,000, which was fully repaid to the Finance Bureau during the year.

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

		2006 Fair value recognised on acquisition RMB'000	2006 Carrying amount RMB'000
	<i>Notes</i>		
Property, plant and equipment	15	2,367,433	2,332,900
Prepaid land lease payments	17	249,659	80,624
Intangible assets	18	968	968
Deferred tax assets	23	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	23	(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 recognised in the consolidated income statement		(577,619)	
		<u>972,761</u>	
Satisfied by:			
Cash		964,641	
Income tax payable		<u>8,120</u>	
		<u>972,761</u>	

In the opinion of the management, the Waiver formed part of the acquisition of Tianye Chemical by the Company. Accordingly, the effect of the Waiver was taken into consideration in determining the fair values of the identifiable assets and liabilities of Tianye Chemical as at the date of the acquisition, thereby giving rise to the excess over the cost of a business combination recognised in the Acquisition of RMB577,619,000.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

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

	2006 <i>RMB'000</i>
Cash consideration	(964,641)
Cash and cash equivalents acquired	<u>72,396</u>
Net outflow of cash and cash equivalents in respect of the Acquisition	<u><u>(892,245)</u></u>

The results of Tianye Chemical have been consolidated into the Group since 19 January 2006. Since its acquisition, Tianye Chemical has contributed RMB1,009,041,000 to the Group's consolidated turnover and RMB141,183,000 to the consolidated profit for the year ended 31 December 2006.

Had the business combination taken place at the beginning of the year, the consolidated turnover and consolidated profit of the Group for the year ended 31 December 2006 would have been RMB3,533,506,000 and RMB1,676,534,000, respectively.

40 OPERATING LEASE ARRANGEMENTS

(i) As lessor

Group

As at 31 December 2007 and 2006, the Group had no significant future minimum lease receivables under non-cancellable operating leases.

Company

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

As at 31 December 2007 and 2006, the Company had total future minimum lease receivables from the subsidiaries of the Company under non-cancellable operating leases falling due as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within one year	551	536
In the second to fifth years, inclusive	2,205	2,143
After five years	<u>4,753</u>	<u>5,021</u>
	<u><u>7,509</u></u>	<u><u>7,700</u></u>

(ii) As lessee

As at 31 December 2007 and 2006, the Group and the Company had no significant future minimum lease payments under non-cancellable operating leases.

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

41 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

Group

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Contracted, but not provided for:		
— Acquisition of land and buildings	8,458	46,826
— Acquisition of plant and machinery	<u>108,282</u>	<u>5,147</u>
	<u>116,740</u>	<u>51,973</u>
Authorised, but not contracted for:		
— Acquisition of land and buildings	5,993	132,267
— Acquisition of plant and machinery	<u>1,513,142</u>	<u>3,986,496</u>
	<u>1,519,135</u>	<u>4,118,763</u>
	<u><u>1,635,875</u></u>	<u><u>4,170,736</u></u>

Company

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Contracted, but not provided for:		
— Acquisition of land and buildings	272	—
— Acquisition of plant and machinery	<u>72,594</u>	<u>5,043</u>
	<u>72,866</u>	<u>5,043</u>
Authorised, but not contracted for:		
— Acquisition of land and buildings	1,485	32,200
— Acquisition of plant and machinery	<u>65,921</u>	<u>3,949,653</u>
	<u>67,406</u>	<u>3,981,853</u>
	<u><u>140,272</u></u>	<u><u>3,986,896</u></u>
	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
— A jointly-controlled entity	<u>179,781</u>	<u>341,066</u>
	<u><u>179,781</u></u>	<u><u>341,066</u></u>

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

42 RELATED PARTY TRANSACTIONS

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

(1) Recurring

	<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	28,432	14,361
Provision of transportation services	(ii)	3,068	—
Provision of packaging and assembling services	(iii)	474	—
(b) Associates			
Sale of goods	(i)	251,154	260,346
Provision of transportation services	(ii)	—	11,361
(c) A jointly-controlled entity			
Provision of transportation services	(ii)	2,697	—
Provision of rental services	(iii)	132	132
Provision of packaging and assembling services	(iii)	5,393	—
Provision of logistics services	(iii)	3,527	—
Sale of raw materials	(iii)	4,553	—
(B) Included in cost of sales and other expenses			
(a) The ultimate holding company			
Labour services	(vi)	3,819	—
Network services	(vi)	4,662	—
(b) CNOOC group companies			
Purchase of raw materials	(i)	558,754	433,032
Transportation services	(ii)	21,188	9,697
Lease of offices	(iv)	3,398	1,895
Construction and installation services	(v)	55,348	88,921
Labour services	(vi)	20,835	8,233
Network services	(vi)	4,081	5,839
Logistics services	(vi)	620	—
(c) Associates			
Purchase of raw materials	(i)	10,391	—
(d) A jointly-controlled entity			
Purchase of raw materials	(i)	10,956	—
(C) Included in interest income/expense			
CNOOC Finance			
Interest income	(vii)	4,721	6,895
Interest expense	(vii)	629	1,546

Notes:

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

- (ii) Transportation income was based on mutually agreed terms with reference to the market rate.
- (iii) Income from these sales and services was determined by mutually agreed terms.
- (iv) Rental fees were based on mutually agreed terms with reference to the market rate.
- (v) The construction and installation fees were determined by market prices.
- (vi) These services were charged based on mutually agreed terms.
- (vii) Interest income/expense was based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.

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

Except the transactions with a jointly-controlled entity, the sale of goods to associates, the purchase of raw materials from an associate and the provision of transportation services to an associate, the above recurring related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Exchange Listing Rules.

(2) Non-recurring

	<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Provision of utilities to a CNOOC group company	(i)	684	14,461
Interest expense paid to the ultimate holding company	(ii)	—	8,897
Fees and charges paid to a CNOOC group company	(iii)	657	5,569
Sale of goods to the ultimate holding company	(iv)	—	3,719

Notes:

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

APPENDIX I(A) AUDITED FINANCIAL INFORMATION OF THE GROUP

(3) Balances with related parties

Except for the balances with CNOOC Finance, one of the CNOOC group companies, the balances due from/to related parties of the Group and the Company mainly resulted from trading transactions and miscellaneous amounts reimbursable by/to these related parties. Further details are set out in notes 25, 27, 34, 35 and 36 to the financial statements.

Group

	Due from related parties		Due to related parties	
	2007	2006	2007	2006
	31 December RMB'000	31 December RMB'000	31 December RMB'000	31 December RMB'000
The ultimate holding company	—	—	8,480	—
CNOOC group companies (excluding CNOOC Finance)	6,812	6,166	24,328	96,160
Associates	1,934	—	448	5,303
A jointly-controlled entity	<u>7,536</u>	<u>9,713</u>	<u>5,654</u>	<u>7,051</u>

Company

	Due from related parties		Due to related parties	
	2007	2006	2007	2006
	31 December RMB'000	31 December RMB'000	31 December RMB'000	31 December RMB'000
The ultimate holding company	—	—	8,480	—
CNOOC group companies (excluding CNOOC Finance)	5,725	5,666	9,090	36,841
Associates	—	—	—	4,925
A jointly-controlled entity	<u>13,255</u>	<u>7,014</u>	<u>14,136</u>	<u>17,629</u>

As at 31 December 2007, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	2007 31 December RMB'000	2006 31 December RMB'000
Deposits placed by the Group with CNOOC Finance	<u>184,346</u>	<u>259,866</u>

Company

	2007 31 December RMB'000	2006 31 December RMB'000
Deposit placed by the Company with CNOOC Finance	<u>69,705</u>	<u>62,757</u>

Further details of the deposits placed with CNOOC Finance are set out in note 29 to the financial statements.

(4) Compensation of key management personnel of the Group

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	3,528	4,696
Post-employment benefits	<u>213</u>	<u>290</u>
Total compensation paid to key management personnel	<u><u>3,741</u></u>	<u><u>4,986</u></u>

Further details of directors' and supervisors' emoluments are set out in note 9 to the financial statements.

(5) 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 organisations (collectively the "State-owned Enterprises"). During the year, the Group had transactions with the State-owned Enterprises including, but not limited to, the sale of fertilisers and purchases of raw materials. The management considers 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 management is of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments other than derivatives comprise bank loans, other interest-bearing loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including a cross currency interest rate swap contract and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

(i) Interest rate risk

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

The Group monitors interest rate exposure and entered into a cross currency interest rate swap contract in which the Group agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount, though the swap contract did not meet the criteria for hedge accounting.

As at 31 December 2007, after taking into account the offset of the interest rate swap, the Group's bank and other borrowings bearing interest of variable rates amounted to RMB209,002,000 (2006: RMB566,006,000), or approximately 74% (2006: 66%) of the Group's total interest-bearing borrowings.

The interest rates and the terms of repayment of the Group's bank and other borrowings are disclosed in note 33 to the financial statements.

(ii) Foreign currency risk

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

The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than Group's functional currency. Approximately 5% (2006: 2%) of the Group's sales are denominated in currencies other than functional currency of the Group.

The Group's monetary assets, loans and transactions are principally denominated in RMB, USD and JPY. The Group is exposed to foreign currency risk arising from the changes in exchange rates of JPY and USD against RMB. At present, the Group reduces its exposure to foreign exchange fluctuations by entering into a cross currency interest rate swap contract and forward currency contracts to partially offset against future repayments of certain JPY and USD denominated loans and their related interest payments.

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

(iii) Credit risk

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

The majority of the Group's trade receivables are related to the sale of fertilisers and methanol. The sale of fertilisers is normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and only long-standing customers are granted with credit terms. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. As at the balance sheet date, 0% (2006: 0%) and 0% (2006: 4%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

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

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and bonds. As at 31 December 2007, RMB101,015,000 (2006:RMB476,579,000), or 36% (2006: 55%) of the Group's debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

(v) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debt or issue new shares. No changes were made in the objectives, policies or processes in 2007 and 2006. The Group monitors capital on the basis of the debt to capitalisation ratio, which is calculated as interest bearing debts divided by total capital plus interest bearing debts.

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing loans and borrowings	281,056	861,372
Equity attributable to equity holders	<u>8,086,110</u>	<u>6,708,867</u>
Total capital	<u>8,482,540</u>	<u>7,048,912</u>
Capital and net debt	<u>8,763,596</u>	<u>7,910,284</u>
Gearing ratio	3.2%	10.9%

44 POST BALANCE SHEET EVENTS

On 25 February 2008, the extraordinary general shareholders' meeting approved the proposed H share appreciation rights scheme. The scheme took effect upon the approval.

45 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issuance by the board of directors on 30 March 2008.

Set out below is the unaudited financial statements together with relevant notes to the financial statements of the Group as extracted from 2008 Interim Report of the Company.

Interim Condensed Consolidated Income Statement

Six months ended 30 June 2008

		Six months ended 30 June	
		2008	2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
REVENUE	4	2,832,660	2,312,027
Cost of sales		<u>(1,519,584)</u>	<u>(1,316,102)</u>
Gross profit		1,313,076	995,925
Other income and gains	4	35,181	37,672
Selling and distribution costs		(40,080)	(42,134)
Administrative expenses		(120,187)	(88,606)
Other expenses		(3,645)	(24,424)
Finance revenue		13,496	14,133
Finance costs		(4,660)	(11,586)
Exchange gain, net		14,360	13,193
Share of profits of associates		<u>2,785</u>	<u>1,220</u>
PROFIT BEFORE TAX	5	1,210,326	895,393
Income tax expense	6	<u>(115,567)</u>	<u>(43,250)</u>
PROFIT FOR THE PERIOD		<u>1,094,759</u>	<u>852,143</u>
Attributable to:			
Equity holders of the parent		966,178	826,528
Minority interests		<u>128,581</u>	<u>25,615</u>
		<u>1,094,759</u>	<u>852,143</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB fen)	7	<u>20.96</u>	<u>17.93</u>

Interim Condensed Consolidated Balance Sheet*30 June 2008*

		30 June 2008	31 December 2007
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	5,862,677	5,508,827
Prepaid land lease payments	8	400,146	404,821
Intangible assets		10,481	12,494
Investments in associates		14,440	11,937
Available-for-sale investments	9	600	600
Deferred tax assets		<u>49,254</u>	<u>47,299</u>
		<u>6,337,598</u>	<u>5,985,978</u>
CURRENT ASSETS			
Inventories		400,684	401,299
Trade receivables	10	114,922	21,426
Bills receivable		21,350	44,960
Prepayments, deposits and other receivables	11	131,276	153,213
Available-for-sale investments	9	3,045,003	304,113
Pledged bank deposits	12	5,657	5,774
Cash and cash equivalents	12	<u>957,985</u>	<u>2,780,762</u>
		<u>4,676,877</u>	<u>3,711,547</u>
TOTAL ASSETS		<u><u>11,014,475</u></u>	<u><u>9,697,525</u></u>

		30 June 2008	31 December 2007
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital	13	4,610,000	4,610,000
Reserves		4,090,626	3,107,310
Proposed dividend	14	—	368,800
		8,700,626	8,086,110
Minority interests		889,713	396,430
Total equity		9,590,339	8,482,540
NON-CURRENT LIABILITIES			
Benefits liability		70,513	72,426
Interest-bearing bank and other borrowings	15	247,118	180,041
Other long-term liabilities		48,948	50,840
Deferred tax liabilities		48,298	49,076
		414,877	352,383
CURRENT LIABILITIES			
Trade payables	16	97,069	26,985
Other payables and accruals	17	776,005	683,369
Derivative financial instruments		—	6,136
Interest-bearing bank and other borrowings	15	71,663	101,015
Income tax payable		64,522	45,097
		1,009,259	862,602
TOTAL LIABILITIES		1,424,136	1,214,985
TOTAL EQUITY AND LIABILITIES		11,014,475	9,697,525

Interim Condensed Consolidated Statement of Changes in Equity*Six months ended 30 June 2008*

	Attributable to equity holders of the parent								
	Statutory					Proposed		Minority	Total
	Paid-up	reserve	Capital	Other	Retained	final	Total	interests	equity
	capital	funds	reserve	reserves	earnings	dividend			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)								
As at 1 January 2008	4,610,00	181,738	1,109,635	—	1,815,937	368,800	8,086,110	396,430	8,482,540
Profit for the period	—	—	—	—	966,178	—	966,178	128,581	1,094,759
Acquisition of a subsidiary (note 18)	—	—	—	—	—	—	—	363,761	363,761
Change in fair value of available-for-sale investments	—	—	—	17,138	—	—	17,138	824	17,962
Capital contribution by a minority shareholder	—	—	—	—	—	—	—	117	117
Final 2007 dividend paid	—	—	—	—	—	(368,800)	(368,800)	—	(368,800)
As at 30 June 2008	4,610,000	181,738*	1,109,635*	17,138*	2,782,115*	—	8,700,626	889,713	9,590,339

* These reserve accounts comprise the consolidated reserves of RMB4,090,626,000 (31 December 2007: RMB3,107,310,000) in the consolidated balance sheet.

	Attributable to equity holders of the parent								
	Statutory					Proposed		Minority	Total
	Paid-up	reserve	Capital	Other	Retained	final	Total	interests	equity
	capital	funds	reserve	reserves	earnings	dividend			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)								
As at 1 January 2007	4,610,000	68,732	1,109,635	1,941	849,409	69,150	6,708,867	340,045	7,048,912
Profit for the period	—	—	—	—	826,528	—	826,528	25,615	852,143
Change in fair value of available-for-sale investments	—	—	—	(1,941)	—	—	(1,941)	—	(1,941)
Final 2006 dividend paid	—	—	—	—	—	(69,150)	(69,150)	—	(69,150)
As at 30 June 2007	4,610,000	68,732	1,109,635	—	1,675,937	—	7,464,304	365,660	7,829,964

Interim Condensed Consolidated Cash Flow Statement*Six months ended 30 June 2008*

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	1,468,098	1,022,668
Net cash outflow from investing activities	(2,939,736)	(369,963)
Net cash outflow from financing activities	<u>(431,139)</u>	<u>(592,214)</u>
Net (decrease)/increase in cash and cash equivalents	(1,902,777)	60,491
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,780,762</u>	<u>2,049,459</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>877,985</u></u>	<u><u>2,109,950</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and balances with banks and financial institutions	963,642	2,246,037
Less: Pledged time deposits for letter of credit facilities	<u>5,657</u>	<u>4,927</u>
Cash and cash equivalents for the interim consolidated balance sheet	957,985	2,241,110
Less: Non-pledged time deposits at banks and financial institutions with original maturity of more than three months when acquired	<u>80,000</u>	<u>131,160</u>
Cash and cash equivalents for the interim condensed consolidated cash flow statement	<u><u>877,985</u></u>	<u><u>2,109,950</u></u>

Notes to Interim Condensed Consolidated Financial Statements

30 June 2008

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 3 July 2000 as a limited liability company under the name of CNOOC Chemical Limited. The Company's name was changed to China BlueChemical Ltd. on 25 April 2006. The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, PRC.

In September and October 2006, the Company issued an aggregate of 1,610,000,000 new H Shares at a price of HKD1.90 per share to the public and the H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries ("the Group") are principally engaged in the manufacture and sale of fertilisers and methanol.

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

As at 30 June 2008, particulars of the subsidiaries and associates are as follows:

Name		Place and date of establishment	Registered capital <i>RMB'000</i>	Percentage of equity interest attributable to the Company		Principal activities
	<i>Note</i>					
Subsidiaries:						
CNOOC Fudao Limited		PRC 31 December 2001	463,000	Direct Indirect	100.00 —	Manufacture and sale of fertiliser
CNOOC Kingboard Chemical Limited	18	PRC 31 October 2003	500,000	Direct Indirect	60.00 —	Manufacture and sale of methanol
Hainan CNOOC Plastic Company Limited		PRC 28 April 2002	12,716	Direct Indirect	100.00 —	Manufacture and sale of woven plastic bags
Hainan CNOOC Transportation Co., Ltd.		PRC 22 October 2001	6,250	Direct Indirect	— 66.70	Provision of transportation services
CNOOC (Hainan) E&P Gas Limited		PRC 8 November 2004	6,900	Direct Indirect	100.00 —	Manufacture and sale of liquid carbon dioxide
Hainan CNOOC Complex Fertiliser Co., Ltd.		PRC 19 May 2000	7,500	Direct Indirect	100.00 —	Manufacture and sale of compound fertiliser
CNOOC Jincheng Coal Chemical Industry Co., Ltd.		PRC 26 November 2007	800,000	Direct Indirect	75.00 —	Manufacture and sale of fertiliser
Hainan Basuo Port Limited		PRC 25 April 2005	518,356	Direct Indirect	72.50 —	Port operation

Name	Note	Place and date of establishment	Registered capital RMB'000	Percentage of equity interest attributable to the Company		Principal activities
Shanghai Qionghua Trading Co., Ltd.		PRC 7 January 2002	1,000	Direct Indirect	— 51.00	Trading of fertiliser
CNOOC Tianye Chemical Limited		PRC 4 October 1991	1,981,690	Direct Indirect	90.00 —	Manufacture and sale of fertiliser and methanol
Inner Mongolia Hong Feng Packaging Co., Ltd.		PRC 9 December 1999	3,297	Direct Indirect	— 63.54	Manufacture and sale of woven plastic bags
China Basuo Ocean Shipping Tally Co., Ltd.		PRC 9 May 2008	300	Direct Indirect	— 60.90	Tally and cargo management services
Associates:						
Guangxi Fudao Agricultural Means of Production Limited		PRC 11 January 2003	11,800	Direct Indirect	— 30.00	Trading of fertiliser
China Basuo Oversea Shipping Agency Co., Ltd.		PRC 24 May 2000	1,800	Direct Indirect	— 36.25	Provision of overseas shipping services

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2007.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007, except for the adoption of the new and revised International Financial Reporting Standards (“IFRSs”) and interpretations mandatory for annual periods beginning on or after 1 January 2008, as follows:

IFRIC — Int11

IFRS 2 — Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to the Group’s equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

IFRIC — Int14

IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding
Requirements and their Interaction

This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

Impact of issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements:

IAS 1 (Revised)	Presentation of Financial Statements
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 23 (Revised)	Borrowing Costs
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment — Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IAS 32	Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The Group is in the process of making an assessment of the impact of these new and revised IFRSs, upon initial application. These new and revised IFRSs, are unlikely to have a significant impact on the Group's results of operation and financial position.

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services 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 fertiliser segment is engaged in the manufacture and sale of nitrogenous fertiliser and compound fertiliser;
- (ii) the methanol segment is engaged in the manufacture and sale of methanol; and
- (iii) the "others" segment mainly comprises 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 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.

APPENDIX I(B)**UNAUDITED FINANCIAL INFORMATION
OF THE GROUP AS AT 30 JUNE 2008**

The following tables present revenue and profit information for the Group's business segments for the six months ended 30 June 2008 and 2007:

	Fertiliser <i>RMB'000</i>	Methanol <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
			(Unaudited)		
Six months ended 30 June 2008					
Segment revenue:					
Sales to external customers	1,821,542	905,070	106,048	—	2,832,660
Intersegment sales	—	12,807	51,414	(64,221)	—
Other income	<u>3,181</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>3,183</u>
Total	<u>1,824,723</u>	<u>917,879</u>	<u>157,462</u>	<u>(64,221)</u>	<u>2,835,843</u>
Segment results	<u>676,187</u>	<u>517,381</u>	<u>14,534</u>	<u>—</u>	<u>1,208,102</u>
Interest and dividend income and unallocated gains					45,495
Corporate and other unallocated expenses					(55,756)
Finance costs					(4,660)
Exchange gain, net					14,360
Share of profits of associates	2,741	—	44	—	<u>2,785</u>
Profit before tax					1,210,326
Income tax expense					<u>(115,567)</u>
Profit for the period					<u>1,094,759</u>
Six months ended 30 June 2007					
Segment revenue:					
Sales to external customers	1,615,150	604,927	91,950	—	2,312,027
Intersegment sales	—	9,414	40,832	(50,246)	—
Other income	<u>3,138</u>	<u>3</u>	<u>600</u>	<u>—</u>	<u>3,741</u>
Total	<u>1,618,288</u>	<u>614,344</u>	<u>133,382</u>	<u>(50,246)</u>	<u>2,315,768</u>
Segment results	<u>597,069</u>	<u>301,598</u>	<u>4,748</u>	<u>—</u>	<u>903,415</u>
Interest and dividend income and unallocated gains					48,064
Corporate and other unallocated expenses					(58,913)
Finance costs					(11,586)
Exchange gain, net					13,193
Share of profits of associates	1,220	—	—	—	<u>1,220</u>
Profit before tax					895,393
Income tax expense					<u>(43,250)</u>
Profit for the period					<u>852,143</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax, 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 follows:

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Revenue		
Sale of goods	2,728,964	2,224,013
Rendering of services	<u>103,696</u>	<u>88,014</u>
	<u>2,832,660</u>	<u>2,312,027</u>
Other income and gains		
Realised gain from disposal of available-for-sale investments	25,921	31,180
Fair value gain on derivative financial instruments	6,136	2,961
Income from the sale of other materials	2,474	2,509
Gross rental income	44	64
Others	<u>606</u>	<u>958</u>
	<u>35,181</u>	<u>37,672</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Cost of inventories sold	1,435,085	1,248,717
Cost of services provided	84,499	67,385
Depreciation	292,911	279,323
Amortisation of intangible assets	1,721	1,785
Amortisation of prepaid land lease payments	4,806	5,536
Fair value gain on derivative financial instruments	(6,136)	(2,961)
Foreign exchange differences, net	(14,360)	(13,193)
Loss on disposal of items of property, plant and equipment	<u>2,461</u>	<u>2,688</u>

6. INCOME TAX EXPENSE**(a) Corporate income tax**

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

According to the document Finance Taxes [2008] No. 21 issued by the Ministry of Finance and the State Administration of Taxation on 20 February 2008, the Company, its subsidiaries and its associates registered in Hainan Province or Pudong New Area, Shanghai, PRC, are entitled to preferential CIT rates of 18%, 20%, 22% and 24% for the years 2008, 2009, 2010 and 2011 respectively, and 25% from 2012.

The Company is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. This is the third year for the Company to be entitled to the 50% reduction on the preferential CIT rate. In addition, as the Company was assessed as a high technology enterprise, it is entitled to benefit the said preferential CIT rate until 31 December 2011.

Hainan CNOOC Complex Fertiliser Co., Ltd. and CNOOC Fudao Limited are entitled to a preferential CIT rate of 18% for the current year.

Hainan CNOOC Plastic Company Limited ("CNOOC Plastic") is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. This is the final year for CNOOC Plastic to be entitled to the said entitlement.

Hainan Basuo Port Limited ("Hainan Basuo") is entitled to an exemption from CIT for the five years ending 31 December 2009 and a 50% reduction in the applicable CIT rate for the five years ending 31 December 2014 as it is engaged in infrastructure development and operations.

CNOOC Kingboard Chemical Limited ("CNOOC Kingboard"), the Company's subsidiary, is a foreign investment enterprise and is entitled to an exemption from CIT for its first two profitable years and a 50% reduction in the applicable CIT rate for the subsequent three years. CNOOC Kingboard has elected to benefit from the tax holiday starting from the year ended 31 December 2007.

CNOOC Tianye Chemical Limited ("CNOOC Tianye") finished its last tax exemption year in 2007. With effect from 1 January 2008, a CIT rate of 25% applies to CNOOC Tianye.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2008.

The major components of income tax expense for the six months ended 30 June 2008 and 2007 are as follows:

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current — PRC		
Charge for the period	118,300	55,524
Deferred	(2,733)	(12,274)
Total tax charge for the period	<u>115,567</u>	<u>43,250</u>

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent for the six months ended 30 June 2008 of approximately RMB966,178,000 (Six months ended 30 June 2007: RMB826,528,000) and the 4,610,000,000 ordinary shares in issue during the period (Six months ended 30 June 2007: 4,610,000,000).

Diluted earnings per share for the six months ended 30 June 2008 and 2007 have not been calculated because no diluting events existed during those periods.

8. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

During the six months ended 30 June 2008, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB248,895,000 (Six months ended 30 June 2007: RMB96,377,000). The Group did not make any prepaid land lease payments for the six months ended 30 June 2008 (Six months ended 30 June 2007: RMB6,971,000). Property, plant and equipment amounting to RMB2,727,000 (Six months ended 30 June 2007: RMB8,305,000) were disposed of for the six months ended 30 June 2008.

As at 30 June 2008, the Group has yet to obtain building ownership certificates for certain buildings resulting from the acquisition of CNOOC Kingboard, with an aggregate net book value of approximately RMB19,163,000 (31 December 2007: RMB11,729,000).

9. AVAILABLE-FOR-SALE INVESTMENTS

	30 June	31 December
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current		
Unlisted investments, at fair value	3,045,003	—
Unlisted investments, at cost	—	304,113
Non-current		
Unlisted equity investments, at cost	<u>600</u>	<u>600</u>
	<u>3,045,603</u>	<u>304,713</u>

The unlisted investments consist of placement in structured deposits and bonds. The fair value of unlisted investments has been estimated using a valuation technique based on assumptions that are not supported by observable market prices. The valuation requires management to make estimates about the expected future cash flows of the unlisted investments which are discounted at current rates.

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

10. TRADE RECEIVABLES

Sales of the Group's fertiliser and methanol are normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. 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 favour.

The trading terms of the Group with its major methanol customers are mainly on credit. The credit period is generally one month.

An aged analysis of trade receivables, based on the invoice date and net of impairment of trade receivables of the Group, is as follows:

	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within six months	114,670	13,624
Over six months but within one year	33	7,642
Between one to two years	<u>219</u>	<u>160</u>
	<u><u>114,922</u></u>	<u><u>21,426</u></u>

As at 30 June 2008, the amount due from a CNOOC group company included in the above trade receivable balances was RMB1,901,000 (31 December 2007: RMB126,000). The amount due from an associate included in the above trade receivable balances was RMB38,000 (31 December 2007: RMB1,934,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Prepayments	86,887	70,947
Deposits and other receivables	<u>44,389</u>	<u>82,266</u>
	<u><u>131,276</u></u>	<u><u>153,213</u></u>

The above assets are net of impairment of prepayments, deposits and other receivables. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The amounts due from the ultimate holding company, CNOOC group companies, CNOOC Finance Corporation Limited ("CNOOC Finance") and a jointly-controlled entity included in the above table can be analysed as follows:

	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Ultimate holding company	244	—
CNOOC group companies	15,656	6,686
CNOOC Finance	62	—
A jointly-controlled entity	<u>—</u>	<u>7,536</u>
	<u><u>15,962</u></u>	<u><u>14,222</u></u>

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

12. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

As at 30 June 2008, the Group's pledged time deposits of RMB5,657,000 (31 December 2007: RMB5,774,000) 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 as at 30 June 2008 and 31 December 2007, except for the amount of RMB149,000 (31 December 2007: RMB8,577,000) which is translated from USD22,000 (31 December 2007: USD1,174,000); and the amount of RMB169,000 (31 December 2007: RMB2,800) which is translated from HKD193,000 (31 December 2007: HKD3,000).

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

As at 30 June 2008, included in the Group's cash and cash equivalents was an amount of RMB215,137,000 (31 December 2007: RMB184,346,000) deposited with CNOOC Finance. The deposits with CNOOC Finance are entitled to interest at the rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

13. PAID-UP CAPITAL

	Number of shares '000	Nominal value RMB'000
Registered capital	<u>4,610,000</u>	<u>4,610,000</u>
<i>Issued and fully paid:</i>		
Domestic shares of RMB1 each, currently not listed:		
— State-owned shares	2,739,000	2,739,000
— Other legal person shares	75,000	75,000
Unlisted foreign shares of RMB1 each	25,000	25,000
H shares of RMB1 each	<u>1,771,000</u>	<u>1,771,000</u>
As at 30 June 2008	<u>4,610,000</u>	<u>4,610,000</u>

14. DIVIDENDS

Pursuant to the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting principles and financial regulations; and (ii) the net profit determined in accordance with IFRSs.

As at 30 June 2008, the Company has paid a final 2007 dividend amounted to RMB368,800,000 (Six months ended 30 June 2007: RMB69,150,000).

The board of directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (Six months ended 30 June 2007: Nil).

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Current				
Bank loans — unsecured:				
— Yen loan	LIBOR + 0.6	2008	—	71,284
— USD loan	LIBOR + 0.65 to LIBOR + 0.85	2008	70,946	16,073
— RMB loan	LIBOR + 0.65	2008	—	13,147
			70,946	100,504
Other loans:				
— Obligations under finance lease	6.03	2008	717	511
			71,663	101,015
Non-current				
Bank loans — unsecured:				
— USD loan	LIBOR + 0.65	2013	247,065	179,782
Other loans:				
— Obligations under finance lease	6.57	2009	53	259
			247,118	180,041
			318,781	281,056
Analysed into:				
Bank loans repayable:				
Within one year or on demand			70,946	100,504
In the second year			68,591	43,829
In the third to fifth years, inclusive			178,474	131,483
Beyond five years			—	4,470
			318,011	280,286
Other loans repayable:				
Within one year or on demand			717	511
In the second year			53	259
In the third to fifth years, inclusive			—	—
Beyond five years			—	—
			770	770
			318,781	281,056

As at 30 June 2008, the obligations under the finance leases of RMB770,000 (31 December 2007: RMB770,000) were due to a CNOOC group company.

16. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled from 30 to 60 days. An aged analysis of trade payables, based on the invoice dates, of the Group as at the balance sheet date, is as follows:

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Within six months	94,802	26,070
Over six months but within one year	1,633	—
Over one year but within two years	—	690
Over two years but within three years	607	—
Over three years	27	225
	<u>97,069</u>	<u>26,985</u>

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

As at 30 June 2008, the amount due to CNOOC group companies included in the above trade payable balances was RMB75,005,000 (31 December 2007: RMB2,047,000).

17. OTHER PAYABLES AND ACCRUALS

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Advances from customers	153,693	83,883
Accruals	2,949	4,887
Accrued payroll	170,663	226,942
Port construction fee payable	166,378	163,805
Tax payables	50,909	10,239
Due to the ultimate holding company	3,628	8,480
Due to CNOOC group companies	17,375	22,281
Due to an associate	13,390	448
Due to a jointly-controlled entity	—	132
Payables in relation to the construction and purchase of property, plant and equipment	136,714	115,993
Safety costs	39,415	21,139
Payables related to share-based payment (a)	856	—
Other payables	<u>20,035</u>	<u>25,140</u>
	<u>776,005</u>	<u>683,369</u>

- (a) On 25 February 2008, 6,386,000 share appreciation rights (“the SARs”) were granted to senior executives, which can only be settled in cash. The exercise price of the SARs of HKD5.10 was equal to the market price of the shares on the date of grant. The SARs vest if and when (i) the average

return on equity for the financial years 2007 and 2008 is not lower than 14%; and (ii) the average year-on-year increase in net profit of the Company is not lower than 10% for the financial years 2007 and 2008. If these conditions are not met, the SARs lapse. Given the SARs vest, the recipients are entitled to exercise once in each year during in 4 years period starting from February 2010 the extent of 25% of total SARs granted.

The fair value of the SARs is estimated at the date of grant using a Black-Scholes pricing model taking into account the terms and conditions under which the SARs were granted. The annual payment upon the exercise shall not be more than 50% of the total annual remuneration of the recipients of the SARs as at the time of the grant. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled, it is remeasured at each reporting date with change in fair value recognised in profit or loss.

The fair value of the SARs granted during the six months ended 30 June 2008 was estimated using the following assumptions:

Dividend yield (%)	1.71
Expected volatility (%)	66.31
Risk-free interest rate (%)	4.18
Expected life (years)	4.00

The carrying amount of the liability relating to the SARs at 30 June 2008 is RMB856,000. No SARs had vested at 30 June 2008.

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

18. BUSINESS COMBINATION

On 29 April 2008, the Company obtained approval from the Ministry of Commerce of the PRC with regard to the revisions of the Memorandum and Articles of Association for CNOOC Kingboard. CNOOC Kingboard has been accounted for as a jointly-controlled entity, because minority veto rights existed that kept the Company from controlling CNOOC Kingboard in which the Company holds 60% of the equity interest.

As the minority veto rights lapsed through the revision of the Memorandum and Articles of Association, the Company obtained control over CNOOC Kingboard without transferring consideration with effect from 29 April 2008.

The acquisition method of accounting for a business combination has been applied to this transaction. The management is in the process of reviewing the fair values of the assets and liabilities of CNOOC Kingboard. The provisional amounts of the identifiable assets and liabilities of CNOOC Kingboard as at the date of acquisition, preliminarily estimated by the Company, approximate the carrying amounts immediately before the acquisition.

19. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties:

(1) Recurring

		Six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
		Notes	
(A) Included in revenue, other income and gains			
(a) CNOOC group companies*			
Sale of goods	(i)	15,473	11,206
Provision of transportation services	(ii)	2,229	890
Provision of packaging and assembling services	(iii)	2,310	—
		<u>20,012</u>	<u>12,096</u>
(b) Associates			
Sale of goods	(i)	109,801	139,319
Provision of transportation services	(ii)	6,510	—
Provision of packaging and assembling services	(iii)	293	—
		<u>116,604</u>	<u>139,319</u>
(c) Jointly-controlled entity**			
Provision of rental services	(iii)	44	64
Provision of transportation services	(ii)	470	—
Provision of packaging and assembling services	(iii)	2,243	—
Provision of logistics services	(ii)	1,176	—
Sale of raw materials	(iii)	1,418	—
		<u>5,351</u>	<u>64</u>
(B) Included in cost of sales and other expenses			
(a) CNOOC group companies*			
Purchase of raw materials	(i)	361,893	312,954
Transportation services	(ii)	8,556	12,526
Lease of offices	(iv)	1,375	1,600
Construction and installation services	(v)	11,608	6,641
Labour services	(vi)	13,621	7,804
Logistics services	(vi)	1,114	—
		<u>398,167</u>	<u>341,525</u>
(b) Associates			
Purchase of raw materials	(i)	4,096	7,897
(C) Included in interest income/expense			
CNOOC Finance			
Interest income	(vii)	<u>1,771</u>	<u>2,199</u>
Interest expense	(vii)	<u>—</u>	<u>730</u>

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

** CNOOC Kingboard had been a jointly-controlled entity to the Company up to 29 April 2008. The Company obtained control over CNOOC Kingboard and CNOOC Kingboard became a subsidiary since 29 April 2008.

Notes:

- (i) These transactions were conducted in accordance with terms agreed between the Group, its associates and CNOOC group companies.
- (ii) Transportation income was based on mutually agreed terms with reference to the market rate.
- (iii) Income from these sales and services was determined by mutually agreed terms.
- (iv) Rental fees were based on mutually agreed terms with reference to the market rate.
- (v) The construction and installation fees were determined by market prices.
- (vi) These services were charged based on mutually agreed terms.
- (vii) Interest income/expense was based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.

The amounts of transactions with a jointly-controlled entity (CNOOC Kingboard, which became a subsidiary of the Group effective from 29 April 2008) 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.

(2) Non-recurring

		Six months ended 30 June	
		2008	2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Provision of utilities to a CNOOC group company	(i)	212	170
Fees and charges paid to a CNOOC group company	(ii)	<u>614</u>	<u>—</u>

Notes:

- (i) The transaction was conducted in accordance with terms agreed between the Group and a CNOOC group company.
- (ii) Fees and charges were based on mutually agreed terms.

(3) Balances with related parties

Except for the balances with CNOOC Finance, one of the CNOOC group companies, the balances due from/to related parties of the Group mainly resulted from trading transactions and miscellaneous amounts reimbursable by/to these related parties. Further details are set out in notes 10, 11, 15, 16 and 17 to the interim condensed consolidated financial statements.

	Due from related parties		Due to related parties	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
The ultimate holding company	244	—	3,628	8,480
CNOOC group companies (excluding CNOOC Finance)	17,557	6,812	93,150	24,328
An associate	38	1,934	13,390	448
A jointly-controlled entity	—	7,536	—	5,654

As at 30 June 2008, the deposits placed by the Group with CNOOC Finance amounted to RMB215,137,000 (31 December 2007: RMB184,346,000). The deposits with CNOOC Finance are entitled to the interest at the rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

(4) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,040	820
Post-employment benefits	106	85
Total compensation paid to key management personnel	1,146	905

(5) 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 organisations (collectively the “State-owned Enterprises”). During the six months ended 30 June 2008, the Group had transactions with the State-owned Enterprises including, but not limited to, the sale of fertiliser 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.

20. COMMITMENTS AND CONTINGENT LIABILITIES**(a) Capital commitments**

At 30 June 2008, the Group had the following capital commitments, principally relating to the construction or purchases of property, plant and equipment:

	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Acquisition of land and buildings	11,610	8,458
Acquisition of plant and machinery	<u>904,980</u>	<u>108,282</u>
	<u>916,590</u>	<u>116,740</u>
Authorised, but not contracted for:		
Acquisition of land and buildings	96,745	5,993
Acquisition of plant and machinery	<u>3,373,735</u>	<u>1,513,142</u>
	<u>3,470,480</u>	<u>1,519,135</u>
	<u><u>4,387,070</u></u>	<u><u>1,635,875</u></u>

(b) Operating lease commitments

As at 30 June 2008, the Group had no significant future minimum lease payments under non-cancellable operating leases.

(c) Contingent liabilities

As at 30 June 2008, the Group had no significant contingent liabilities.

21. EVENTS AFTER BALANCE SHEET DATE

On 15 May 2008, the Company, Yichang Geological Exploration League of Hubei Province ("Yichang Geological League") and Yichang Honghe Mineral Development Company Limited ("Yichang Honghe") entered into a co-operation agreement, pursuant to which the parties have agreed to establish a joint venture named China BlueChem Yichang Mining Ltd. ("Yichang Mining"), in Yichang City, Hubei Province of the PRC.

On 24 July 2008, the Company, Yichang Geological League and Yichang Honghe jointly contributed RMB50,000,000 to establish Yichang Mining, of which the RMB25,500,000 was contributed by the Company, representing 51% of the ownership interest of Yichang Mining.

Yichang Mining has obtained its operational business license from the relevant local commerce and industry authority on 7 August 2008.

22. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2008 were approved and authorised for issue by the board of directors on 26 August 2008.

The following is the text of a report dated 31 December 2008, prepared for the purpose of inclusion in the circular, received from Ernst & Young, Certified Public Accountants.



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

31 December 2008

The Board of Directors
China BlueChemical Ltd.

Dear Sirs,

We set out below our report on the financial information regarding Hubei Dayukou Chemical Co., Ltd. (the “Company”) for the period from 12 August 2005 (date of incorporation) to 31 December 2005, the years ended 31 December 2006 and 2007, and the six-month period ended 30 June 2008 (the “Relevant Periods”) (the “Financial Information”), and the six-month period ended 30 June 2007 (the “30 June 2007 Financial Information”) prepared on the basis set out in note 2 of Section II, for inclusion in the circular of China BlueChemical Ltd. (“Blue Chemical”) dated 31 December 2008 (the “Circular”) in connection with the proposed acquisition of an 83.17% equity interest in the Company.

The Company was established in the People’s Republic of China (the “PRC”) on 12 August 2005 with limited liability. During the Relevant Periods, the Company was principally engaged in phosphate mining, and the manufacture and sale of fertilisers.

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.

The Company has adopted 31 December as its financial year end date. The Directors have prepared the statutory accounts of the Company in accordance with the accounting principles and the relevant financial regulations of the PRC (“PRC GAAP”) for which the Directors are solely responsible. The statutory accounts of the Company were audited by PRC registered certified public accountants, 武漢眾環會計師事務所 (BDO Wuhan Zhonghuan Certified Public Accountants Co. Ltd*) for 2005, and 中瑞岳華會計師事務所 (Zhongrui Yuehua Certified Public Accountants*) for 2006 and 2007 respectively.

For the purpose of this report, the Directors of the Company have prepared the income statements, statements of changes in equity and cash flow statements of the Company for the Relevant Periods and the balance sheets of the Company as at 31 December 2005, 2006, 2007 and 30 June 2008, together with the notes thereto set out in this report in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International

* For identification purpose only

Accounting Standards Board (the “IASB”). The Directors of the Company 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, after making such adjustments as considered appropriate, which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements 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 this information in respect of the Relevant Periods and for the six-month period ended 30 June 2007, 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 such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

PROCEDURES PERFORMED IN RESPECT OF THE 30 JUNE 2007 FINANCIAL INFORMATION

For the purpose of this report, we have performed a review of the financial information for the six months ended 30 June 2007, which includes the income statement, cash flow statement and statement of changes in equity for the six months ended 30 June 2007, for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. No adjustments were considered necessary to adjust the IFRS Financial Statements to conform with the accounting policies referred to in Note 2 of Section II of this report for the Relevant Periods.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION FOR THE RELEVANT PERIODS

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the results and cash flows of the Company for each of the Relevant Periods and of the state of affairs of the Company as at 31 December 2005, 2006 and 2007, and 30 June 2008.

REVIEW CONCLUSION IN RESPECT OF THE 30 JUNE 2007 FINANCIAL INFORMATION

On the basis of our review of the 30 June 2007 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 Company presented for the six-month period ended 30 June 2007.

1. FINANCIAL INFORMATION**Income Statement**

		12 August to 31 December 2005	Year ended 31 December 2006	2007	Six-month period ended 30 June 2007	
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
REVENUE	6	145,704	702,292	1,109,618	536,309	766,392
Cost of sales		<u>(163,139)</u>	<u>(615,810)</u>	<u>(907,397)</u>	<u>(458,514)</u>	<u>(612,056)</u>
Gross (loss)/profit		(17,435)	86,482	202,221	77,795	154,336
Selling and distribution costs		(3,192)	(14,450)	(39,551)	(16,262)	(12,993)
Administrative expenses		(15,837)	(43,449)	(50,141)	(24,485)	(29,436)
Impairment loss of assets		(129,866)	—	—	—	—
Finance revenue		54	715	2,456	1,224	436
Finance costs		(14)	(1,840)	(7,069)	(3,920)	(4,918)
Exchange loss, net		—	—	(637)	(132)	(159)
Others, net		<u>970</u>	<u>(878)</u>	<u>(9,095)</u>	<u>(711)</u>	<u>6,711</u>
(LOSS)/PROFIT BEFORE TAX	7	(165,320)	26,580	98,184	33,509	113,977
Income tax expense	10	<u>53,696</u>	<u>(11,116)</u>	<u>(48,122)</u>	<u>(22,859)</u>	<u>(28,814)</u>
(LOSS)/PROFIT FOR THE YEAR/ PERIOD		<u>(111,624)</u>	<u>15,464</u>	<u>50,062</u>	<u>10,650</u>	<u>85,163</u>

Balance Sheet

		2005	31 December	2007	30 June
		2006	2006	2007	2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	11	917,218	865,764	837,505	811,874
Prepaid land lease payments	12	—	—	24,762	24,509
Deferred tax assets	13	<u>53,711</u>	<u>43,592</u>	<u>41,556</u>	<u>41,556</u>
		<u>970,929</u>	<u>909,356</u>	<u>903,823</u>	<u>877,939</u>
CURRENT ASSETS					
Inventories	14	102,338	155,817	241,143	415,570
Trade receivables	15	22,874	35,295	16,828	17,032
Bills receivable	16	11,140	36,742	—	—
Prepayments, deposits and other receivables	17	44,050	27,106	76,726	43,749
Cash and cash equivalents	18	<u>34,555</u>	<u>205,194</u>	<u>118,830</u>	<u>112,297</u>
		<u>214,957</u>	<u>460,154</u>	<u>453,527</u>	<u>588,648</u>
TOTAL ASSETS		<u><u>1,185,886</u></u>	<u><u>1,369,510</u></u>	<u><u>1,357,350</u></u>	<u><u>1,466,587</u></u>

			31 December		30 June
		2005	2006	2007	2008
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY AND LIABILITIES					
Paid-in capital	19	1,000,624	1,000,624	1,000,624	1,000,624
Reserves	20	(111,624)	(96,160)	(46,098)	39,065
TOTAL EQUITY		<u>889,000</u>	<u>904,464</u>	<u>954,526</u>	<u>1,039,689</u>
NON-CURRENT LIABILITIES					
Other long-term liabilities	22	—	—	91,034	75,097
Deferred tax liabilities	13	<u>15</u>	<u>99</u>	<u>5,502</u>	<u>6,269</u>
		<u>15</u>	<u>99</u>	<u>96,536</u>	<u>81,366</u>
CURRENT LIABILITIES					
Trade and bills payables	23	5,916	102,627	13,702	43,207
Other payables and accruals	24	290,955	301,407	250,990	192,681
Interest-bearing bank and other borrowings	21	—	60,000	—	40,000
Income tax payable		<u>—</u>	<u>913</u>	<u>41,596</u>	<u>69,644</u>
		<u>296,871</u>	<u>464,947</u>	<u>306,288</u>	<u>345,532</u>
TOTAL LIABILITIES		<u>296,886</u>	<u>465,046</u>	<u>402,824</u>	<u>426,898</u>
TOTAL EQUITY AND LIABILITIES		<u>1,185,886</u>	<u>1,369,510</u>	<u>1,357,350</u>	<u>1,466,587</u>

Statement of Changes in Equity

		Paid-in capital	Retained profits/ (accumulated losses)	Total
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at date of incorporation				
Capital contributions from shareholders	19	1,000,624	—	1,000,624
Loss for the period		<u>—</u>	<u>(111,624)</u>	<u>(111,624)</u>
As at 31 December 2005 and 1 January 2006		1,000,624	(111,624)	889,000
Profit for the year		<u>—</u>	<u>15,464</u>	<u>15,464</u>
As at 31 December 2006 and 1 January 2007		1,000,624	(96,160)	904,464
Profit for the year		<u>—</u>	<u>50,062</u>	<u>50,062</u>
As at 31 December 2007 and 1 January 2008		1,000,624	(46,098)	954,526
Profit for the period		<u>—</u>	<u>85,163</u>	<u>85,163</u>
As at 30 June 2008		<u>1,000,624</u>	<u>39,065</u>	<u>1,039,689</u>
As at 31 December 2006 and 1 January 2007		1,000,624	(96,160)	904,464
Profit for the period (unaudited)		<u>—</u>	<u>10,650</u>	<u>10,650</u>
As at 30 June 2007 (unaudited)		<u>1,000,624</u>	<u>(85,510)</u>	<u>915,114</u>

Cash Flow Statement

		12 August to 31 December 2005	Year ended 31 December 2006	2007	Six-months ended 30 June 2007	2008
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss)/profit before tax		(165,320)	26,580	98,184	33,509	113,977
Adjustments for:						
Finance costs		14	1,840	7,069	3,920	4,918
Foreign exchange differences, net		—	—	637	132	159
Interest income		(54)	(715)	(2,456)	(1,224)	(436)
Loss on items of property, plant and equipment written-off	7	—	—	24,818	—	—
Depreciation of property, plant and equipment	7	15,637	63,448	76,374	27,293	39,402
Impairment of property, plant and equipment	7	129,866	—	—	—	—
Amortisation of prepaid land lease payments	7	—	—	42	—	253
Impairment on inventories	7	—	—	9,309	9,309	—
Loss on inventory count	7	—	2,230	—	—	—
		(19,857)	93,383	213,977	72,939	158,273
(Increase)/decrease in inventories		(102,338)	(55,709)	(94,635)	51,462	(174,427)
(Increase)/decrease in trade and bills receivables, prepayments, deposits and other receivables		(78,064)	(21,079)	6,095	50,867	32,773
Increase/(decrease) in trade payables, other payables and accruals and other long-term liabilities		268,877	122,891	(56,003)	(310,197)	(42,810)
Cash generated from/(used by) operations		68,618	139,486	69,434	(134,929)	(26,191)
Interest received		54	715	2,456	1,224	436
Net cash inflow/(outflow) from operating activities		68,672	140,201	71,890	(133,705)	(25,755)

		12 August to 31 December 2005	Year ended 31 December 2006	2007	Six-months ended 30 June 2007	2008
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
CASH FLOWS FROM						
INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(334,967)	(27,722)	(78,548)	(10,415)	(15,701)
Payment of long-term prepaid land lease	12	—	—	(12,000)	—	—
Net cash outflow from investing activities		<u>(334,967)</u>	<u>(27,722)</u>	<u>(90,548)</u>	<u>(10,415)</u>	<u>(15,701)</u>
CASH FLOWS FROM						
FINANCING ACTIVITIES						
Capital contribution from shareholders		300,864	—	—	—	—
Drawdown of bank borrowings	21	—	60,000	100,000	40,000	40,000
Repayment of bank and other borrowings	21	—	—	(160,000)	—	—
Interest paid		(14)	(1,840)	(7,069)	(3,920)	(4,918)
Foreign exchange differences, net		—	—	(637)	(132)	(159)
Net cash inflow/(outflow) from financing activities		<u>300,850</u>	<u>58,160</u>	<u>(67,706)</u>	<u>35,948</u>	<u>34,923</u>
NET INCREASE/(DECREASE) IN						
CASH AND CASH						
EQUIVALENTS						
		34,555	170,639	(86,364)	(108,172)	(6,533)
Cash and cash equivalents at beginning of year/period		—	34,555	205,194	205,194	118,830
CASH AND CASH						
EQUIVALENTS AT END OF						
YEAR/PERIOD	18	<u>34,555</u>	<u>205,194</u>	<u>118,830</u>	<u>97,022</u>	<u>112,297</u>

II. NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 12 August 2005 as a limited liability company under the name of Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限责任公司). The registered office of the Company is located at Huji Town, Zhongxiang City, Hubei Province, the PRC.

At the date of this report, the Company is 83.17% owned and controlled by China National Offshore Oil Corporation ("CNOOC"), a state-owned enterprise established in the PRC. In the opinion of the directors of the Company (the "Directors"), the holding company is CNOOC.

During the Relevant Periods, the Company was principally engaged in phosphate mining, and the manufacture and sale of phosphoric fertilisers. The major products of the Company are mono-ammonia phosphoric ("MAP"), and double-ammonia phosphoric ("DAP").

The details of the share capital and the shareholding structure for the Relevant Periods are as follow:

	31 December 2005–2007		30 June 2008	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
State-owned Assets Supervision and Administration Commission of Hubei Province ("Hubei SASAC")	168,376	16.83%	168,376	16.83%
China Cinda Asset Management Corporation ("Cinda")	532,248	53.19%	—	—
China National Chemical and Construction Corporation ("CNCCC")	300,000	29.98%	832,248	83.17%
	<u>1,000,624</u>	<u>100.00%</u>	<u>1,000,624</u>	<u>100.00%</u>

On 8 December 2007, CNCCC entered into an equity transfer agreement with Cinda to acquire its 53.19% equity interest in the Company. Upon completion of the acquisition in January 2008, CNCCC holds 83.17% of the equity interest in the Company.

2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRS, which comprise standards and interpretations approved by 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:

IFRS 1	First-Time Adoption of International Financial Reporting Standards
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IAS 1 (revised)	Presentation of Financial Statements
IAS 1 (amendment)	Capital Disclosures
IAS 2 (revised)	Inventories
IAS 7 (amended)	Cash Flow Statements
IAS 8 (revised)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (amended)	Events after the Balance Sheet Date
IAS 12 (amended)	Income Taxes

IAS 14 (amended)	Segment Reporting
IAS 16 (amended)	Property, Plant and Equipment
IAS 17 (amended)	Leases
IAS 18 (amended)	Revenue
IAS 19 (amended)	Employee Benefits
IAS 20 (amended)	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 (amended)	The Effects of Changes in Foreign Exchange Rates
IAS 23 (amended)	Borrowing Costs
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Financial Instruments: Presentation
IAS 34 (amended)	Interim Financial Reporting
IAS 36 (amended)	Impairment of Assets
IAS 37 (amended)	Provisions, Contingent Liabilities and Contingent Assets
IAS 38 (amended)	Intangible Assets
IAS 39 (amended)	Financial Instruments: Recognition and Measurement
IFRIC- 4	Determining Whether an Arrangement Contains a Lease
IFRIC-10	Interim Financial Reporting and Impairment
IFRIC-11	IFRS 2 — Company and Treasury Share Transactions
IFRIC-12	Service Concession Arrangements
IFRIC-14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Financial Information has been prepared under the historical cost convention. The Financial Information has been presented in RMB and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Related parties

A party is considered to be related to the Company 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; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;
- (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, or of any entity that is a related party of the Company.

Impairment of non-financial 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 recognised 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 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 recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, which consist of buildings, mining structures and mining rights, mining related machinery and equipment, motor vehicles, and other 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 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 capitalised as an additional cost of that asset or as a replacement.

Other than mining structures and mining rights, 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	6.79% to 4.75%
Plant and machinery	6.79%
Motor vehicles	19.00%
Electronic equipment	19.00%
Office and other equipment	19.00%
Mining related machinery and equipment	19.00%

Mining structures and mining rights are depreciated on a unit-of-production ("UOP") method utilising only proved and probable phosphate reserves in the depletion base.

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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant, 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 capitalised 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 where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases are charged to the 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 recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised 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 Company 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 recognised on the trade date that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 recognised, the previously recognised impairment loss is reversed by adjusting the allowance. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Company will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company 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 Company 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 recognised to the extent of the Company'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 Company 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 Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to related parties and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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

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

Inventories

Inventories are valued at the lower of cost and net realisable 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 labour and an appropriate proportion of overheads based on normal operating capacity but excluding borrowing costs

Net realisable 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 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 sheet, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised 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 utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at 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 utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised 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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events for which the existence of a contingent liability will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or that the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that an outflow is probable, a contingent liability will be recognised as a provision.

A contingent asset is a possible asset that arises from past events for which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Government grants

Government grants are recognised 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 recognised 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 income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) 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.

Employee benefits*Defined contribution plan*

The Company participates in a government-regulated defined contribution pension scheme, under which the Company 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 recognised as an expense in the period in which the related service is performed.

Medical benefit costs

The Company participates in a government-organised defined contribution medical benefit plans, under which the Company make contributions into a government-organised 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 income statement as incurred.

Housing fund

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these 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 capitalised.

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

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional and presentation currency. 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 the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Impact of issued but not yet effective IFRSs

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective, in this Financial Information.

IFRS 1 and IAS 27 (amendment)	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ¹
IFRS 2 (amendment)	Amendments to IFRS 2 Share-based Payment — Vesting Conditions and Cancellations ¹
IFRS 3 (Revised)	Business Combinations ³
IFRS 8	Operating Segments ¹
IAS 23 (Revised)	Borrowing Costs ¹
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IAS 32 & IAS 1 (amendment)	Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation ³
IFRIC-13	Customer Loyalty Programmes ²

- ¹ Effective for annual periods beginning on or after 1 January 2009
- ² Effective for annual periods beginning on or after 1 July 2008
- ³ Effective for annual periods beginning on or after 1 July 2009

The amendments to IAS 27 and IFRS 1 were issued in May 2008 and become effective for financial years beginning on or after 1 January 2009. These amendments i) allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of an investment in a subsidiary, jointly controlled entity or associate in the separate financial statements; and ii) remove the definition of the cost method from IAS 27 and replace it with a requirement to present dividends as income in the separate financial statements of the investor. The Company expects to adopt the amendments to IAS 27 and IFRS 1 from 1 January 2009. The amendments are unlikely to have significant financial impact on the Company.

IFRS 8 will replace IAS 14 and has modified the disclosure requirements of IAS 14 relating to segment reporting. The standard requires the disclosure of information about the operating segments of the Company, the products and services provided by the segments, the geographical areas in which the Company operates, and revenues from the Company's major customers. The Company expects to adopt IFRS 8 from 1 January 2010. The revised standard is unlikely to have significant financial impact on the Company.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Company's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have significant financial impact on the Company.

IFRIC-13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale.

The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

As the Company currently has no customer loyalty award credits and defined benefit scheme, IFRIC-13 is not applicable to the Company and therefore are unlikely to have any financial impact on the Company.

IAS 1 (Revised) Presentation of financial statements replaces IAS 1 (revised in 2004) as amended in 2005 and establishes the amendments to the presentation of information in the financial statements. It requires the presentation of recognised income and expenses in a statement of comprehensive income, separately from owner changes in equity. All other non-owner changes in equity and related current and deferred tax should also be presented separately from the owner changes in equity. IAS 1 (Revised) also requires, as a minimum, the presentation of three statements of financial position (balance sheet) in a complete set of financial statements whenever there is a prior period adjustment or a reclassification of items in the financial statements — as at the end of current period, the end of comparative period and the beginning of the comparative period. Dividends recognised as distributions to owners and related per share amounts should be presented on the face of statements of changes in equity or in the notes but not on the face of comprehensive income or the face of income statement.

The Company will apply IAS 1 (Revised) in its financial statements for the period commencing from 1 January 2009. Management does not expect any material impact from adopting IAS 1 (Revised) on the financial statements of the Company.

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation will now permit a range of entities to recognise their capital as equity rather than financial liabilities, as currently required

by IAS 32. IAS 1 has also been amended to require additional disclosures for puttable financial instruments classified as equity, which mirror those currently required for financial liabilities (in accordance with IFRS 7 Financial Instruments: Disclosures) and for capital (in accordance with IAS 1 Presentation of Financial Statements). As the Company currently has no puttable financial instruments, the revised standard is unlikely to have any financial impact on the Company.

IFRS 3 (Revised) and IAS 27 (Revised) will significantly change the accounting for acquisitions and transactions of non-controlling interests (formerly minority interests). IFRS 3 (Revised) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) is effective for annual periods beginning on or after 1 July 2009. These two standards can be early applied only for annual periods beginning on or after 30 June 2007 on the condition that they are applied at the same time. IAS 27 (Revised) shall be applied retrospectively with a few exceptions. The Company expects to adopt them on 1 January 2010.

IFRS 2 Amendment *Share-based Payment — Vesting Conditions and Cancellations* will become effective for annual periods beginning on or after 1 January 2009 with earlier application permitted. The amendment aims to clarify the definition of “vesting condition”, introducing the term “non-vesting condition” for conditions other than vesting conditions; and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.

Previously, IFRS 2 dealt only with situations where an entity cancels an award. As the Company currently has no share-based payment arrangement, the revised standard is unlikely to have any financial impact on the Company.

The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in these financial statements:

Reclassification from construction in progress to property, plant and equipment

The Company determines when the construction in progress is in the location and condition to be operated in the manner intended by management (i.e. ready for use) and has developed criteria in making that judgement on an individual asset basis.

Estimation uncertainty

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 assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 13 to the Financial Information.

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

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involvement of management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have impact on the carrying amounts of the inventories and the write-down charge/write-back in the period in which these estimate has been changed. Further details are contained in note 7 to the Financial Information.

(c) 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 note 3 to the Financial Information. 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. Further details are contained in note 7 to the Financial Information.

5 SEGMENT INFORMATION

No business or geographical segments information is presented as over 90% of the Company's operations are related to the sale of phosphoric fertilisers, and over 90% of the sale of fertilisers and assets are located in the PRC.

6 REVENUE

Revenue, which is also the Company's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT"), after allowances for returns and discounts.

7 (LOSS)/PROFIT BEFORE TAX

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

		From 12 August 2005 to 31 December 2005	Year ended 31 December 2006	2007	Six-month period ended 30 June 2007	2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
Cost of inventories sold		163,139	615,810	915,356	458,514	617,374
Depreciation	11	15,637	63,448	76,374	27,293	39,402
Amortisation of prepaid land lease payments	12	—	—	42	—	253
Loss on inventory count		—	2,230	—	—	—
Impairment on inventories	14	—	—	9,309	9,309	—
Auditors' remuneration		50	60	70	—	—
Employee benefits expense (including directors' and supervisors' remuneration — note 8 below):						
Wages and salaries		4,274	18,664	28,209	12,356	17,660
Defined contribution pension scheme		474	2,505	1,997	813	1,043
Medical benefit costs		175	887	684	277	306
Housing fund		—	—	431	175	438
Loss on items of property, plant and equipment written-off		—	—	24,818	—	—
Impairment of items of property, plant and equipment	11	<u>129,866</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

8 DIRECTORS' AND SUPERVISORS' REMUNERATION

There is no remuneration of each of the directors and supervisors of the Company for the Relevant Periods.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Company during the Relevant Periods included one director, details of whose remuneration are set out in note 8 above. Details of remuneration 4 non-directors, highest paid individuals for the Relevant Periods are analysed as follows:

	Number of individuals				
	From 12 August 2005 to 31 December 2005	Year ended 31 December		Six-month period ended 30 June	
		2006	2007	2007 (unaudited)	2008
Directors and supervisors	1	1	1	1	1
Non-director and non-supervisor employees	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

Details of the remuneration of the above non-director and non-supervisor, highest paid employees during the years ended 31 December 2005, 2006 and 2007, and periods ended 30 June 2007 and 2008 are as follows:

	From 12 August 2005 to 31 December 2005	Year ended 31 December		Six-month period ended 30 June	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Salaries, housing benefits, other allowances and benefits in kind	<u>165</u>	<u>493</u>	<u>1,112</u>	<u>506</u>	<u>411</u>

The remuneration of all of these non-director and non-supervisor, highest paid employees fell within the band from nil to HKD 1,000,000 for the Relevant Periods.

10 INCOME TAX EXPENSE

	From 12 August 2005 to 31 December 2005	Year ended 31 December		Six-month period ended 30 June	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Current — PRC					
Charge for the year	—	913	40,683	12,272	28,047
Deferred (<i>note 13</i>)	<u>(53,696)</u>	<u>10,203</u>	<u>7,439</u>	<u>10,587</u>	<u>767</u>
Total tax charge for the year	<u>(53,696)</u>	<u>11,116</u>	<u>48,122</u>	<u>22,859</u>	<u>28,814</u>

Under the relevant PRC Corporate Income Tax Law and the respective regulations, the Company is subject to corporate income tax ("CIT") at the rate of 33% prior to 2008, and 25% in 2008.

A reconciliation of the income tax expense applicable to profit before tax using the statutory rates for the country in which the Company is domiciled to the income tax expense at the effective tax rates is as follows:

	12 August to 31 December 2005 RMB'000	Year ended 31 December 2006 RMB'000	2007 RMB'000	Six-month period ended 30 June 2007 RMB'000 (unaudited)	2008 RMB'000
(Loss)/profit before tax	(165,320)	26,580	98,184	33,509	113,977
Tax at the statutory tax rate of 33% (2008: 25%)	(54,556)	8,771	32,401	11,058	28,494
Expenses not deductible for tax	860	2,345	4,184	1,271	320
Effect on change in tax rate	—	—	11,537	10,530	—
	<u>(53,696)</u>	<u>11,116</u>	<u>48,122</u>	<u>22,859</u>	<u>28,814</u>
The Company's effective income tax rate	<u>32%</u>	<u>42%</u>	<u>49%</u>	<u>68%</u>	<u>25%</u>

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Mining structures and mining rights RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At date of incorporation							
Additions	485,893	474,339	4,513	14,327	83,649	—	1,062,721
At 31 December 2005 and 1 January 2006	485,893	474,339	4,513	14,327	83,649	—	1,062,721
Additions	—	2,537	3,834	1,557	643	3,423	11,994
Transfers	—	3,316	—	—	—	(3,316)	—
At 31 December 2006 and 1 January 2007	485,893	480,192	8,347	15,884	84,292	107	1,074,715
Additions	308	5,282	51,140	7,529	1,657	6,729	72,645
Disposals	—	(25,157)	—	(82)	(4,820)	—	(30,059)
Transfers	2,766	3,064	—	—	—	(5,830)	—
At 31 December 2007 and 1 January 2008	488,967	463,381	59,487	23,331	81,129	1,006	1,117,301
Additions	—	5,342	320	605	3,271	4,233	13,771
At 30 June 2008	488,967	468,723	59,807	23,936	84,400	5,239	1,131,072
Accumulated depreciation and impairment losses							
At date of commencement	—	—	—	—	—	—	—
Charge for the year	(5,462)	(8,045)	(73)	(418)	(1,639)	—	(15,637)
Impairment	(6,209)	(122,199)	—	(604)	(854)	—	(129,866)
At 31 December 2005 and 1 January 2006	(11,671)	(130,244)	(73)	(1,022)	(2,493)	—	(145,503)
Charge for the year	(21,851)	(32,391)	(772)	(1,813)	(6,621)	—	(63,448)
At 31 December 2006 and 1 January 2007	(33,522)	(162,635)	(845)	(2,835)	(9,114)	—	(208,951)
Charge for the year	(25,410)	(31,028)	(1,399)	(3,326)	(15,211)	—	(76,374)
Disposals	—	3,879	—	30	1,620	—	5,529
At 31 December 2007 and 1 January 2008	(58,932)	(189,784)	(2,244)	(6,131)	(22,705)	—	(279,796)
Charge for the year	(12,886)	(16,393)	(388)	(2,045)	(7,690)	—	(39,402)
At 30 June 2008	(71,818)	(206,177)	(2,632)	(8,176)	(30,395)	—	(319,198)
Net carrying amount							
At 31 December 2005	474,222	344,095	4,440	13,305	81,156	—	917,218
At 31 December 2006	452,371	317,557	7,502	13,049	75,178	107	865,764
At 31 December 2007	430,035	273,597	57,243	17,200	58,424	1,006	837,505
At 30 June 2008	417,149	262,546	57,175	15,760	54,005	5,239	811,874

Impairment losses of approximately RMB129,866,000 were recognised in the income statement for the period ended 31 December 2005; these mainly represented the write-down of certain buildings, plant and equipment, motor vehicles, and electronic equipment to their recoverable amounts. The recoverable amounts were determined based on the fair values from independent valuations less costs to sell.

Assets without building ownership certificates

As at 31 December 2005, 2006 and 2007, and 30 June 2008, the Company has yet to obtain building ownership certificates for certain buildings with net book values of approximately RMB2,581,000, RMB2,511,000, RMB2,387,000 and RMB2,325,000 respectively.

12 PREPAID LAND LEASE PAYMENTS

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year/period	—	—	—	25,268
Additions	—	—	25,310	—
Amortisation for the year	—	—	(42)	(253)
Carrying amount at end of the year/period	—	—	25,268	25,015
Current portion included in prepayments, deposits and other receivables	—	—	(506)	(506)
Non-current portion	—	—	24,762	24,509

13 DEFERRED TAXATION

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

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	—	53,696	43,493	36,054
Deferred tax charged to the income statement during the year/period (note 10)	53,696	(10,203)	(7,439)	(767)
At end of the year/period	53,696	43,493	36,054	35,287

The Company's deferred tax assets and deferred tax liabilities are attributed to the following items, which are reflected in the balance sheets:

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets				
Impairment of items of property, plant and equipment	42,856	42,856	34,794	34,794
Unutilised tax losses	10,855	—	—	—
Loss on inventory count	—	736	558	558
Impairment on inventories	—	—	6,204	6,204
	<u>53,711</u>	<u>43,592</u>	<u>41,556</u>	<u>41,556</u>
Deferred tax liabilities				
Difference in depreciation and amortisation between tax regulations and accounting policies	15	99	169	239
Gain on debt restructuring	—	—	3,343	2,711
Safety fund payable	—	—	1,990	3,319
	<u>15</u>	<u>99</u>	<u>5,502</u>	<u>6,269</u>

14 INVENTORIES

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	36,551	88,890	147,985	238,452
Work in progress	5,106	6,113	36,002	10,113
Finished goods	25,746	27,618	12,920	100,227
Consumables	387	357	267	218
Spare parts	475	646	2,039	2,976
Semi-finished goods	31,700	30,910	49,571	71,560
Construction materials	<u>2,373</u>	<u>1,283</u>	<u>1,668</u>	<u>1,333</u>
	102,338	155,817	250,452	424,879
Provision for impairment	<u>—</u>	<u>—</u>	<u>(9,309)</u>	<u>(9,309)</u>
	<u>102,338</u>	<u>155,817</u>	<u>241,143</u>	<u>415,570</u>

15 TRADE RECEIVABLES

Sales of the Company's fertilisers 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 Company may agree that the sales can be settled by commercial acceptance drafts. Allowance for trade receivables is provided when it is considered that the trade receivable amounts may not be fully recovered.

An analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follow:

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Third parties	22,874	35,231	16,708	16,912
Related parties (<i>note 26</i>)	—	64	120	120
Less: Allowance for trade receivables	—	—	—	—
	<u>22,874</u>	<u>35,295</u>	<u>16,828</u>	<u>17,032</u>

The amounts due from related parties are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

The trading terms of the Company with certain long-standing customers are on credit. The credit period is generally 30 days.

All the trade receivables were aged within six months.

The carrying amounts of the trade receivables approximate to their fair values.

16 BILLS RECEIVABLE

The bills receivable of the Company as at 31 December 2005, 2006 and 2007, and 30 June 2008 all mature within six months.

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to suppliers	34,512	8,065	24,262	15,924
Prepayments	7,256	7,972	15,091	17,515
Deposits and other receivables	1,622	1,786	5,755	8,013
Prepaid land lease payments — current portion (<i>note 12</i>)	—	—	506	506
Staff advances	660	436	350	797
Amounts due from related parties — non-trade	—	8,847	30,762	994
	<u>44,050</u>	<u>27,106</u>	<u>76,726</u>	<u>43,749</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

The amounts due from related parties are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

The carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

18 CASH AND CASH EQUIVALENTS

	31 December		30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			2008
			<i>RMB'000</i>
Cash and bank balances and cash and cash equivalents in the cash flow statements	<u>34,555</u>	<u>205,194</u>	<u>118,830</u>
			<u>112,297</u>

As at 30 June 2008, included in the Company's cash and cash equivalents was RMB524,000 (31 December 2007: RMB30,276,000; 31 December 2006: Nil; 31 December 2005: Nil) deposited with CNOOC Finance Corporation Limited ("CNOOC Finance"), a related party under CNOOC Group. The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

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

19 PAID-IN CAPITAL

	31 December		30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			2008
			<i>RMB'000</i>
Registered, issued and fully paid	<u>1,000,624</u>	<u>1,000,624</u>	<u>1,000,624</u>
			<u>1,000,624</u>

20 RESERVES

The amounts of the Company's reserves and the movements therein for the Relevant Periods are presented in the statement of changes in equity.

Under the PRC Company Law and the Company's articles of association approved on August 9, 2005 and January 28, 2008 (revised), net profit after tax could only be distributed as dividends after an allowance has been made for the following:

- (i) Making up prior years' cumulative losses, if any;
- (ii) Allocations to the statutory common reserve fund of at least 10% of profit after tax, until the fund aggregates to 50% of the Company's share capital. For the purpose of calculating the amount of transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders; and
- (iii) Allocations to the discretionary common reserve if approved by the shareholders.

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

21 INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	31 December		2007	30 June 2008
			2005 RMB'000	2006 RMB'000	RMB'000	RMB'000
Current						
Bank loans — unsecured						
RMB loan	5.85%–7.47%	1 year	—	60,000	—	40,000

During the Relevant Periods, the Company's interest-bearing loans were denominated in RMB. As at 30 June 2008, there was RMB40 million (31 December 2006: RMB60 million; 31 December 2005: Nil) borrowed from China CITIC Bank with a fixed interest rate of 7.47% per annum for the Relevant Periods.

The carrying amounts of the Company's bank and other borrowings approximate their fair values.

22 OTHER LONG-TERM LIABILITIES

	31 December		2007	30 June 2008
	2005 RMB'000	2006 RMB'000	RMB'000	RMB'000
Payable to Finance Bureau of Hubei (i)	—	—	71,618	69,157
Payable for mining rights (ii)	—	—	40,406	41,940
Due within one year	—	—	(20,990)	(36,000)
	—	—	91,034	75,097

Notes:

- (i) According to an agreement signed between the Company and the Hubei SASAC in 2007, Hubei SASAC, which had taken over control of Jing Xiang Chemical Group Co., Ltd. ("Jing Xiang"), agreed to extend the payment term of the previous current liability due to Jing Xiang of RMB85 million. In 2007, RMB5 million was repaid as the first repayment, and from 2008 to 2011, the Company needs to pay RMB20 million each year. As requested by the Hubei SASAC, the payment is payable to the Hubei Finance Bureau.
- (ii) This represents a payable for the acquisition of mining rights which is to be settled over a period of five years from 2007 to 2010.

23 TRADE AND BILLS PAYABLES

	31 December		2007	30 June 2008
	2005 RMB'000	2006 RMB'000	RMB'000	RMB'000
Trade payables	5,916	42,627	13,702	29,457
Bills payable	—	60,000	—	13,750
	5,916	102,627	13,702	43,207

An aging analysis of trade payables, based on invoice dates, of the Company is as follows:

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Within six months	5,916	102,467	12,785	42,298
Over six months but within one year	—	160	336	777
Over one year but within two years	—	—	581	—
Over two years but within three years	—	—	—	132
	<u>5,916</u>	<u>102,627</u>	<u>13,702</u>	<u>43,207</u>

The carrying amount of these balances approximate to their fair values.

The trade and bills payables are non-interest-bearing, unsecured and are normally settled from 30 to 60 days.

24 OTHER PAYABLES AND ACCRUALS

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	14,335	97,455	124,901	64,975
Accrued payroll	2,344	5,195	4,401	3,503
Other tax payables	8,124	25,535	44,265	38,020
Other payables	96,043	114,585	48,531	44,700
Long-term liabilities due within one year	—	—	20,990	36,000
Payables in relation to the construction and purchase of items of property, plant and equipment	37,719	14,586	7,902	5,483
Due to the immediate holding company	130,755	42,416	—	—
Due to related parties	<u>1,635</u>	<u>1,635</u>	<u>—</u>	<u>—</u>
	<u>290,955</u>	<u>301,407</u>	<u>250,990</u>	<u>192,681</u>

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

25 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

	31 December			30 June
	2005	2006	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
— Acquisition of plant and machinery	<u>—</u>	<u>49,192</u>	<u>37,340</u>	<u>46,635</u>

(ii) At each of the balance sheet dates, the Company did not have any significant contingent liabilities.

26 RELATED PARTY TRANSACTIONS

During the relevant period, the Company had the following material transactions with related parties:

(1) Related party transactions

		12 August to 31 December 2005	Year ended 31 December 2006	2007	Six-month period ended 30 June 2007	2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
Sale of goods	(i)	—	2,543	4,336	—	2,890
Purchase of raw materials	(i)	74,340	68,701	152,120	53,278	175,639
Other services received	(ii)	—	—	150	7	—
Interest expense paid	(iii)	1,282	6,438	—	—	945
Interest income received	(iii)	—	—	—	—	48

Notes:

- (i) Sales of goods were based on mutually agreed terms with reference to the market rate.
- (ii) These services were charged 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.

(2) Balances with related parties

		31 December 2005	2006	2007	30 June 2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(A) Due from related parties					
Fellow subsidiaries under CNOOC					
— Trade		—	8,911	30,882	1,114
(B) Due to related parties					
Immediate holding company					
— Trade		—	86,143	—	12,045
— Non-trade		130,755	42,416	—	—
Fellow subsidiaries under CNOOC					
— Trade		—	—	—	2,652
— Non-trade		1,635	1,635	—	—
(C) Deposits placed by the Company with CNOOC Finance		—	—	30,276	524

(3) Compensation of key management personnel of the Company

	12 August to 31 December 2005	Year ended 31 December 2006	2007	Six-month period ended 30 June 2007	2008
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Total compensation paid to key management personnel	<u>165</u>	<u>493</u>	<u>1,112</u>	<u>506</u>	<u>411</u>

Further details of directors' and supervisors' emoluments are set out in note 8 to the Financial Information.

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

The Company 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 organisations (collectively the "State-owned Enterprises"). During the year, the Company had transactions with the State-owned Enterprises including, but not limited to, the sale of fertilisers and purchases of raw materials. The management considers that transactions with such other State-owned Enterprises are activities in the ordinary course of the Company's business, and that the dealings of the Company have not been significantly or unduly affected by the fact that the Company and such other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Company 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 management is of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments other than derivatives comprise bank loans, other interest-bearing loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company 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 Company's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk. The Company does not hold or issue derivative financial instruments either for hedging or for trading purposes. The Directors of the Company review and agree policies for managing each of the risks and they are summarised below:

(i) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's cash and cash equivalents and short term debt obligations. Borrowings at floating rates expose the Company to interest-rate risk. Borrowings at fixed rates expose the Company to fair value interest-rate risk. Since the Company mainly enters into short term fixed interest rate loans, there is no significant fair value interest rate risk. The Company has not used any interest rate swaps to hedge its exposure to interest rate risk. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short term.

(ii) Foreign currency risk

The Company had minimal transactional currency exposures.

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

(iii) Credit risk

The carrying amounts of the Company's cash and cash equivalents, trade receivables, other receivables and other current assets except for prepayments and tax recoverable represent the Company's maximum exposure to credit risk in relation to its financial assets.

The majority of the Company's trade receivables are related to the sale of fertilisers. The sale of fertilisers is normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. The trading terms of the Company with its long standing customers are mainly on credit. The credit period is generally one month.

It is the Company'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 Company's exposure to bad debts is not significant.

Since the Company trades only with recognised and creditworthy third parties, there is no requirement for collateral. There is no concentrations of credit risk are managed by customer and by geographical region.

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

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from maturity mismatches of the maturities of financial assets and liabilities. The Company's objective of liquidity management is to ensure there are sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Company's ability to meet operation demand, to repay borrowings as they mature, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the finance department under the direction of general manager and financial controller. The finance department is responsible for ensuring that the Company has adequate liquidity for all operations.

The maturity profile of the Company's financial liabilities as at the balance sheet dates, based on the contracted undiscounted payments, was as follows:

	1 year or less	1 to 3 years	Over 3 years	Total
2005				
Interest-bearing bank and other borrowings	—	—	—	—
Trade payables	5,916	—	—	5,916
Other payables	290,955	—	—	290,955
	<u>296,871</u>	<u>—</u>	<u>—</u>	<u>296,871</u>
2006				
Interest-bearing bank and other borrowings	60,000	—	—	60,000
Trade payables	102,627	—	—	102,627
Other payables	180,524	120,883	—	301,407
	<u>343,151</u>	<u>120,883</u>	<u>—</u>	<u>464,034</u>
2007				
Interest-bearing bank and other borrowings	—	—	—	—
Trade payables	13,121	581	—	13,702
Other payables	242,665	8,325	—	250,990
	<u>255,786</u>	<u>8,906</u>	<u>—</u>	<u>264,692</u>
2008				
Interest-bearing bank and other borrowings	40,000	—	—	40,000
Trade payables	43,075	132	—	43,207
Other payables	158,859	33,822	—	192,681
	<u>241,934</u>	<u>33,954</u>	<u>—</u>	<u>275,888</u>

(v) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes of managing capital during the period from date of incorporation to 31 December 2005, the years ended 31 December 2006 and 2007, and the six months ended 30 June 2008.

The Company monitors capital on the basis of the debt to capitalisation ratio, which is calculated as interest bearing debts divided by total capital plus interest bearing debts.

	2005	31 December 2006	2007	30 June 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans (<i>note 21</i>)	—	60,000	—	40,000
Equity attributable to the equity holders of the Company	<u>889,000</u>	<u>904,464</u>	<u>954,526</u>	<u>1,039,689</u>
Total capital	<u>889,000</u>	<u>904,464</u>	<u>954,526</u>	<u>1,039,689</u>
Capital and net debt	<u>889,000</u>	<u>964,464</u>	<u>954,526</u>	<u>1,079,689</u>
Gearing ratio	<u>—</u>	<u>6%</u>	<u>—</u>	<u>4%</u>

III. POST BALANCE SHEET EVENTS

On 18 August 2008, CNCCC, the immediate holding company, transferred its 83.17% equity interest in the Company to the ultimate holding company, CNOOC.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2008.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a report dated 31 December 2008, prepared for the purpose of inclusion in the circular, received from Ernst & Young, Certified Public Accountants.



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

31 December 2008

The Board of Directors
China BlueChemical Ltd.

Dear Sirs,

We set out below our report on the financial information regarding ZHJ Mining Co., Ltd. (the “Company”) for the period from 31 July 2006 (date of incorporation) to 31 December 2006, the year ended 31 December 2007 and the six-month period ended 30 June 2008 (the “Relevant Periods”)(the “Financial Information”), and the six-month period ended 30 June 2007 (the “30 June 2007 Financial Information”) prepared on the basis set out in Note 2 of Section II, for inclusion in the circular of China BlueChemical Ltd. (“Blue Chemical”) dated 31 December 2008 (the “Circular”) in connection with the proposed acquisition of the entire equity interest in the Company.

The Company was established in the People’s Republic of China (the “PRC”) on 31 July 2006 with limited liability. During the Relevant Periods, the Company was principally engaged in the exploitation and sale of phosphate ore and phosphate concentrate.

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.

The Company has adopted 31 December as its financial year end date. The Directors have prepared the statutory accounts of the Company in accordance with the accounting principles and the relevant financial regulations of the PRC (“PRC GAAP”) for which the Directors are solely responsible. The statutory accounts of the Company were audited by PRC registered certified public accountants, 中瑞岳華會計師事務所 (Zhongrui Yuehua Certified Public Accountants*) and 天職國際會計師事務所 (Vocation International Certified Public Accountants Co. Ltd.*) for 2006 and 2007 respectively.

For the purpose of this report, the Directors of the Company have prepared the income statements, statements of changes in equity and cash flow statements of the Company for the Relevant Periods and the balance sheets of the Company as at 31 December 2006, 2007 and 30 June 2008, together with the notes thereto set out in this report in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (the “IASB”). The Directors of the Company are responsible

* For identification purpose only

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, after making such adjustments as considered appropriate, which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements 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 six-month period ended 30 June 2007, 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 such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

PROCEDURES PERFORMED IN RESPECT OF THE 30 JUNE 2007 FINANCIAL INFORMATION

For the purpose of this report, we have performed a review of the financial information for the six months ended 30 June 2007, which includes the income statement, cash flow statement and statement of changes in equity for the six months ended 30 June 2007, for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. No adjustments were considered necessary to adjust the IFRS Financial Statements to conform with the accounting policies referred to in Note 2 of Section II of this report for the Relevant Periods.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION FOR THE RELEVANT PERIODS

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the results and cash flows of the Company for each of the Relevant Periods and of the state of affairs of the Company as at 31 December 2006 and 2007, and 30 June 2008.

REVIEW CONCLUSION IN RESPECT OF THE 30 JUNE 2007 FINANCIAL INFORMATION

On the basis of our review of the 30 June 2007 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 Company presented for the six-month period ended 30 June 2007.

I. FINANCIAL INFORMATION

Income Statement

		31 July to 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2007	2008
	Notes	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
REVENUE	6	36,009	120,330	54,137	51,832
Cost of sales		<u>(9,180)</u>	<u>(42,584)</u>	<u>(18,924)</u>	<u>(17,025)</u>
Gross profit		26,829	77,746	35,213	34,807
Excess over the cost of a business combination	12	4,407	—	—	—
Selling and distribution costs		(441)	(1,877)	(551)	(624)
Administrative expenses		(8,808)	(32,055)	(14,498)	(14,619)
Finance revenue		66	180	58	16
Finance costs		(7)	—	—	(502)
Others, net		<u>(3,697)</u>	<u>243</u>	<u>(65)</u>	<u>(4)</u>
PROFIT BEFORE TAX	7	18,349	44,233	20,157	19,074
Income tax expense	10	<u>(5,638)</u>	<u>(15,893)</u>	<u>(6,722)</u>	<u>(5,575)</u>
PROFIT FOR THE YEAR/ PERIOD		<u>12,711</u>	<u>28,340</u>	<u>13,435</u>	<u>13,499</u>

Balance sheet

		31 December		30 June
		2006	2007	2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	11	93,356	124,738	140,488
Intangible assets		—	463	437
Deferred tax assets	13	<u>1,500</u>	<u>1,946</u>	<u>3,695</u>
		<u>94,856</u>	<u>127,147</u>	<u>144,620</u>
CURRENT ASSETS				
Inventories	14	1,642	1,555	7,444
Trade receivables	15	—	—	2,602
Bills receivable	16	10,540	5,754	1,800
Prepayments, deposits and other receivables	17	23,801	9,267	9,674
Loans receivable	18	—	20,000	—
Cash and cash equivalents	19	<u>8,431</u>	<u>5,816</u>	<u>4,850</u>
		<u>44,414</u>	<u>42,392</u>	<u>26,370</u>
TOTAL ASSETS		<u><u>139,270</u></u>	<u><u>169,539</u></u>	<u><u>170,990</u></u>

		31 December		30 June
		2006	2007	2008
	Notes	RMB'000	RMB'000	RMB'000
EQUITY AND LIABILITIES				
Paid-in capital	20	50,000	50,000	50,000
Reserves	21	<u>12,711</u>	<u>41,051</u>	<u>54,550</u>
TOTAL EQUITY		<u><u>62,711</u></u>	<u><u>91,051</u></u>	<u><u>104,550</u></u>
NON-CURRENT LIABILITIES				
Other long-term liabilities	22	—	10,277	10,763
Deferred tax liabilities	13	<u>3,169</u>	<u>4,988</u>	<u>6,055</u>
		<u><u>3,169</u></u>	<u><u>15,265</u></u>	<u><u>16,818</u></u>
CURRENT LIABILITIES				
Trade payables	23	832	5,583	3,550
Other payables and accruals	24	67,034	43,750	30,879
Income tax payable		<u>5,524</u>	<u>13,890</u>	<u>15,193</u>
		<u><u>73,390</u></u>	<u><u>63,223</u></u>	<u><u>49,622</u></u>
TOTAL LIABILITIES		<u><u>76,559</u></u>	<u><u>78,488</u></u>	<u><u>66,440</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>139,270</u></u>	<u><u>169,539</u></u>	<u><u>170,990</u></u>

Statement of Changes in equity

	Paid-in capital <i>RMB'000</i>	Statutory surplus reserves <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
As at date of incorporation				
Capital contribution from a shareholder	50,000	—	—	50,000
Profit for the period	—	—	12,711	12,711
Transfer from retained profits	—	1,271	(1,271)	—
As at 31 December 2006 and 1 January 2007	50,000	1,271	11,440	62,711
Profit for the year	—	—	28,340	28,340
Transfer from retained profits	—	2,834	(2,834)	—
As at 31 December 2007 and 1 January 2008	50,000	4,105	36,946	91,051
Profit for the period	—	—	13,499	13,499
As at 30 June 2008	<u>50,000</u>	<u>4,105</u>	<u>50,445</u>	<u>104,550</u>
As at 31 December 2006 and 1 January 2007	50,000	1,271	11,440	62,711
Profit for the period (unaudited)	—	—	13,435	13,435
As at 30 June 2007 (unaudited)	<u>50,000</u>	<u>1,271</u>	<u>24,875</u>	<u>76,146</u>

Cash flow statement

		31 July to 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2007	2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		18,349	44,233	20,157	19,074
Adjustments for:					
Finance costs		7	—	—	502
Interest income		(66)	(180)	(58)	(16)
Interest income from entrusted loan		—	(207)	—	(176)
Depreciation of items of property, plant and equipment	11	3,220	10,618	4,487	6,235
Amortisation of intangible assets		—	37	12	25
Impairment of items of property, plant and equipment	11	2,593	4,380	150	114
Provision/(write-back of provision) for bad and doubtful receivables	15	1,711	(1,018)	—	70
Excess over the cost of a business combination	12	(4,407)	—	—	—
(Increase)/decrease in inventories		(705)	87	1,150	(5,889)
(Increase)/decrease in trade and bills receivables, prepayments, deposits and other receivables		(34,120)	20,336	10,657	875
Increase/(decrease) in trade payables, other payables and accruals		<u>22,307</u>	<u>7,913</u>	<u>(5,299)</u>	<u>(12,732)</u>
Cash generated from operations		8,889	86,199	31,256	8,082
Taxes paid		<u>(616)</u>	<u>(6,155)</u>	<u>(1,063)</u>	<u>(4,952)</u>
Net cash inflow from operating activities		<u><u>8,273</u></u>	<u><u>80,044</u></u>	<u><u>30,193</u></u>	<u><u>3,130</u></u>

		31 July to 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2007	2008
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		66	387	58	192
Purchases of items of property, plant and equipment		(4,901)	(39,261)	(13,385)	(24,272)
Payment for acquisition of a business	12	(45,000)	(23,285)	(4,200)	—
Additions to intangible assets		—	(500)	—	—
Advance of entrusted loan		—	(20,000)	—	—
Repayment of entrusted loan		—	—	—	20,000
Net cash outflow from investing activities		<u>(49,835)</u>	<u>(82,659)</u>	<u>(17,527)</u>	<u>(4,080)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid		(7)	—	—	(16)
Capital contribution from a shareholder		<u>50,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash inflow/(outflow) from financing activities		<u>49,993</u>	<u>—</u>	<u>—</u>	<u>(16)</u>
NET INCREASE/ (DECREASE)IN CASH AND CASH EQUIVALENTS		8,431	(2,615)	12,666	(966)
Cash and cash equivalents at beginning of year/period		<u>—</u>	<u>8,431</u>	<u>8,431</u>	<u>5,816</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>8,431</u>	<u>5,816</u>	<u>21,097</u>	<u>4,850</u>

II. NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 31 July 2006 as a limited liability company under the name of ZHJ Mining Co., Ltd (中化建礦業有限公司). The registered office of the Company is located at Huji Town, Zhongxiang City, Hubei Province, the PRC.

At the date of this report, the Company is wholly owned and controlled by China National Offshore Oil Corporation ("CNOOC"), a state-owned enterprise established in the PRC. In the opinion of the directors of the Company (the "Directors"), the holding company is CNOOC.

During the Relevant Periods, the Company was principally engaged in the exploitation and sale of phosphate ore, and phosphate concentrate.

2 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 Years:

IFRS 1	First-Time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IAS 1 (revised)	Presentation of Financial Statements
IAS 1 (amendment)	Capital Disclosures
IAS 2 (revised)	Inventories
IAS 7 (amended)	Cash Flow Statements
IAS 8 (revised)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (amended)	Events after the Balance Sheet Date
IAS 12 (amended)	Income Taxes
IAS 14 (amended)	Segment Reporting
IAS 16 (amended)	Property, Plant and Equipment
IAS 17 (amended)	Leases
IAS 18 (amended)	Revenue
IAS 19 (amended)	Employee Benefits
IAS 20 (amended)	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 (amended)	The Effects of Changes in Foreign Exchange Rates
IAS 23 (amended)	Borrowing Costs
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Financial Instruments: Presentation
IAS 34 (amended)	Interim Financial Reporting
IAS 36 (amended)	Impairment of Assets
IAS 37 (amended)	Provisions, Contingent Liabilities and Contingent Assets
IAS 38 (amended)	Intangible Assets
IAS 39 (amended)	Financial Instruments: Recognition and Measurement
IFRIC- 4	Determining Whether an Arrangement Contains a Lease
IFRIC-10	Interim Financial Reporting and Impairment
IFRIC-11	IFRS 2 — Company and Treasury Share Transactions
IFRIC-12	Service Concession Arrangements
IFRIC-14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Financial Information has been prepared under the historical cost convention. The Financial Information has been presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Business combinations and goodwill

Business combinations are accounted for using the purchase method.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

Related parties

A party is considered to be related to the Company 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; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;
- (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, or of any entity that is a related party of the Company.

Impairment of non-financial 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 recognised 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 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 recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, which consist of buildings, mining structures and mining rights, mining related machinery and equipment, motor vehicles, and other 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 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 capitalised as an additional cost of that asset or as a replacement.

Other than mining structures and mining rights, 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	4.75%
Plant and machinery	4.75% to 9.50%
Motor vehicles	19%
Electronic equipment	19%
Office and other equipment	19%
Mining related machinery and equipment	19%

Mining structures and mining rights are depreciated on a unit-of-production ("UOP") method utilising only proved and probable phosphate reserves in the depletion base.

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.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant, 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 capitalised 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 where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases are charged to the 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 recognised 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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised 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 Company 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 recognised on the trade date that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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 subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 recognised, the previously recognised impairment loss is reversed by adjusting the allowance. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Company will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company 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 Company 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 recognised to the extent of the Company’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 Company 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 Company’s continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to related parties and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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

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

Inventories

Inventories are valued at the lower of cost and net realisable 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 labour and an appropriate proportion of overheads based on normal operating capacity but excluding borrowing costs

Net realisable 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 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 sheet, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised 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 utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at 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 utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised 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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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 recognised 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 recognised 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 income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the provision of services is started and completed within the same financial year, revenue is recognised 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 recognised at the balance sheet date on the percentage of completion basis; when the outcome of a transaction cannot be estimated reliably, revenue is recognised 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

Employee benefits*Defined contribution plan*

The Company participates in a government-regulated defined contribution pension scheme, under which the Company makes contributions to a government-regulated pension scheme at a fixed percentage of wages and salaries of the existing full-time employees in the PRC and has no further legal or constructive obligations to make additional contributions. The contributions are recognised as an expense in the period in which the related service is performed.

Medical benefit costs

The Company participates in a government-organised defined contribution medical benefit plans, under which the Company makes contributions to a government-organised medical benefit plan at a fixed percentage of wages and salaries of the existing full-time employees in the PRC and has no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the income statement as incurred.

Housing fund

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these 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 capitalised.

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

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional and presentation currency. 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 the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Impact of issued but not yet effective IFRSs

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these Financial Information.

IFRS 1 and IAS 27 (amendment)	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ¹
IFRS 2 (amendment)	Amendments to IFRS 2 Share-based Payment — Vesting Conditions and Cancellations ¹
IFRS 3 (Revised)	Business Combinations ³
IFRS 8	Operating Segments ¹
IAS 23 (Revised)	Borrowing Costs ¹
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IAS 32 & IAS 1 (amendment)	Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation ³
IFRIC-13	Customer Loyalty Programmes ²

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 July 2009

The amendments to IAS 27 and IFRS 1 were issued in May 2008 and become effective for financial years beginning on or after 1 January 2009. These amendments i) allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of an investment in a subsidiary, jointly controlled entity or associate in the separate financial statements; and ii) remove the definition of the cost method from IAS 27 and replace it with a requirement to present dividends as income in the separate financial statements of the investor. The Company expects to adopt the amendments to IAS 27 and IFRS 1 from 1 January 2009. The amendments are unlikely to have significant financial impact on the Company.

IFRS 8 will replace IAS 14 and has modified the disclosure requirements of IAS 14 relating to segment reporting. The standard requires the disclosure of information about the operating segments of the Company, the products and services provided by the segments, the geographical areas in which the Company operates, and revenues from the Company's major customers. The Company expects to adopt IFRS 8 from 1 January 2010. The revised standard is unlikely to have significant financial impact on the Company.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Company's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have significant financial impact on the Company.

IFRIC-13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale.

The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

As the Company currently has no customer loyalty award credits and defined benefit scheme, IFRIC-13 is not applicable to the Company and therefore are unlikely to have any financial impact on the Company.

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation will now permit a range of entities to recognise their capital as equity rather than financial liabilities, as currently required by IAS 32. IAS 1 has also been amended to require additional disclosures for puttable financial instruments classified as equity, which mirror those currently required for financial liabilities (in accordance with IFRS 7 Financial Instruments: Disclosures) and for capital (in accordance with IAS 1 Presentation of Financial Statements). As the Company currently has no puttable financial instruments, the revised standard is unlikely to have any financial impact on the Company.

IFRS 3 (Revised) and IAS 27 (Revised) will significantly change the accounting for acquisitions and transactions of non-controlling interests (formerly minority interests). IFRS 3 (Revised) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) is effective for annual periods beginning on or after 1 July 2009. These two standards can be early applied only for annual periods beginning on or after 30 June 2007 on the condition that they are applied at the same time. IAS 27 (Revised) shall be applied retrospectively with a few exceptions. The Company expects to adopt them on 1 January 2010.

IFRS 2 Amendment *Share-based Payment — Vesting Conditions and Cancellations* will become effective for annual periods beginning on or after 1 January 2009 with earlier application permitted. The amendment aims to clarify the definition of “vesting condition”, introducing the term “non-vesting condition” for conditions other than vesting conditions; and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.

Previously, IFRS 2 dealt only with situations where an entity cancels an award. As the Company currently has no share-based payment arrangement, the revised standard is unlikely to have any financial impact on the Company.

The Company is in the process of making an assessment of the impact of these new and revised IFRS upon initial application. So far, it has concluded that these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in these financial statements:

Reclassification from construction in progress to property, plant and equipment.

The Company determines when the construction in progress is in the location and condition to be operated in the manner intended by management (i.e. ready for use) and has developed criteria in making that judgement on an individual asset basis.

Estimation uncertainty

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 assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 13 to the Financial Information.

(b) Allowances for trade and other receivables

The provision policy for impairment of trade and other receivables of the Company is based on the ongoing evaluation of the collectibility, and aged analyses of the outstanding receivables and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details are contained in note 7 to the Financial Information.

(c) 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 note 3 to the Financial Information. 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. Further details are contained in note 7 to the Financial Information.

5 SEGMENT INFORMATION

No business or geographical segments information is presented as over 90% of the Company's operations are related to exploitation and sale of phosphate ore, and phosphate concentrate, and over 90% of the Company's customers and assets are located in the PRC.

6 REVENUE

Revenue, which is also the Company's turnover, represents the invoiced values of goods sold, net of value-added tax ("VAT"), after allowances for returns and discounts.

7 PROFIT BEFORE TAX

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

		31 July to 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2007	2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Cost of sales		9,180	42,584	18,924	17,025
Depreciation	11	3,220	10,618	4,487	6,235
Amortisation of intangible assets		—	37	12	25
Auditors' remuneration		89	36	30	—
Employee benefits expense (including directors' and supervisors' remuneration	8				
Wages and salaries		6,117	18,550	7,425	11,528
Defined contribution pension scheme		715	5,091	1,396	1,551
Medical benefit costs		54	764	211	269
Housing fund		—	1,036	417	443
Impairment on items of property, plant and equipment*	11	2,593	4,380	4,380	114
Allowance/(write-back of provision) for bad and doubtful receivables*	15	<u>1,711</u>	<u>(1,018)</u>	<u>—</u>	<u>70</u>

* These items are included in "Others, net" on the face of the income statement.

8 DIRECTORS' AND SUPERVISORS' REMUNERATION

There was no Directors' remuneration paid for the Relevant Period.

Supervisors' remuneration for the Relevant Period is as follows:

		Supervisors		
		31 July to 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)
Salaries, housing benefits, other allowances and benefits in kind		<u>21</u>	<u>17</u>	<u>9</u>

The remuneration of each of the supervisors of the Company for the Relevant Periods is set out below:

31 July to 31 December 2006	
Salaries, housing benefits, other allowances and benefits in kind	Total
<i>RMB'000</i>	<i>RMB'000</i>
Supervisors 付書超	
21	21
Year ended 31 December 2007	
Salaries, housing benefits, other allowances and benefits in kind	Total
<i>RMB'000</i>	<i>RMB'000</i>
Supervisors 付書超	
17	17
Six-month period ended 30 June 2007 (unaudited)	
Salaries, housing benefits, other allowances and benefits in kind	Total
<i>RMB'000</i>	<i>RMB'000</i>
Supervisors 付書超	
9	9
Six-month period ended 30 June 2008 (unaudited)	
Salaries, housing benefits, other allowances and benefits in kind	Total
<i>RMB'000</i>	<i>RMB'000</i>
Supervisors 付書超	
—	—

9 FIVE HIGHEST PAID EMPLOYEES

Details of remuneration five non-directors, highest paid individuals for the Relevant Periods are analysed as follows:

	Number of individuals			
	31 July to 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2007	2008
Directors and supervisors	—	—	—	—
Non-director and non-supervisor employees	5	5	5	5

Details of the remuneration of the above non-director and non-supervisor, highest paid employees during the years ended 31 December 2007 and 2006 are as follows:

	31 July to 31 December 2006 RMB'000	Year ended 31 December 2007 RMB'000	Six-month period ended 30 June 2007 RMB'000 (unaudited)	2008 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	182	454	226	307

The remuneration of all of these non-director and non-supervisor, highest paid employees fell within the band from nil to HKD1,000,000 for the Relevant Periods.

10 INCOME TAX EXPENSE

	31 July to 31 December 2006 RMB'000	Year ended 31 December 2007 RMB'000	Six-month period ended 30 June 2007 RMB'000 (unaudited)	2008 RMB'000
Current — PRC				
Charge for the year	6,139	14,520	6,414	6,257
Deferred	(501)	1,373	308	(682)
Total tax charge for the year	5,638	15,893	6,722	5,575

Under the relevant PRC Corporate Income Tax Law and the respective regulations, the Company is subject to corporate income tax ("CIT") at the rate of 33% prior to 2008, and 25% in 2008.

A reconciliation of the income tax expense applicable to profit before tax using the statutory rates for the country in which the Company is domiciled to the income tax expense at the effective tax rates is as follows:

	31 July to 31 December 2006 RMB'000	Year ended 31 December 2007 RMB'000	Six-month period ended 30 June 2007 RMB'000 (unaudited)	2008 RMB'000
Profit before tax	18,349	44,233	20,157	19,074
Tax at the statutory tax rate of 33% (2008: 25%)	6,055	14,597	6,652	4,768
Income not subject to tax	(1,454)	—	—	—
Expenses not deductible for tax	1,037	2,308	512	807
Effect on deferred tax of change in tax rate	—	(1,012)	(442)	—
Income tax expense reported in the income statement	5,638	15,893	6,722	5,575
The Company's effective income tax rate	31%	36%	33%	29%

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Mining structures and mining rights <i>RMB'000</i>	Machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost								
At date of incorporation	—	—	—	—	—	—	—	—
Acquisition of a business	15,376	57,511	8,979	116	—	—	12,161	94,143
Additions	26	291	446	933	207	—	3,123	5,026
Transfers from CIP	—	11,829	326	—	23	—	(12,178)	—
At 31 December 2006	15,402	69,631	9,751	1,049	230	—	3,106	99,169
Additions	1,736	598	11,973	884	632	—	30,557	46,380
Transfers from CIP	95	—	1,299	—	—	651	(2,045)	—
At 31 December 2007	17,233	70,229	23,023	1,933	862	651	31,618	145,549
Additions	1,625	—	3,501	—	106	—	16,867	22,099
Transfers from CIP	729	8,631	1,832	—	—	—	(11,192)	—
At 30 June 2008	19,587	78,860	28,356	1,933	968	651	37,293	167,648
Accumulated depreciation and impairment losses								
At date of incorporation	—	—	—	—	—	—	—	—
Charge for the year	1,029	1,222	924	32	13	—	—	3,220
Impairment losses	2,139	8	444	—	2	—	—	2,593
At 31 December 2006	3,168	1,230	1,368	32	15	—	—	5,813
Charge for the year	3,127	3,964	3,081	342	104	—	—	10,618
Impairment losses	210	—	4,170	—	—	—	—	4,380
At 31 December 2007	6,505	5,194	8,619	374	119	—	—	20,811
Charge for the year	1,579	2,183	2,119	200	92	62	—	6,235
Impairment losses	114	—	—	—	—	—	—	114
At 30 June 2008	8,198	7,377	10,738	574	211	62	—	27,160
Net carrying amount								
At 31 December 2006	12,234	68,401	8,383	1,017	215	—	3,106	93,356
At 31 December 2007	10,728	65,035	14,404	1,559	743	651	31,618	124,738
At 30 June 2008	11,389	71,483	17,618	1,359	757	589	37,293	140,488

Impairment losses of approximately RMB2,593,000, RMB4,380,000, RMB114,000 were recognised in the income statements for the period ended 31 December 2006, year ended 31 December 2007, and six-month periods ended 30 June 2008, which mainly represented the write-down of certain buildings, machinery, motor vehicles, and electronic equipment to their recoverable amounts. The recoverable amounts were mainly determined based on the fair values from independent valuations less costs to sell.

Assets without building ownership certificates

As at 31 December 2006 and 2007, and 30 June 2008, the Company has yet to obtain building ownership certificates for certain buildings with net book values of approximately RMB13,820,000, RMB544,000 and RMB7,000 respectively.

12 ACQUISITION OF A BUSINESS

On 1 September 2006, the Company entered into a sales and purchase agreement with Hubei Jingxiang Chemical Group (“湖北荊襄化工集團”, “Jingxiang Group”), to acquire the entire assets and liabilities of its subsidiary — Wangji Phosphate Mine Co., Ltd (“王集磷礦有限責任公司”, Wangji) at a consideration of RMB85 million. This transaction constituted a business combination, and resulted in an excess over the cost of a business combination of RMB4,407,000.

The fair values of the identifiable assets and liabilities of Wangji as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair value recognised on acquisition <i>RMB'000</i>	Carrying amount before combination <i>RMB'000</i>
Property, plant and equipment and mining rights	94,143	87,566
Trade receivables and other current assets	1,932	1,932
Inventories	937	937
Trade and other payables	(5,435)	(5,435)
Deferred tax liabilities	<u>(2,170)</u>	<u>—</u>
	89,407	<u>85,000</u>
Excess over the cost of the business combination	<u>(4,407)</u>	
Total purchase consideration	<u>85,000</u>	

The Company settled RMB45,000,000 of the consideration in 2006 and RMB23,285,000 in 2007. The company settled the remaining consideration in 2007, by assuming the payable of RMB16,715,000 by Jingxiang Group to Ministry of Land and Resources. The outstanding balance has been recorded under other long-term liabilities (note 22) at discounted amount, as a result of a debt restructuring agreement entered into by the Company in June 2007.

From the date of acquisition, Wangji has contributed all the revenue and profit of the Company.

13 DEFERRED TAXATION

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

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	—	(1,669)	(3,042)
Acquired from business combination	(2,170)	—	—
Deferred tax charged to the income statement during the year/period (<i>note 10</i>)	<u>501</u>	<u>(1,373)</u>	<u>682</u>
At end of the year/period	<u>(1,669)</u>	<u>(3,042)</u>	<u>(2,360)</u>

The Company's deferred tax assets and deferred tax liabilities are attributed to the following items, which are reflected in the balance sheets:

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets			
Difference in amortisation between tax regulations and accounting policies	82	30	—
Provision for impairment of assets	1,418	1,916	1,959
Accruals	<u>—</u>	<u>—</u>	<u>1,736</u>
	<u>1,500</u>	<u>1,946</u>	<u>3,695</u>
Deferred tax liabilities			
Difference in depreciation between tax regulations and accounting policies	10	260	573
Refurbishment and safety funds	989	2,474	3,349
Fair value adjustment on acquisition	2,170	1,644	1,644
Gain on debt restructuring	<u>—</u>	<u>610</u>	<u>489</u>
	<u>3,169</u>	<u>4,988</u>	<u>6,055</u>

14 INVENTORIES

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,642	1,211	2,851
Finished goods	<u>—</u>	<u>344</u>	<u>4,593</u>
Total	<u>1,642</u>	<u>1,555</u>	<u>7,444</u>

15 TRADE RECEIVABLES

Sales of the Company's phosphate ore 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 Company may agree that the sales can be settled by commercial acceptance drafts. An allowance for trade receivables is provided when it is considered that the trade receivable amounts may not be fully recovered.

An analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Third parties	1,711	693	763
Related parties (<i>note 26 (2)</i>)	—	—	2,602
Less: Allowance for trade receivables	<u>1,711</u>	<u>693</u>	<u>763</u>
	<u>—</u>	<u>—</u>	<u>2,602</u>

The amounts due from related parties are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

The trading terms of the Company with certain long-standing customers are on credit. The credit period is generally one month.

Movements in the provision for impairment of trade receivables were as follows:

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	—	1,711	693
Charge for the year/period (<i>note 7</i>)	1,711	—	70
Write-back	<u>—</u>	<u>(1,018)</u>	<u>—</u>
At end of year/period	<u>1,711</u>	<u>693</u>	<u>763</u>

An aging analysis of the trade receivables, based on invoice date and net of allowance for bad and doubtful debts, of the Company is as follows:

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	<u>—</u>	<u>—</u>	<u>2,602</u>

The carrying amounts of the trade receivables approximate to their fair values.

16 BILLS RECEIVABLE

The bills receivable of the Company as at 31 December 2006 and 2007, and 30 June 2008, all mature within six months.

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December		30 June
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Advances to suppliers	2,534	7,134	6,690
Deposits and other receivables	557	2,040	2,805
Staff advances	187	93	179
Amounts due from related parties — non trade (note 26)	20,523	—	—
	<u>23,801</u>	<u>9,267</u>	<u>9,674</u>

None of the above assets are either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

The amounts due from related parties are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

The carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

18 LOANS RECEIVABLE

As at 31 December 2007, loans receivable represented an entrusted loan to CNCCC with a contract amount of RMB20,000,000 which was unsecured and bore interest at a rate of 4% per annum. RMB8,000,000 and RMB12,000,000 was repaid on 27 February 2008 and 18 March 2008, respectively.

19 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	31 December		30 June
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Cash and bank balances and cash and cash equivalents in the cash flow statements	<u>8,431</u>	<u>5,816</u>	<u>4,850</u>

The Company's cash and bank balances are denominated in RMB as at 31 December 2006 and 2007, and 30 June 2008.

As at 30 June 2008, included in the Company's cash and cash equivalents was RMB8,000 (31 December 2007: RMB196, 000; 31 December 2006: RMB Nil) deposited with CNOOC Finance Corporation Limited ("CNOOC Finance"), a related party under CNOOC Group. The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

20 PAID-IN CAPITAL

	31 December		30 June
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Registered, issued and fully paid	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

21 RESERVES

The amounts of the Company's reserves and the movements therein for the Relevant Periods are presented in the statement of changes in equity.

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

- (i) Making up prior years' cumulative losses, if any;
- (ii) Allocations to the statutory common reserve fund of at least 10% of profit after tax, until the fund aggregates to 50% of the Company's share capital. For the purpose of calculating the amount of transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders; and
- (iii) Allocations to the discretionary common reserve if approved by the shareholders.

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

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

22 OTHER LONG-TERM LIABILITIES

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payable due to the Ministry of Land and Resources	—	14,277	14,763
Payable within one year (<i>note 24</i>)	—	(4,000)	(4,000)
	<u>—</u>	<u>10,277</u>	<u>10,763</u>

This represents the payable due to the Ministry of Land and Resources at discounted amount, after a debt restructuring agreement entered into by the Company in June 2007. The initial amount as at 30 June 2008 was RMB16,715,000 (31 December 2007: RMB16,715,000, 31 December 2006: RMB16,715,000), and will be paid over 5 years.

23 TRADE PAYABLES

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<u>832</u>	<u>5,583</u>	<u>3,550</u>

An aging analysis of trade payables, based on invoice dates, of the Company is as follows:

	31 December		30 June
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Within six months	832	5,403	1,820
Over six months but within one year	—	180	1,730
	<u>832</u>	<u>5,583</u>	<u>3,550</u>

The carrying amount of these balances approximate to their fair values.

The trade payables are non-interest-bearing, unsecured and are normally settled from 30 to 90 days.

24 OTHER PAYABLES AND ACCRUALS

	31 December		30 June
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Advances from customers	15,739	25,766	14,422
Advances from related parties (<i>note 26</i>)	8,847	759	—
Accrued payroll	637	597	1,700
Other tax payables	1,294	3,120	4,191
Safety deposits	—	1,080	1,203
Payables in relation to construction, and purchase of items of property, plant and equipment	125	7,244	5,071
Payable for acquisition of a business (<i>note 12</i>)	40,000	—	—
Long-term payable due within one year (<i>note 22</i>)	—	4,000	4,000
Others	<u>392</u>	<u>1,184</u>	<u>292</u>
	<u>67,034</u>	<u>43,750</u>	<u>30,879</u>

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

25 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

	31 December		30 June
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
— Acquisition of plant and machinery	<u>—</u>	<u>3,284</u>	<u>—</u>
Authorised, but not contracted for:			
— Acquisition of plant and machinery	<u>—</u>	<u>28,532</u>	<u>35,860</u>

(ii) At each of the balance sheet dates, the Company did not have any significant contingent liabilities.

26 RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Company had the following material transactions with related parties:

(1) Related party transactions

		31 July to 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2007	2008
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sale of goods to Hubei Dayukou Chemical Co., Ltd., a CNOOC Group company	(i)	<u>8,060</u>	<u>33,135</u>	<u>12,827</u>	<u>12,124</u>
Other services rendered from to Hubei Dayukou Chemical Co., Ltd., a CNOOC Group company	(i)	<u>—</u>	<u>150</u>	<u>—</u>	<u>—</u>
Purchase of raw materials from Dayukou Chemical Co., Ltd., a CNOOC Group company	(i)	<u>—</u>	<u>—</u>	<u>—</u>	<u>679</u>
Entrusted loan to CNCCC	(ii)	<u>—</u>	<u>20,000</u>	<u>—</u>	<u>—</u>
Interest income on entrusted loan	(ii)	<u>—</u>	<u>207</u>	<u>—</u>	<u>176</u>

Notes:

- (i) These transactions were conducted in accordance with terms agreed between the Company and Hubei Dayukou Chemical Co., Ltd.
- (ii) The entrusted loan to CNCCC was unsecured, and bore interest at 4% per annum. RMB8,000,000 and RMB12,000,000 was repaid on 27 February 2008 and 18 March 2008 respectively.

(2) Balances with related parties

		31 December 2006	2007	30 June 2008
	Notes	RMB'000	RMB'000	RMB'000
Trade receivables	15	—	—	2,602
Advances from related parties	24	8,847	759	—
Entrusted loan to CNCCC	18	—	20,000	—
Other receivables from related parties	17	20,523	—	—
Deposits placed by the Company with CNOOC Finance	19	<u>—</u>	<u>196</u>	<u>8</u>

(3) Compensation of key management personnel of the Company

		31 July to	Year ended	Six-month
		31 December	31 December	period ended
		2006	2007	30 June
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2008</i>
				<i>RMB'000</i>
Total compensation paid to key management personnel	9	<u>182</u>	<u>454</u>	<u>307</u>

Further details of directors' and supervisors' emoluments are set out in note 8 to the Financial Information.

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

The Company 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 organisations (collectively the "State-owned Enterprises"). During the year, the Company had transactions with the State-owned Enterprises including, but not limited to, the sale of fertilisers and purchases of raw materials. The management considers that transactions with such other State-owned Enterprises are activities in the ordinary course of the Company's business, and that the dealings of the Company have not been significantly or unduly affected by the fact that the Company and such other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Company 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 management is of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company'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 finance for the Company's operations. The Company 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 Company's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk. The Company does not hold or issue derivative financial instruments either for hedging or for trading purposes. The Directors of the Company review and agree policies for managing each of the risks and they are summarised below:

(i) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's cash and cash equivalents and short-term debt obligations. Borrowings at floating rates expose the Company to interest-rate risk. Borrowings at fixed rates expose the Company to fair value interest-rate risk. Since there is no bank borrowing for the Relevant Periods, there is no fair value interest rate risk. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short term.

(ii) Foreign currency risk

The Company had minimal transactional currency exposures.

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

(iii) Credit risk

The carrying amounts of the Company's cash and cash equivalents, trade receivables, other receivables and other current assets except for prepayments and tax recoverable represent the Company's maximum exposure to credit risk in relation to its financial assets.

It is the Company'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 Company's exposure to bad debts is not significant.

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

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from maturity mismatches of the maturities of financial assets and liabilities. The Company's objective of liquidity management is to ensure there are sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Company's ability to meet operation demand, to repay borrowings as they mature, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the finance department under the direction of the general manager and the financial controller. The finance department is responsible for ensuring that the Company has adequate liquidity for all operations.

The maturity profile of the Company's financial liabilities as at the balance sheet dates, based on the contracted undiscounted payments, was as follows:

	1 year or less	1 to 3 years	Over 3 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2006				
Trade payables	832	—	—	832
Other payables and accruals	<u>67,034</u>	<u>—</u>	<u>—</u>	<u>67,034</u>
	<u>67,866</u>	<u>—</u>	<u>—</u>	<u>67,866</u>
2007				
Trade payables	5,583	—	—	5,583
Other payables and accruals	<u>43,718</u>	<u>32</u>	<u>—</u>	<u>43,750</u>
	<u>49,301</u>	<u>32</u>	<u>—</u>	<u>49,333</u>
2008				
Trade payables	3,550	—	—	3,550
Other payables and accruals	<u>28,278</u>	<u>2,601</u>	<u>—</u>	<u>30,879</u>
	<u>31,828</u>	<u>2,601</u>	<u>—</u>	<u>34,429</u>

(v) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period from 31 July 2006 to 31 December 2006, the year ended 31 December 2007 and the six months ended 30 June 2008.

The Company monitors capital on the basis of the debt to capitalisation ratio, which is calculated as interest bearing debts divided by total capital plus interest bearing debts.

	31 December		30 June
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing loans	<u>—</u>	<u>—</u>	<u>—</u>
Equity attributable to the equity holders of the Company	<u>62,711</u>	<u>91,051</u>	<u>104,550</u>
Total capital	<u>62,711</u>	<u>91,051</u>	<u>104,550</u>
Capital and net debt	<u>62,711</u>	<u>91,051</u>	<u>104,550</u>
Gearing ratio	<u>—</u>	<u>—</u>	<u>—</u>

III. POST BALANCE SHEET EVENTS

On 18 August 2008, CNCCC, the immediate holding company, transferred its 100% equity interest in the Company to the ultimate holding company, CNOOC.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2008.

Yours faithfully,
Ernst & Young
Certified Public Accountants
 Hong Kong

**(A) LETTER ON UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

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

31 December 2008

The Board of Directors
China BlueChemical Ltd.

Dear Sirs,

We report on the unaudited pro forma financial information (“Unaudited Pro Forma Financial Information”) of China BlueChemical Ltd (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out in Appendix III to the circular dated 31 December 2008 (the “Circular”) issued by the Company, in connection with the proposed acquisition of 83.17% equity interest in Hubei Dayukou Chemical Co., Ltd. (“DYK Chemical”) and 100% equity interest in ZHJ Mining Co., Ltd. (“ZHJ Mining”) (the “Proposed Acquisition”) by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors, for illustrative purposes only, to provide information about how the Proposed Acquisition, resulting in the formation of an enlarged group (the “Enlarged Group”), might have affected the financial information presented in Appendix I to the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed “Introduction” in Appendix III to the Circular.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2008 or any future date.

OPINION

In our opinion:

- (a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(B) INTRODUCTION

The accompanying unaudited pro forma financial information of the Enlarged Group, comprising unaudited pro forma combined balance sheet of the Enlarged Group, has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purposes only, to provide information about how the proposed Acquisition (as defined in this circular) as detailed in the “Letter from the Board” included in this circular might have affected the financial position of the Group as if the Acquisition had been completed on 30 June 2008.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the unaudited consolidated financial statements of the Group for the six months period ended 30 June 2008 as set out in Appendix I(B) to this circular and the audited financial information of DYK Chemical and ZHJ Mining as set out in the accountants’ report in Appendix II (A) and (B) respectively to this circular after giving effect to the pro forma adjustments as described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) factually supportable, is summarised in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe financial position of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group’s future financial position.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the unaudited financial information of the Group as set out in Appendix I to this circular, the audited financial information of DYK Chemical and ZHJ Mining as set out in Appendix II (A) and (B) respectively to this circular and other financial information included elsewhere in this circular.

(C) UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE
ENLARGED GROUP AS AT 30 JUNE 2008

	The Group	DYK Chemical	ZHJ Mining		Unaudited pro forma adjustments			Proforma Enlarged Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 1)	(Note 2)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	(Note 7)
ASSETS								
NON-CURRENT ASSETS								
Property, plant and equipment	5,862,677	811,874	140,488					6,815,039
Prepaid land lease payments	400,146	24,509	—					424,655
Intangible assets	10,481	—	437					10,918
Investments in subsidiaries				1,262,847	(1,262,847)			—
Investments in associates	14,440	—	—					14,440
Available-for-sale investments	600	—	—					600
Deferred tax assets	49,254	41,556	3,695					94,505
	<u>6,337,598</u>	<u>877,939</u>	<u>144,620</u>					<u>7,360,157</u>
CURRENT ASSETS								
Inventories	400,684	415,570	7,444					823,698
Trade receivables	114,922	17,032	2,602				(2,602)	131,954
Bills receivable	21,350	—	1,800					23,150
Prepayments, deposits and other receivables	131,276	43,749	9,674				(729)	183,970
Available-for-sale investments	3,045,003	—	—					3,045,003
Pledged bank deposits	5,657	—	—					5,657
Cash and cash equivalents	957,985	112,297	4,850	(1,262,847)				(187,715)
	<u>4,676,877</u>	<u>588,648</u>	<u>26,370</u>					<u>4,025,717</u>
TOTAL ASSETS	<u>11,014,475</u>	<u>1,466,587</u>	<u>170,990</u>					<u>11,385,874</u>
EQUITY AND LIABILITIES								
Paid-in capital	4,610,000	1,000,624	50,000		(882,219)	(168,405)		4,610,000
Reserves	4,090,626	39,065	54,550		(380,628)	(6,575)	(8,854)	3,788,184
	8,700,626	1,039,689	104,550					8,398,184
Minority Interests	889,713	—	—			174,980		1,064,693
TOTAL EQUITY	<u>9,590,339</u>	<u>1,039,689</u>	<u>104,550</u>					<u>9,462,877</u>
NON-CURRENT LIABILITIES								
Benefits liability	70,513	—	—					70,513
Interest-bearing bank and other borrowings	247,118	—	—					247,118
Other long-term liabilities	48,948	75,097	10,763					134,808
Deferred tax liabilities	48,298	6,269	6,055					60,622
	414,877	81,366	16,818					513,061
CURRENT LIABILITIES								
Trade and bills payables	97,069	43,207	3,550				(2,602)	141,224
Other payables and accruals	776,005	192,681	30,879			8,854	(729)	1,007,690
Interest-bearing bank and other borrowings	71,663	40,000	—					111,663
Income tax payable	64,522	69,644	15,193					149,359
	1,009,259	345,532	49,622					1,409,936
TOTAL LIABILITIES	<u>1,424,136</u>	<u>426,898</u>	<u>66,440</u>					<u>1,922,997</u>
TOTAL EQUITY AND LIABILITIES	<u>11,014,475</u>	<u>1,466,587</u>	<u>170,990</u>					<u>11,385,874</u>

Notes:

1. The balances are extracted from the unaudited consolidated financial information of China BlueChemical Ltd (the “Company”) and its subsidiaries (the “Group”) for the six-months period ended 30 June 2008 as set out in Appendix I(B) to this circular.
2. The balances are extracted from the audited financial information of Hubei Dayukou Chemical Co., Ltd. (“DYK Chemical”) and ZHJ Mining Co., Ltd. (“ZHJ Mining”) for the six-month period ended 30 June 2008 as set out in Appendix II (A) and (B) respectively to this circular.
3. Pursuant to the Acquisition Agreement, the Group will acquire from CNOOC the 83.17% interest in DYK Chemical and the 100% interest in ZHJ Mining. The adjustment represents the consideration payable to CNOOC, which is the sum of RMB1,262,847,000 payable in cash. As confirmed by the Company, any shortfall is expected to be funded by realising certain investments under available-for-sale investments.
4. The Company’s acquisition of the 83.17% interest in DYK Chemical and the 100% interest in ZHJ Mining are considered as a business combination under common control because, had the proposed acquisition (as defined in this circular) completed, the Company, DYK Chemical, and ZHJ Mining would have been ultimately controlled by CNOOC both before and after the business combination. Accordingly, the business combination should be accounted for using the principles of merger accounting. The adjustment represents the recognition of merger reserve of RMB380,628,000 arising from the business combination, which represents the difference between aggregate cost of the business combination of RMB1,262,847,000 in the form of cash payable by the Company, and the 83.17% and 100% of the share capital of DYK Chemical and ZHJ Mining attributable to CNOOC, the controlling party, which is to be acquired by the Company amounting to RMB882,219,000.
5. The adjustment represents the reclassification of the remaining 16.83% of the share capital and reserves of DYK Chemical amounting to RMB174,980,000 in aggregate to minority interests of the Enlarged Group.
6. The adjustment represents the estimated legal and professional costs directly attributable to the Acquisition, which is considered as common control combination, of approximately RMB8,854,000, to be expensed off. The adjustment results in a net decrease of RMB8,854,000 in the Enlarged Group’s combined reserves.
7. The adjustment represents the elimination of inter-company balances within the Enlarged Group.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 October 2008 of the property interests of the Target Companies.



JONES LANG
LASALLE[®] SALLMANNS

Jones Lang LaSalle Sallmanns Limited
22nd Floor Siu On Centre
188 Lockhart Road
Wanchai Hong Kong
tel +852 2169 6000 fax +852 2169 6001

31 December 2008

The Board of Directors
China BlueChemical Ltd.
No. 1 Zhujiang South Street
Dongfang City
Hainan Province
The People's Republic of China

Dear Sirs,

China BlueChemical Ltd. (the "Company") intends to acquire 83.17% equity interests in Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") and 100% equity interests in ZHJ Mining Co., Ltd. ("ZHJ Mining") in the People's Republic of China (the "PRC") from China National Offshore Oil Corporation (the controlling shareholder of the Company), which is referred hereinafter as the "Acquisition". The aforesaid 2 companies to be acquired are hereinafter referred to as the "Target Companies".

In accordance with your instructions to value the properties in which the Target Companies have interests in the PRC, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 October 2008 (the "date of valuation").

Our valuation of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the

improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Target Companies and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Jun He Law Offices, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been

made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Target Companies. We have also sought confirmation from the Target Companies that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

The continued turmoil and instability in the financial markets is continuing to cause volatility and uncertainty in the world's capital markets and real estate markets. There are low levels of liquidity in the real estate market and transaction levels are significantly reduced, resulting in a lack of clarity as to pricing levels and the market drivers. This, combined with a general weakening of sentiment towards real estate, has resulted in a continual reappraisal of local property prices. Many transactions that are occurring involve vendors who are more compelled to sell, or purchasers who will only buy at discounted prices. In this environment, prices and values are going through a period of heightened volatility whilst the market absorbs the various issues and reaches its conclusions. As a result there is less certainty with regard to valuations with the result that market values can change rapidly in the current market conditions. The period required to negotiate a sale may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the property. We would recommend that users of this report to seek our latest opinion on the market for their real estate decisions.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 25 years' experience in the valuation of properties in the PRC and 28 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Property interests held and occupied by the target companies in the PRC

No. Property	Capital value in existing state as at 31 October 2008 <i>RMB</i>
1. Land, various buildings and structures located at the northern side of Dongxi Avenue Jinshan Village Huji Town Zhongxiang County Hubei Province The PRC	483,469,000
2. Various buildings and structures located at Fuquan Village Huji Town Zhongxiang County Hubei Province The PRC	No commercial value
Total:	483,469,000

VALUATION CERTIFICATE

Property interests held and occupied by the target companies in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2008 RMB
1.	Land, various buildings and structures located at the northern side of Dongxi Avenue Jinshan Village Huji Town Zhongxiang County Hubei Province The PRC	The property includes Part I and Part II as follows: Part I comprises 18 parcels of adjoining land with a total site area of approximately 1,687,430.57 sq.m. and 182 buildings and various ancillary structures erected thereon which were completed in various stages between 1993 and 2007. The buildings have a total gross floor area of approximately 196,290.01 sq.m. The buildings mainly include industrial buildings, office buildings, canteens, a greenhouse and guardhouses. The structures mainly include fences, roads, chimneys, cisterns, gates and a railway. The land use rights of the 18 parcels of land have been granted for a term of 50 years expiring on 6 December 2057 for industrial use. Part II comprises 5 buildings with a total gross floor area of approximately 831.56 sq.m. completed in about 1997, which mainly include an office building, a garage and a pump room.	The property is currently occupied by DYK Chemical for production and ancillary office purposes.	483,469,000

Notes:

1. DYK Chemical is an 83.17% owned subsidiary of China National Offshore Oil Corporation.
2. Pursuant to 18 State-owned Land Use Rights Certificates — Zhong Guo Yong (2007) Di Nos. 002-1, 048-1, 1007-1, 1011-1, 1022-1, 1031-1, 1032-1, 1034-1, 1036-1, 1037-1, 1039-1, 1040-1, 1040-2, 1042-1, 1043-1, 1053-1, 24-1 and 47-1, the land use rights of 18 parcels of land with a total site area of approximately 1,687,430.57 sq.m. have been granted to DYK Chemical for a term of 50 years expiring on 6 December 2057 for industrial use.
3. Pursuant to 36 Building Ownership Certificates — Zhong Xiang Shi Fang Quan Zheng Zi Di Nos. 200801292 to 200801299, 200801301 to 200801322, 200801324 to 200801328 and 200801415, 154 buildings with total gross floor area of approximately 192,536.26 sq.m. (of Part I) are owned by DYK Chemical.
4. For the remaining 28 buildings of Part I with a total gross floor area of approximately 3,753.75 sq.m., we have not been provided with any proper title certificates.
5. Pursuant to a Building Ownership Certificate — Zhong Xiang Shi Fang Quan Zheng Zi Di No. 200801323, 5 buildings with a total gross floor area of approximately 831.56 sq.m. (of Part II) are owned by DYK Chemical. The buildings are erected on a parcel of land with a allocated Land Use Rights Certificate registered under the name of Hubei Jinxiang Chemical Industrial (Group) Co., Ltd. (“an independent third party”), which has been excluded from our valuation.
6. In the valuation of this property, we have attributed no commercial value to 28 buildings mentioned in note 4 and 5 buildings mentioned in note 5 (excluding the land element). However, for reference purpose, we are of the opinion that the depreciated replacement cost of them as at the date of valuation would be RMB1,771,000 assuming all relevant title certificates have been obtained and they can be freely transferred.
7. We have been provided with a legal opinion regarding the property interests by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. DYK Chemical has legally obtained the land use rights of 18 parcels of land of the property mentioned in note 2 and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the relevant land use rights within the valid terms stipulated in the Land Use Rights Certificates;
 - b. DYK Chemical has legally obtained the Building Ownership Certificates of 154 buildings mentioned in note 3 and has the rights to use, occupy, transfer, lease, mortgage or otherwise dispose of the buildings under the PRC Laws;
 - c. DYK Chemical is not the legal owner of the 28 buildings mentioned in note 4 and cannot transfer, mortgage or otherwise dispose of them before obtaining the relevant Building Ownership Certificates; DYK Chemical has confirmed to make great efforts to apply for the Building Ownership Certificates of these buildings and there will be no material adverse effect on DYK Chemical’s business operation;
 - d. DYK Chemical has the rights to use, occupy and lease the 5 buildings mentioned in note 5 but cannot transfer, mortgage or otherwise dispose of them before obtaining the granted Land Use Rights Certificate of the land which the buildings are erected thereon; DYK Chemical has confirmed to make great efforts to apply for the relevant Land Use Rights Certificates and there will be no material adverse effect on DYK Chemical’s business operation, due to the deficiency of the Land Use Rights Certificate; and
 - e. The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2008 RMB
2.	Various buildings and structures located at Fuquan Village Huji Town Zhongxiang County Hubei Province The PRC	The property comprises 114 buildings with a total gross floor area of approximately 63,388.47 sq.m. and various ancillary structures. The buildings mainly include industrial buildings, office buildings, canteens, a greenhouse and guardhouses. The structures mainly include fences, roads, chimneys cisterns, gates and a railway. The property is erected on 15 parcels of land with a total leased area of approximately 1,942,453.9 sq.m., which are leased from CNOOC Investment Co., Ltd. for a term of 3 years expiring on 31 December 2010. (the “leased land”)	The property is currently occupied by ZHJ Mining for production and ancillary office purposes.	No commercial value

Notes:

1. ZHJ Mining is a wholly-owned subsidiary of China National Offshore Oil Corporation. CNOOC Investment Co., Ltd. (“CNOOC Investment”) is also a wholly-owned subsidiary of China National offshore Oil Corporation.
2. Pursuant to 21 Building Ownership Certificates — Zhong Fang Quan Zheng Hu Ji Zi Di Nos. 200600970, 200700017 to 200700023, 200700651, 200700652 and 200801441 to 200801451, 106 buildings with a total gross floor area of approximately 63,229.86 sq.m. are owned by ZHJ Mining.
3. For the remaining 8 buildings with a total gross floor area of approximately 158.61 sq.m., we have not been provided with any proper title certificates.
4. Pursuant to a Lease Agreement dated 22 September 2008 entered into between ZHJ Mining and CNOOC Investment, the land use rights of 15 parcels of land with a total leased area of approximately 1,942,453.9 sq.m. were rented to ZHJ Mining for a term of 3 years expiring on 31 December 2010 at an annual rent of RMB3,000,000.
5. We have attributed no commercial value to the buildings and structures of the property and have excluded the leased land from our valuation. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the property (excluding the leased land) as at the date of valuation would be RMB37,842,000 assuming all relevant land title certificates have been obtained and they can be freely transferred.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. ZHJ Mining has the legal rights to use the land use rights of the leased land within the valid terms stipulated in the Lease Agreement;
 - b. ZHJ Mining has the rights to use, occupy and lease the 106 buildings mentioned in note 2, but cannot transfer, mortgage or otherwise dispose of them before obtaining the granted Land Use Rights Certificates for the land on which they are erected;
 - c. ZHJ Mining is not the legal owner of the 8 buildings mentioned in note 3 and cannot transfer, lease, mortgage or otherwise dispose of them before obtaining the relevant Building Ownership Certificates and Land Use Rights Certificates; ZHJ Mining has confirmed that there will be no material adverse effect on ZHJ Mining's business operation arising from the lack of aforesaid title certificates; and
 - d. The buildings of the property are not subject to mortgage or any other encumbrances.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from Minacro-MineConsult, an independent technical consultant in mineral assets, in connection with its valuation as at 30 September 2008 of the Hubei Province Dayukou Phosphate Mine owned and operated by Hubei Dayukou Chemical Co., Ltd. and Hubei Province Wangji Phosphate Mine owned and operated by ZHJ Mining Co., Ltd.

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The Directors

China BlueChemical Ltd.
No. 1 Zhujiang South Street
Dongfang City
Hainan Province
The People's Republic of China

26 October 2008

RE: INDEPENDENT TECHNICAL REVIEW REPORT

Dear Sirs,

Minarco-MineConsult ("MMC") has been engaged by China BlueChemical Ltd. ("CBCL" or "the Company") to carry out an Independent Technical Review ("ITR") of two phosphate projects, to be included in an ownership transfer transaction on the Hong Kong Stock Exchange ("HKSE"). The results of the ITR are summarised in the attached Independent Technical Review Report ("ITRR").

The assets reviewed ("Relevant Assets") consist of the following

- Wangji Phosphate Mine
- Dayukou Phosphate Mine
- Wangji Processing Plant
- Dayukou Processing Plant
- Longhuichong Tailing Dam

The following report (the ITRR) has been prepared by MMC in connection with the ITR conducted by MMC on the Relevant Assets. The report sets out the process and conclusions of MMC's review and MMC consents to its inclusion as required in CBCL's offer document in relation to its proposed transaction.

- MMC has conducted its review and preparation of the report in accordance with the requirements of Chapter 18 of the Listing Rules of the Stock Exchange of Hong Kong Limited, with the exception of the requirements set out in Listing Rule 18.09 item (8) which relates to the provision of a two-year working capital statement. The report is also in compliance with:
- The “Australasian Code for Reporting Mineral Resources and Mine Reserves” (2004 edition published by the Joint Ore Reserves Committee (“JORC”) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the “JORC Code”); for determining resources and reserves; and
- The Code and Guidelines for technical assessment and/or valuation of mineral and petroleum assets and mineral and petroleum securities for Independent Expert Reports (the “Valmin Code”).
- MMC carried out a detailed review of Mineral Resources as reported under the Chinese Mineral Reporting Standards and has compared this in broad terms with the reporting requirements under the JORC Code.

MMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. This report was prepared on behalf of MMC by technical specialists, details of whose qualifications and experience are set out in *Annexure A*.

MMC has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of MMC or its directors, staff or sub-consultants who contributed to this report has any interest in:

- The Company; or
- The Relevant Assets; or
- The outcome of the Global Offering.

Drafts of this report were provided to the Company, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report. The review was based mainly on information provided by CBCL, either directly from the data room or from project sites and other offices. The report is based on information made available to MMC before 26 October 2008.

The work undertaken is a technical review of the information provided as well as that obtained during such inspections as MMC considered appropriate to prepare the report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements, excepting such aspects as may directly influence technical, operational or cost issues.

In MMC's opinion, the information provided by CBCL was reasonable and nothing discovered during the preparation of the report suggested that there was any significant error or misrepresentation in respect of that information.

MMC has independently assessed the Relevant Assets by reviewing pertinent data, including mineral resources, future exploration plans, development potential, and potential mining issues. All opinions, findings and conclusions expressed in the report are those of MMC and its specialist advisors.

MMC's conclusions from this review are summarised as follows:

- The assets reviewed included two minesites Wangji and Dayukou which extract ore from two economic seams of sedimentary phosphate (Ph1 and Ph3). The Dayukou minesite currently produces in excess of 750kt of ore at an average grade of 18.9% P_2O_5 per annum. The associated Dayukou processing plant has an estimated concentrate output of 400kt at a grade of 30%–32% P_2O_5 per annum through the floatation plant with an extra 380kt of concentrate recovered through the bypass plant at similar grades. The Wangji minesite produces in excess of 500kt of ore at 23.7% P_2O_5 . Ore from the Wangji minesite is processed through the Dayukou plant or onsold to local processing plants.
- The current mining operation at Wangji involves the extraction of phosphate bearing ore from 5 underground declines targeting the Ph1 and Ph3 orebodies. The mining method utilised is the top down room and pillar method which is well suited to shallow dipping orebodies. The Dayukou mine extracts ore from both the Ph1 and Ph3 orebodies using a combination of 1 open cut operation and 6 underground mines. The underground mines use the same method as used at Wangji.
- Mineral Resources at both minesites have been estimated and reported by the Northwest Hubei Province Hubei Geological Minerals Investigation Bureau and were last updated in June 2008 for the Wangji and Dayukou deposits. The estimates have been reported in accordance with the Chinese reporting standards, and in MMC's opinion the estimates are reasonable.
- For the Wangji minesite the estimated depleted economic resources prepared under the Chinese Resource Guidelines as at June 2008 are 35.697Mt at an average grade of 21.57% P_2O_5 .
- For the Dayukou minesite the estimated depleted economic resources prepared under the Chinese Resource Guidelines as at June 2008 are 124.016Mt at an average grade of 19.6% P_2O_5 .
- All material from both mines could be classified as Indicated or Inferred Mineral Resources under the JORC Code after a detailed review of the underlying data and an update of the estimates for mining depletion.

- Current level of knowledge of the resource is sufficient to determine the geometry, average volume and grades within the resource with a high confidence.
- The top down room and pillar mining method employed for underground mining at both Dayukou and Wangji is appropriate and selective, resulting in low dilution and ore loss.
- The Wangji minesite sells its ore directly to the Dayukou plant and other 3rd parties. The Dayukou plant produces a 30%–32% P_2O_5 grade concentrate both in a slurry and dry lump form, for sale directly to fertilizer producers.
- Mining costs at both operations (excluding administration) are in the range of 60–80 RMB/t of ore. Processing cost for the Dayukou plant ranges from 120–150 RMB/t of ore.
- The plant throughput at Dayukou is planned to increase from 750kt of ore to 1Mt of ore in 2009 with a further planned expansion to 1.5–2Mt in 2013.

Risks Include:

- The June 2008 resource update does not take into account the full production from the past 2 years with only stope development amounts being depleted, no development production was depleted from the resources.
- Reserves estimated for Wangji do not reflect ore loss and dilution properly and have not been updated to reflect the reserves which are known to occur below the +10 level.
- Processing cost estimated in the feasibility study for the Dayukou processing plant seems low and underestimate power consumption costs associated with the planned increased throughput.
- Potential leaching of alkali tailing dam water into the local water table, as the dam bottom was not sealed during construction.

Opportunities Include:

- Incorporation of the underground development grades into the resource will allow for a more accurate estimation of the ROM ore grades sent to the processing plants and ensure accurate reconciliation and financial returns.
- Simple and efficient underground mining method allows for cheap and flexible expansion.
- Reducing mining bench heights in the open cut will reduce dilution and increase recovered grades at the Dayukou Chengpishan Open Cut.

- Dayukou feasibility study states a 72% recovery through the processing plant. MMC considers this estimate to be conservative with 80% being easily achievable based on the ore and process equipment being used.

Yours faithfully

Romeo Ayoub
General Manager China
Minarco-MineConsult

1 OVERVIEW AND EXECUTIVE SUMMARY

1.1 Introduction

Site visits to the Dayukou and Wangji Phosphate Operations were carried out by MMC's technical team ("the Team") from 1st September 2008–3rd September 2008.

1.2 Limitations and Exclusions

The review was based on various reports, plans and tabulations, which were translated into English. The data reviewed did not include detailed exploration samples and assay data as this information was unavailable to MMC.

The report is based mainly on information provided by the Company either directly from the mine sites and other offices, or from reports by other organisations whose work is the property of the Company. The Company has not advised MMC of any material change, or any event likely to cause material change, to the operations or forecasts since the date of asset inspections.

A review of the Wangji plant and planned upgrade was carried out during the site visit. The upgrade may not occur and has been discussed in this report for reference only.

The work undertaken for this report is that required for a technical review of the information coupled with such inspections as the Team considered appropriate to prepare this report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles, agreements, excepting such aspects as may directly influence technical, operational or cost issues.

MMC has specifically excluded making any comments on the competitive position of the Assets compared with other similar and competing assets. MMC strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Relevant Assets in the market.

1.3 Scope of Work

MMC carried out the following scope of work for the ITRR:

- Review of due diligence documentation provided by the Company;
- Review of data and where necessary requesting provision of additional data;
- Site visits and collection of data;
- Technical review and reporting by the study team on each asset;
- Review of data suitability;
- Geology and mining hazards;
- Resources and reserves; and
- Mining operations.

1.4 Inherent Mining Risks

Mining, and in particular underground mining, is carried out in an environment where not all events are predictable.

Whilst an effective management team can identify the known risks and take measures to manage and mitigate those risks, there is still the possibility for unexpected and unpredictable events to occur. It is not possible therefore to totally remove all risks, or state with certainty, that an event that may have a material impact on the operation of a mine, will not occur.

1.5 Study Methodology

The study was completed in several stages as follows:

- Preparatory Work and Translation — Only limited technical information was made available to the Team prior to the site visit.
- Site Visits — MMC's Senior Geologist and Senior Process Engineer inspected both the Dayukou and Wangji Phosphate Operations from the 1st to the 3rd of September 2008.
- Document and Reports — Copies of the Geology Reports, Feasibility Studies and associated supporting documents were made available to the Beijing office for translation and review by experts in MMC's other offices around the world.
- Preparation of the report — MMC prepared this report and provided drafts to the Company and its specialist advisers.

The basis for the comments and forecasts in this report is information compiled by enquiry and verbal comment from the Company, cross checked where possible with hard data or by comment from more than one source. Where there was conflicting information on issues, the Team used its professional judgment to resolve the issues where possible.

Generally, the data available was sufficient for MMC to complete the scope of work. The quality and quantity of data available, and the co-operative assistance, in MMC's view, showed a willingness by the Company to assist the ITR process.

1.6 Description of Assets

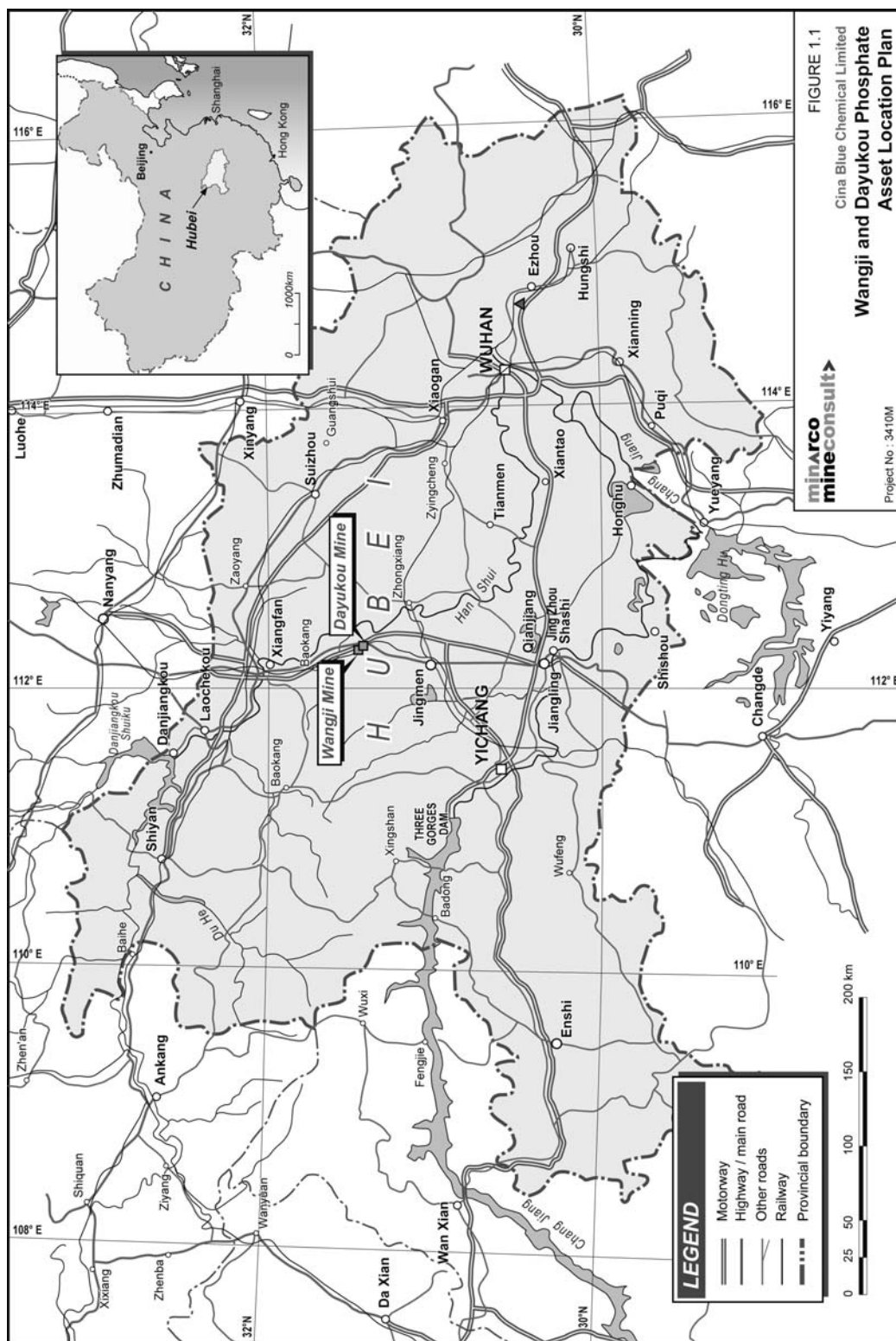
The assets studied in the brief of this project included the Wangji Phosphate Operation, and the Dayukou Phosphate Operation.

At Wangji, phosphate ore is mined by underground room and pillar mining method from two shallow dipping stratiform phosphate orebodies called Ph1 and Ph3. Mine production has increased since 2003 to be above 500Kt, and is forecast to reach 750Kt by 2009, and 1Mt by 2012. Currently ore is onsold to the Dayukou mine and to third party processing companies. Currently the Wangji operation has known remaining resources as at June 2008 of 35.697Mt at an average grade of 21.57% P_2O_5 .

The Dayukou operation is located along strike and only seven (7) kilometres SSE of the Wangji minesite and extracts ore from the same Ph1 and Ph3 mineralised horizons. Extraction is by means of open cut and several small scale underground mines. Mine production has increased rapidly since 2005 to be above 750Kt in 2007, and is forecast to above 1Mt in 2008. Currently the Dayukou operation has known remaining resources as at June 2008 of 124.016Mt at an average grade of 19.6% P_2O_5 .

The locations of the assets are shown in **Figure 1.1**. Mine detailed location plans for each of the assets are shown individually in **Sections 2** and **3** of this report.

Figure 1.1: Mines and Projects General Location Plan



1.7 Mineral Resources

All Resources, Reserves, In Situ Quantities or Mineable Quantities quoted in this report meet the requirements of the Chinese resource classification code unless stated otherwise.

Table 1.1: Wangji — In Situ Quantity Remaining as at June 2008

Chinese Code Classification	Ph1		Ph3		Subtotal	
	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅
111b + 122b	18,328				18,328	
331 + 332	1,009		390		1,399	
2M11 + 2M22			15,970		15,970	
Subtotal	19,337	25.44	16,360	17	35,697	21.57
2S21 + 2S22			13,783		13,783	
Total Remaining June 08	19,337		30,143		49,480	

Table 1.2: Dayukou — In Situ Quantity Remaining as at June 2008

Chinese Code Classification	Ph1		Ph3		Subtotal	
	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅
111b + 122b	20,569	24.85	64,757	17.45	85,326	19.23
333	19,722	24.72	18,968	15.94	38,690	20.42
Subtotal	40,291	24.79	83,725	17.11	124,016	19.60
2S21 + 2S22	29,544		128,794		158,338	
Total Remaining June 08	69,835		212,519		282,354	

1.8 Mine Reserves

Table 1.3: Wangji — Mineable Quantity Remaining as Designed as at June 2008

Elevation (m)	Former Classification	New Classification	Reserve (Kt)	Average Grade
				(% P ₂ O ₅)
+ 75 ~ + 40	B	111b	3,586.6	24.23
+ 40 ~ + 10	B	111b	2,116.1	23.86
	C	111b	562.8	23.28
Total	B + C	111b	6,265.5	24.02

A feasibility study outlining the mineable quantities extending from the +10mRL to the -105mRL is currently being undertaken. Results from this study are expected in October 2008.

Table 1.4: Dayukou — Mineable Quantity Remaining as Designed as at June 2008

Mine Area	Chinese Code Classification	Ph1 Tonnes (Kt)	Ph3 Tonnes (Kt)	Ph1 + Ph3 Tonnes (Kt)
Heishan—Muiashan	111b + 122b + 333	4,720	21,941	26,662
Zhangchong—Jianshan	111b + 122b + 333	10,201	16,014	26,215
Shigaolin	111b + 122b + 333	225	3,279	3,504
Chengpishan underground	111b + 122b + 333	6,623	303	6,926
Subtotal		21,769	41,537	63,306
Chengpishan open cut	111b + 122b + 333		14,447	14,447
Total	111b + 122b + 333	21,769	55,984	77,753

1.9 Current and Future Mining Operations

Large resources occur outside of the immediate mine area at Dayukou which could form part of future reserves.

2 WANGJI PHOSPHATE MINE

Wangji Mine is owned and operated by Zhonghua Mining Co. Ltd, after the mine was purchased off Hubei Jingxiang Chemical Industry Group on Sep. 1st, 2006.

It is located 39km to the northwest of Zhongxiang City, and its Coordinate is E112°10'20", N30°20'40". Wangji Mine is under the jurisdiction of Huji Town, Zhongxiang City, Hubei Province.

2.1 Exploration and Mining History

Jiangnan Geological Brigade of Hubei Geological Bureau conducted the general geological investigation to this area from Oct. 1957 to the end of 1959. Geological Brigade 8 of Hubei Geological Bureau completed supplementary exploration in 1966.

Construction of the Wangji Mine owned by Hubei Jingxiang Chemical Industry Group commenced in 1974, and was put into production in 1986. The mine's original design production capacity was 1Mt/a, while the processing facility was designed for a 1.5Mt/a throughput, although due to a lack of demand the name plate capacity was not realised. The mines processing facility was shut down in 1994.

In September 2006 the mine was bought by Zhonghua Mining Co. Ltd. Production from the Wangji Mine for 2007 was 570Kt. Project to date mined tonnages quoted to MMC by Zhonghua Mining Co. Ltd. was 9.6Mt.

2.2 Land Tenure and Mineral Rights

Mining licence details for the Wangji Operation are displayed in *Table 2.1*.

Table 2.1: Wangji — Mining License Details

Mine/Project	Wangji
Title	Mining License
No	1000000730041
Owner	Zhonghuajian Mining Co. Ltd
Mine/Project Name	Zhonghuajian Mining Co. Ltd Wangji Phosphate Mine
Mine Method	Underground
Permit Capacity	1Mtpa
Permit Area	2.2539km ²
Permit Depth	300mRL– (–146)mRL
Valid Date	Jun, 5th 2007–Jun, 5th 2036
Issue Date	Jun, 5th 2007
Issuer	Ministry of Land & Resources, PRC

The current mining license is held by Zhonghuajian Mining Co. Ltd for both Ph1 and Ph3 orebodies. The ore bodies are excavated under the Zhonghuajian Mining Co. Ltd Wangji Phosphate Mine, license num. 1000000730041. The license is valid from June 2007 to June 2036, and was issued by Ministry of Land and Resources, PRC.

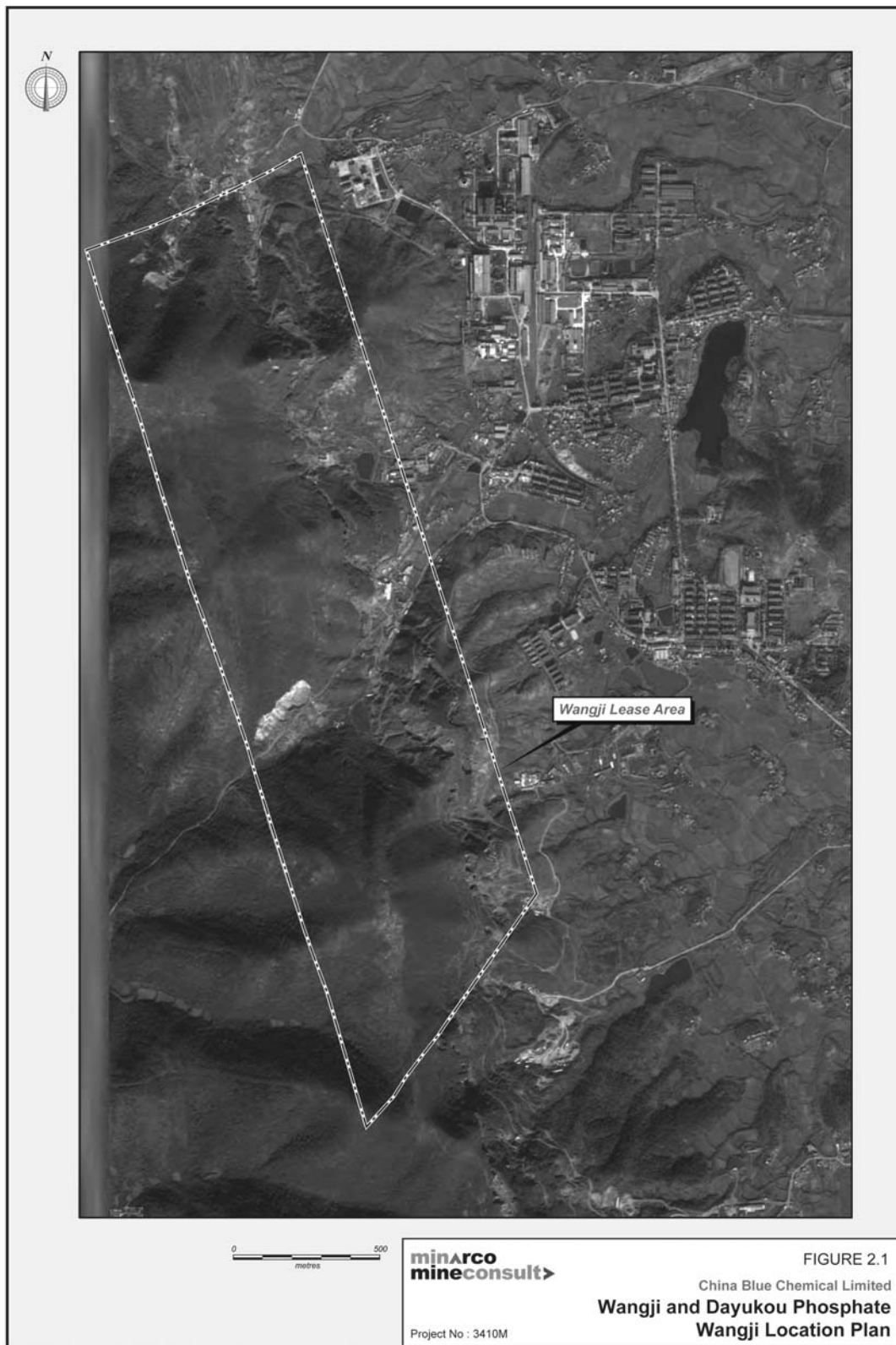
The Mining Lease coordinates are as follows:

Table 2.2: Wangji — Mining License Coordinates

Point	X	Y
1	3,486,350	37,616,920
2	3,485,974	37,616,214
3	3,483,054	37,617,184
4	3,483,810	37,617,755

MMC recommends that land titles and ownership be reviewed by the Companies legal due diligence team. For this reason, MMC provides this information for reference only, and should not be relied upon.

Figure 2.1: Wangji — Project Location



2.3 Geology

The phosphorus bearing strata of Huji mining area belongs to the Doushantuo Formation of Upper Sinian System, and is a shallow sea phosphate deposit. The Doushantuo Formation has four layers of phosphate-bearing rock which is named Ph1, Ph2, Ph3 and Ph4 from the bottom to the top.

At depth of up to 400 metres below surface the Ph1 seam has a consistent 6–8m thickness along the 2.7km strike extent within the Wangji mining license area. Thicknesses are reduced at depths greater than 400 meters below surface, as is evidenced by a 3.4m thickness in hole CK2123, and the ore seam disappears completely in CK2205.

The Ph3 phosphate bearing horizon can be further sub-divided into 5 subunits which are from bottom to top called Ph3¹, Ph3², Ph3³, Ph3⁴ and Ph3⁵. The division of the Ph3 horizon is on lithology with the Ph3¹, Ph3³ and Ph3⁵ units being of a mudstone/shale lithology, whilst Ph3² and Ph3⁴ are predominantly sandstone lithology. With consistent thicknesses 4m thicknesses and average grades of 17% P₂O₅, mining of the Ph3 horizon is restricted to the Ph3⁴ unit.

Strata at the Wangji minesite is part of a westerly dipping monoclinial structure which dips at approximately 30° toward 250°. There is no evidence of ductile deformation; however numerous faults disrupt the ore horizons in the southern region of the mining license area.

The Ph1 and Ph3 phosphate seams have a true thickness separation distance of between 50 to 60 metres.

Table 2.3 below indicates the main ore horizon characteristics.

Table 2.3: Wangji — Ore Body Characteristics

Orebody	Mine Seam	Strike	Dip angle	Thickness (m)			Grade (% P ₂ O ₅)
				Min	Max	Average	
Ph1		N19°W	32°	3.37	13.47	8.43	25.44
Ph3	Upper	N19°W	30°	0	3.63	1.8	8.15–12.2
	Middle	N19°W	30°	1.53	14.65		15.05–21.65
	Lower	N19°W	30°	0	6.02		8.36–14.16

The average grade of Mine body Ph1 is about 25%, and Ph3⁴ is about 17%.

2.3.1 Points of Observation

From the site visit conducted on the 2nd of September MMC made the following observations:

- 10 Drill sections were counted on the Wangji drillhole collar plan, with sections being located approximately 400m apart in the central and northern areas of the mining license area, and at 200m spacing in the southern area. The change of drill section spacing reflects the need for closer spaced geological information in areas where brittle offset faults disrupt the ore horizons.
- Drillholes are spaced 200m apart on the 400m spaced sections, while closer spacing's (100m) were noted on the 200m spaced drill lines in the south of the license area.
- A total of 30 core holes were drilled into the Wangji license area for a total of 2,654 metres of drilling. All holes were drilled by the Hubei Province Geological Bureau 8th Geological Unit. All holes were initially drilled vertically however MMC was told by Wangji personnel that some deviation was experienced. It is unknown how the drillholes were surveyed downhole. Of the 30 holes drilled, 28 holes were used by the Hubei Province Geological Bureau 8th Geological Unit for the Resource Estimate.
- MMC requested, but was not shown any drill core. It is the understanding of MMC that the core from these holes no longer exists as full core analysis has taken place.
- Assay analysis of core samples were not conducted at Wangji.
- MMC requested, but was not shown Quality Control/Quality Assurance data, however it is unknown if the QAQC analysis was ever conducted.
- MMC was informed that Resources were updated by depleting mined production tonnes from the previous Resource Estimate to derive the most up to date resource. New resource estimates are completed by the E Hubei North Western Geological Exploration Institute.
- MMC was informed the bulk density values used in the resource estimate were derived from excavating 1 cubic metre pits and weighing the excavated rock. Several of these samples were taken and the resulting bulk density values were averaged to achieve an average bulk density. No bulk density values were derived from drill core.

2.3.2 Validation

MMC has carried out a brief validation of the mineral estimate which included:

- Exploration method appropriate for the style and geometry of mineralisation.
- Sampling and assaying methods are appropriate for the style of mineralisation.
- MMC was not supplied a comprehensive drilling database, so therefore was not able to carry out a complete validation of the data used in compiling the resource estimate. Validation of individual sample lengths and the associated raw assay grades was carried out against the resource cross-sections for the three most heavily drilled sections — W212 (holes CK2123, CK2122 and CK2121); W220 (CK2201, CK2202 and CK2205) and W228 (CK228, CK2282, CK2283 and CK2284). MMC found no errors in the assay transposition from assay logs to drill sections, and consequently found all weighted intercept lengths and grades were correct.
- Weighted intercepts were then checked against resource plans. MMC found no issues with the data.

2.4 Resources and Reserves

The Chinese estimations do not comply with JORC guidelines and therefore MMC refers to JORC equivalent terms in this report. These estimates could be upgraded to JORC standards following validation of exploration methods, and estimation parameters and signed off by a “competent person”.

Mineral Resource and Ore Reserve estimates by the relevant Chinese Institute based on the Chinese Code. In MMC’ opinion, the Chinese estimates are reasonable; however without validation of exploration and estimation methods, these estimates do not comply with JORC guidelines.

The JORC Code requires that Ore Reserve estimates must apply relevant modifying factors including mining layout, pit shells, recovery and dilution factors to Indicated and/or Measured Resources. Where Mineral Resource and Ore Reserve estimates are not compliant with JORC guidelines MMC have used terms “In Situ Quantities” and “Mineable Quantities” respectively as follows:

JORC Equivalent Resources	are referred to as	Inferred or Indicated Mineral Resource
Chinese Code resources	are referred to as	In Situ Quantities
Chinese Code reserves	are referred to as	Mineable Quantities

Most projects estimated using the Chinese Code do not estimate Ore Reserves (Mineable Quantities). For these projects it is common for operational management and planning to use In Situ Quantities as indicative “ore reserves”. MMC considers the use of In Situ quantities as “ore reserves” to be unreasonable as it does not take into account any mining factors.

Where contained metal is estimated, the JORC Code requires reporting together with tonnes and grade of Mineral Resource estimates or more ideally with Ore Reserve estimates.

Mineral Resources and Ore Reserves are discussed in more detail in each of the projects chapters.

Note: Whilst the estimates do not comply with the JORC Code, they have been validated by Minarco using all data made available by the Company. The estimates as shown under the guidelines of the Chinese Code appear reasonable. Based on this review, the In Situ Quantity estimates as shown under the guidelines of the Chinese Code appear reasonable and although they do not meet the recommendations of the JORC Code, Minarco is of the view that should the In Situ Quantity be re-estimated under the recommendations of JORC Code they should yield similar results to the economic portions of the Chinese Code In Situ Quantity as stated in the Circular. Mineable Quantities as shown in this circular have been estimated under the Chinese Code. In Minarco’s opinion, the Chinese Code estimates of Mineable Quantities appear reasonable and in line with the requirements for Chinese reserve reporting. These estimates of Mineable Quantities cannot however be reported under JORC Code without proper mine design and application of appropriate modifying factors (i.e. mining, metallurgical, economic, marketing, legal, environmental, social and governmental considerations).

2.4.1 Mineral Resource Estimate

In 1966, the Eighth Geological Brigade of Hubei Geological Bureau carried out supplementary exploration in Wangji mining section and compiled the “Hubei Province Jingxiang phosphorite Huji mining area Wangji mining section geology exploration report” (“Former report”) in the same year. The ECWBZD20HW no.57[66] “Examination and Approval Resolution” was issued after examination by the reserves examining committee, and approved In Situ Quantities of 91.2313Mt in the Wangji mining section with B, C1 and C2 Chinese Code Classification and 43.2357Mt of submarginal In Situ Quantities. The phosphorite in Situ Quantities to the south of profile W232.5 at the Wangji Mining section was examined with 66.353Mt of marginal and 25.437Mt of sub marginal In Situ Quantities being approved. Refer table below.

Estimation parameters used include;

- Ph1 minimum average industrial grade of P_2O_5 above 22% (refers to single engineering on average); cut-off grade of P_2O_5 above 15%.
- Ph3 minimum average industrial grade of P_2O_5 above 15% (refers to single engineering on average); cut-off grade of P_2O_5 above 8%.
- Minimum mineable thickness is 1 metre and rock eliminating thickness of ore is 2 metres.

Table 2.4: Wangji — In Situ Quantity Estimates (Hubei Geological Bureau)

Classification	Level	In Situ Quantities (Mt)	Grade (% P₂O₅)	Proportion of Entry Level Reserve (%)
Marginal	B + C1 + C2	66.353	22.12	100
	B	28.311	22.51	43
	C1	13.213	22.87	20
	C2	24.829	21.28	37
Submarginal	B + C1 + C2	25.437	10.22	100
	B	6.614	9.89	26
	C1	7.886	10.07	31
	C2	10.937	10.53	43

Source: Reserve Calculation Geological Report for the South of W232.5 Line of Wangji Mining Section (page 2)

- MMC found an error in the above tabulated results. For the Marginal category the B + C1 + C2 combined total is 66.353Mt as reported, however the grade should be 22.12% P₂O₅, not 21.92% as reported. **Table 2.4** shows the corrected grades.

In August 2003, Hubei No. 8 Geology Team made resource/reserve estimation within the approved mining area south of profile W232.5 of Wangji, and submitted the report “Resource & Reserve Geological Estimation Report of Wangji Mine south to the Line W232.5 of Wangji Ore Section, Huji Mining Area, Jingxiang Phosphate Mine in Hubei Province” in December 2003.

After review of the submitted In Situ Quantity figures the National Department of Land and Resources of Hubei Province reported in the “*Review Opinion Letter of Reserve Calculation Geological Report (dated January 16th 2004)*”. These In Situ Quantities were subsequently updated in June 2008 and are shown in **Table 2.5** and have been lodged for approval with the government. At the issue of this report the governmental approval was not received.

Table 2.5: Wangji — In Situ Quantity Estimates Remaining as at June 2008

Chinese Code Classification	Ph1		Ph3		Subtotal	
	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅
111b + 122b	18,328	—	—	—	18,328	—
331 + 332	1,009	—	390	—	1,399	—
2M11 + 2M22	—	—	15,970	—	15,970	—
Subtotal	19,337	25.44	16,360	17	35,697	21.57
2S21 + 2S22			13,783		13,783	
Total Remaining June 08	19,337		30,143		49,480	

All Tonnage Values are quoted in (kt), Source: Hubei Province Jingxiang Phosphate Mine Huji Mine Area Wangji Mine Section to the South of Profile Line W232.5 (In June 2008) Resource Reserve Balance Geological Report by the Northwest Hubei Province Hubei Geological Minerals Investigation Bureau.

MMC has the following concerns;

- Grades for the 2008 resource/reserve estimate do not appear in any report supplied to MMC. The only resource figure available with a breakdown into grade is that of the original 1966 resource estimate. These have been incorporated into Table 2.5 as an indication only by MMC.
- MMC reviewed the depletion applied to the June 2008 In Situ Quantity from the August 2003 In Situ Quantity. This review showed no depletion was applied to the Ph3 orebody even though production of 52.58kt has been reported by the client **Table 2.6**. Also of concern is the excessive rate of resource depletion against actual production from Ph1 with the client reporting 2,511.99kt as having been mined against 3,223kt been depleted from the actual resource for the same period. This may indicate that the current In Situ Quantity may be overestimated or that the mining method employed is sterilising excessive amounts of resources which might have been recovered had better mining strategies been employed.

Based on data provided to MMC by the client the reconciled production for the Wangji mine is shown in **Table 2.6** for all mining since the August 2003 update. The table shows the production grades recorded from sampling of the development cuts. Using these grades MMC estimates that the average production grade over the past 5 years has been 23.7% P₂O₅ from orebody Ph1. Recovered grades from orebody Ph3 have been quoted as 15%.

Table 2.6: Wangji — Production Quantities August 2003 to June 2008

Orebody	Reported	2003 (9–12)	2004	2005	2006	2007	2008 (1–6)	Total
	Production grade (% P ₂ O ₅)							
Ph1	20%	—	—	11.76	129.2	10.69	12.52	164.2
	22%	3.73	52.67	83.95	1.78	0.34	46.66	189.13
	23%	25.98	120.8	176	56.72	160.7	75.29	615.55
	24%	71.01	209.2	157	311.7	217.2	120.68	1,086.84
	26%	10.06	20.53	127.8	41.75	180.7	22.8	403.69
	27%	0.61	1.83	15.25	14.46	—	20.44	52.58
Sub Total (kt)		111.39	405	571.8	555.7	569.7	298.4	2,511.99
Ph3	Sub Total (kt)				24.44	0.65	27.08	52.18
Total (kt)		111.39	405	571.8	580.1	570.4	325.48	2,564.16

Source: Site management provided information June 2008.

Total In Situ Quantity depletion since commencement of mining at Wangji is shown in *Table 2.7*.

Table 2.7: Wangji — Recovered In Situ Quantities as at June 2008

Chinese Code Classification	Ph1 Tonnes (Kt)	Ph3 Tonnes (Kt)	Subtotal Tonnes (Kt)
111b + 122b	13,921	—	13,921
331 + 332	—	—	—
2M11 + 2M22	—	5,512	5,512
2S21 + 2S22	—	629	629
Subtotal	13,921	6,141	20,062

Source: Hubei Province Jingxiang Phosphate Mine Huji Mine Area Wangji Mine Section to the South of Profile Line W232.5 (In June 2008) Resource Reserve Balance Geological Report by the Northwest Hubei Province Hubei Geological Minerals Investigation Bureau.

2.4.2 Mine Reserves

Table 2.8: Wangji — Mine Reserves

Elevation (m)	Former Classification	New Classification	Reserve (Kt)	Average Grade (% P ₂ O ₅)
+ 75 ~ + 40	B	111b	3,586.6	24.23
+ 40 ~ + 10	B	111b	2,116.1	23.86
	C	111b	562.8	23.28
Total	B + C	111b	6,265.5	24.02

Source: Wangji Phosphor Mine Geology Report (page 7)

The above reserve figures were compiled by the mine owners and in MMC opinion appear correct as the current mine has depleted all reserves above the 75mRL.

- MMC queries the whereabouts of the “C” portion of the quoted reserve in the above table.
- MMC was quoted during the site visit that future production is planned to last >20 years, mining the area between +10mRL and –105mRL. No supporting documentation has been supplied to MMC outlining the resources/reserves of these panels, and based on previous reports grade is expected to decrease with depth. This area is currently been incorporated into a feasibility study, which will be available in October 2008.

2.4.3 Comparison with the JORC Code

For resources to be quoted under the recommendations of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves by the Joint ore reserves Committee (JORC), they must meet the following criteria.

- Reasonable expectation for eventual economic extraction.
- Data collection methodology and record keeping for geology, assay, bulk density and other sampling information must be relevant to the style of mineralisation and Quality Checks have to have been carried out to ensure confidence in the data.
- Geological and grade interpretation of the resource and their continuity must be well defined.
- Estimation methodology must be appropriate to the style of mineralisation and reflect internal grade variability, sample spacing and selective mining units.
- Classification must take into account varying confidence levels and assess whether appropriate account has been taken of all relevant factors i.e. relative confidence in tonnage/grade, computations, confidence in continuity of geology and metal values, quality, quantity and distribution of the data and whether the results reflect the view of the competent person.

MMC considers that most Chinese Code estimates meet some of the criteria's of the JORC Code but often due to lack of record keeping and systematic approach to Quality control they do not meet the recommendations for competent person sign off. MMC therefore refers to JORC equivalent terms in this report.

The Wangji deposit is an evaporate deposit which has formed in a relatively simple structural setting; it therefore shows good grade and geological continuity along strike with relatively small changes in thicknesses along strike. It has been disturbed by late stage faulting at depth. Records checked by MMC during the site visits failed to

confirm historical quality control of assaying. Based on this fact MMC considers the JORC equivalent resource classification for the Wangji deposit above cut off to be as outlined in **Table 2.9**, based on the In situ quantities remaining as at June 2008 above cut off.

Table 2.9: Wangji — JORC Equivalent Resources as at June 2008

Chinese Code Classification	JORC Equivalent	Ph1		Ph3		Subtotal	
		Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅
111b + 122b	Indicated	18,328	—	—	—	18,328	—
331 + 332	Inferred	1,009	—	390	—	1,399	—
2M11 + 2M22	Inferred	—	—	15,970	—	15,970	—
Subtotal	Inferred + Indicated	19,337	25.44	16,360	17	35,697	21.57

Note: MMC provides JORC Equivalent Terms for reference only. The results displayed in the above table are not based on a JORC Compliant Resource Statement.

2.4.4 Resource/Reserve Risk and Opportunities

Resource/Reserve Risks

- Current depletion of the resources indicates that the In Situ Quantity may be overestimated based on the amount of mineralisation recovered and the amount of resource being depleted for the same period.
- The thinning of the orebody at depth along with more complex faulting may lead to a decrease in resource tonnes in later years.
- Reserve figures do not account for dilution and ore loss accurately.
- Details of planned production below the +10mRL have not been provided to MMC. Reducing grades and increased mining costs with depth will impact on the economics of the project.

Resource Reserve Opportunities

- Current production development grades should be incorporated into the resource update to better reflect the internal grade variability. This will assist in mine to mill reconciliation.
- Elements which impact on processing rates such as Silica, MgO and CaO have not been assayed and are not estimated in the current resource. Analysis and estimation of these elements may allow for better blending of these and increased production throughput.
- A 3D resource estimate should be created to better define the internal grade variability and assist with the creation of more realistic mine reserves and production schedules.

2.5 Mining

The Wangji mine is owned and operated by the Zhonghuajian Mining Co. Ltd, after the mine was purchased off Hubei Jingxiang Chemical Industry Group in September 2006. The mine is entirely underground and the two phosphate ore horizons (Ph1 and Ph3), are accessed via 5 separate inclined shafts. These shafts are used to transport workers to and from the workplace, and also to extract broken rock from the underground operation.

Specifications for the shafts are outlined in the following table.

Table 2.10: Wangji — Mining Shaft Specifications

Horizon	Shaft	Inclination	Inclined	Comment
			Length (m)	
Ph1	Main Shaft	28°	302	Surface to +10 Level
	Auxiliary Shaft	27°	206	Surface to +40 Level
Ph3	3 shafts	5°–9°	275	Surface to +105 Level

In 2007 the 570Kt of ore was extracted from the Ph1 ore horizon, while 550Kt is forecast to be mined in 2008. Main Shaft is expected to deliver 45% of the Ph3 production whilst the balance is delivered from the Auxiliary shaft. Tonnages extracted from the Ph3 horizon are evenly distributed between the 3 Ph3 shafts.

A summary of mine development for the Ph1 and Ph3 orebodies is shown in the table below.

Table 2.11: Wangji — Summary of Mine Development

Level	Ph1	Ph3
255	Mined Out	Mined Out
225	Mined Out	Mined Out
195	Mined Out	Mined Out
165	Mined Out	Mined Out
135	Mined Out	Mined Out
105	Mined Out	Developing
75	Mined Out	Development designed
40	Developing & Stopping	Development designed
10	Developing	Development designed
–20	Development designed	Development designed
–50	Development designed	Development designed
–80	Development designed	Development designed
–105	Development designed	Development designed
–146	Not Designed	Not Designed

- Loaded from skip into 8 tonnes trucks and transported for sale. Trucks are owned by a contracting company.

- Workforce — Total of 297 workers consisting of 24 management and 273 mine labourers
- Shift Arrangement — 2 by 8 hour shifts; Shift 1 operates from 0800–1600; Shift 2 operates from 1600–2400.

2.5.1 Mining Method

The Wangji Underground Phosphate Mine has a relatively flat dipping orebody, which is mined using a typical top down room and pillar mining method. Development drives, 2.9mH by 2.7mW, are driven in ore along the strike of the orebody (strike drives), which provide access to the stoping areas above. Compressed air powered airleg rockdrills are used for development, with approximately a 1.8m round being achieved with each drill and blast cycle. Development drives are spaced at 30m vertical intervals and the strike length of the orebody is approximately 2,700m.

Once the strike drive has been completed, a drive is mined up dip of the orebody, referred to as a connection drift, to intersect with the strike drive located 30m above. The remainder of the “Room” is then stripped out using airleg drills and electric scrapers. The broken ore is scraped down the footwall of the room with an electric scraper, into an orepass, located on the footwall side of the strike drive. The orepass transports the ore to the extraction level, where it is loaded into 2.5m³ skips and hauled to the inclined shaft with a locomotive. There is no need for mechanical loaders as gravity is used to transport the ore from the room to the skips.

A hoist, mounted at the top of the inclined shafts, haul each individual skip up the shaft, where the ore is loaded into 8t trucks and transported to the processing plants. **Figure 2.2** below shows the hoist and one of the 8t trucks that is ready to be loaded. Trucks are owned by the contracting company.

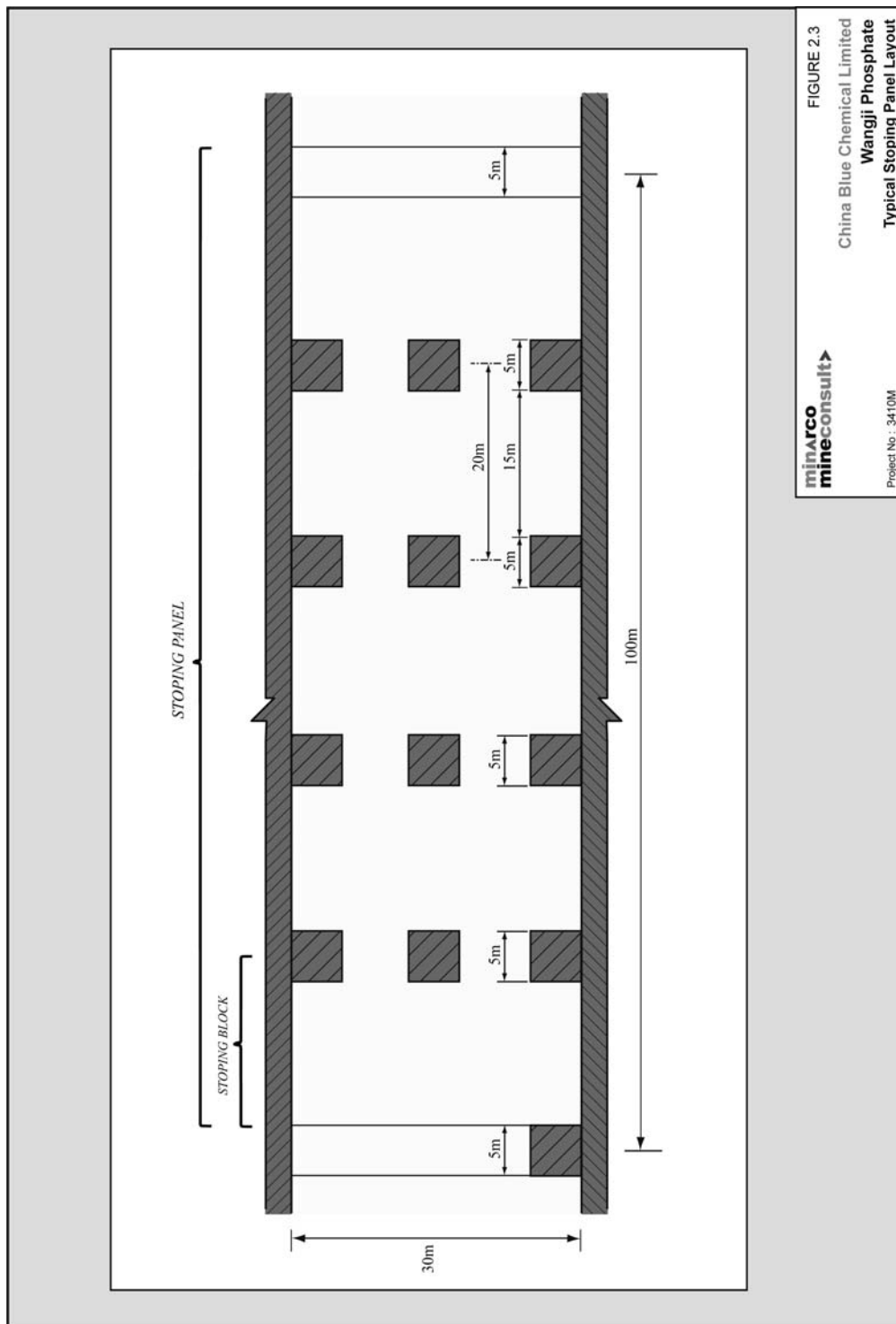
Figure 2.2: Wangji — Hoist and 8t Truck

Strategically placed pillars are left behind for geotechnical stability and to ensure safety of the workers. These pillars are generally unrecoverable and have been included in the overall recovery calculations, which is approximately 75%. This recovery percentage takes into account pillars and also small areas that cannot be mined due to geological faulting. Dilution has been calculated by the client from historical data to be approximately 3%.

100m long panels are designed along the strike drive, which consist of 5 by 20m stoping blocks. 5m of continuous pillar is left between each stoping panel for structural support and each stoping block is separated by several small 5m by 5m pillars as can be seen in the figure below. Once the pillars have been left behind, the resultant room span is approximately 15m in width.

The development advance rate has been forecasted to be 1,000m/month from the Ph1 and Ph3 orebodies. This development advancement rate seems to be sufficient in order to maintain the forecast production rates.

Figure 2.3: Wangji — Typical Stopping Panel Layout



2.5.2 Equipment

Due to the simple nature of the underground mining method used at Wangji, there is little requirement for large or expensive equipment. The room and pillar mining method is highly labour intensive and as such, equipment is limited to:

- Airleg rockdrills
- Electric scrapers
- Rail locomotives
- 2.5m³ capacity skips
- Hydraulic reclaimer (loads broken rock into skip from heading)

The total number of each type of equipment was not available, yet from the historical production figures, it appears that there is sufficient equipment currently on site to achieve and maintain the forecast production and development rates.

2.5.3 Mining Risks and Opportunities

Mining Risks

- Large water inflow decreasing development and production rates. (Possible large rainfall event — 6” in one day)
- Shaft hoisting not reaching optimum capacity.
- Greater than expected dilution.

Mining Opportunities

- Low capital costs making equipment upgrades easily justified.
- Simple and efficient mining method increases the number of available work areas.

2.5.4 Mining Costs

Table 2.12 details the mining operating costs based on information provided in a financial model compiled by Beijing Tianxiang Xingye Assets Appraisal Co., Ltd.

Table 2.12: Wangji — Mining Operational Costs

Mining Costs	Cost Centre	Unit	Cost
Wage	Labour	RMB/t (ROM)	17
Material	Materials	RMB/t (ROM)	31
Electricity	Power	RMB/t (ROM)	5
Maintenance Expense	Maintenance	RMB/t (ROM)	10
Other	Other	RMB/t (ROM)	5
Total		RMB/t (ROM)	68

The mining method used is highly labour intensive so it would be assumed that the labour and materials components of the costs should make up the majority of the operating costs. This assumption is confirmed in the operational costs table above. Considering the simple mining method used at both Dayukou and Wangji, the fact that major capital development has been completed and the equipment used is relatively inexpensive, the costs displayed above seem reasonable for this type of operation.

2.5.5 Historic and Forecast Production

Historical production figures in **Table 2.13** show that relatively consistent production rates can be maintained at Wangji and that the forecast production is achievable with the current mining method and equipment. **Table 2.14** shows the historical production figures and the forecast production rates for Wangji from year 2003 to 2013.

Table 2.13: Wangji — Historical Production

Year	Ph1		Ph3		Total Production	
	Tonnes (Kt)	% P ₂ O ₅	Tonnes (Kt)	% P ₂ O ₅	Tonnes (Kt)	% P ₂ O ₅
2003 (from Sept)	111	23.9	—		111	23.9
2004	405	23.6	—		405	23.6
2005	572	23.9	—		572	23.9
2006	556	23.2	24	15	580	22.9
2007	570	24.3	1	15	570	24.3
2008 (to June)	298	23.6	27	15	325	22.9

Source: Forecasted number from June 2008 are based on the feasibility study Wangji Phosphor Mine Geology Report

Table 2.14: Wangji — Forecast Production Until 2018

Ore	Ph1 Ore (Kt)	Ph3 Ore (Kt)	Total Ore (Kt)
2008	580	200	780
2009	550	200	750
2010	550	200	750
2011	700	300	1,000
2012	700	300	1,000
2013	500	700	1,200
2014	500	700	1,200
2015	500	700	1,200
2016	500	700	1,200
2017	500	700	1,200
2018	500	700	1,200
Total	6,080	5,400	11,480

2.6 Wangji Processing

The Wangji process plant was constructed in the 1970's but has been upgraded in 1986 to a traditional Chinese design institute flowsheet that comprises primary jaw crushing, secondary & tertiary cone crushing, ball mill grinding, and froth floatation. Phosphate concentrates from the Wangji process plant were previously thickened and vacuum drum dried to 13% to 15% moisture so that they can be handled by truck or train deliveries to customers. A 30% to 32% P_2O_5 feed stock being the standard product albeit in a dry lump format.

Presently the Wangji phosphate processing plant is not operational. It has been substantially dismantled ahead of a re-fit and change of processing technology. The Wangji processing plant has therefore not been inspected whilst operating.

During the site visit plans for an upgrade of the Wangji plant were discussed. MMC has included comments on this planned upgrade for reference only, has the upgrade has yet to be confirmed. If the upgrade goes ahead the Wangji plant shall process up to 0.3mtpa Ph1 ore and 0.7mtpa Ph3. At the planned annual production rate of 1mtpa the processing plant shall need to operate at better than 135tph if operations occur over 7,440 hours per annum (310 days of 24 hours per day operations).

Figure 2.4: Wangji — Processing Crushing and Screening Circuit

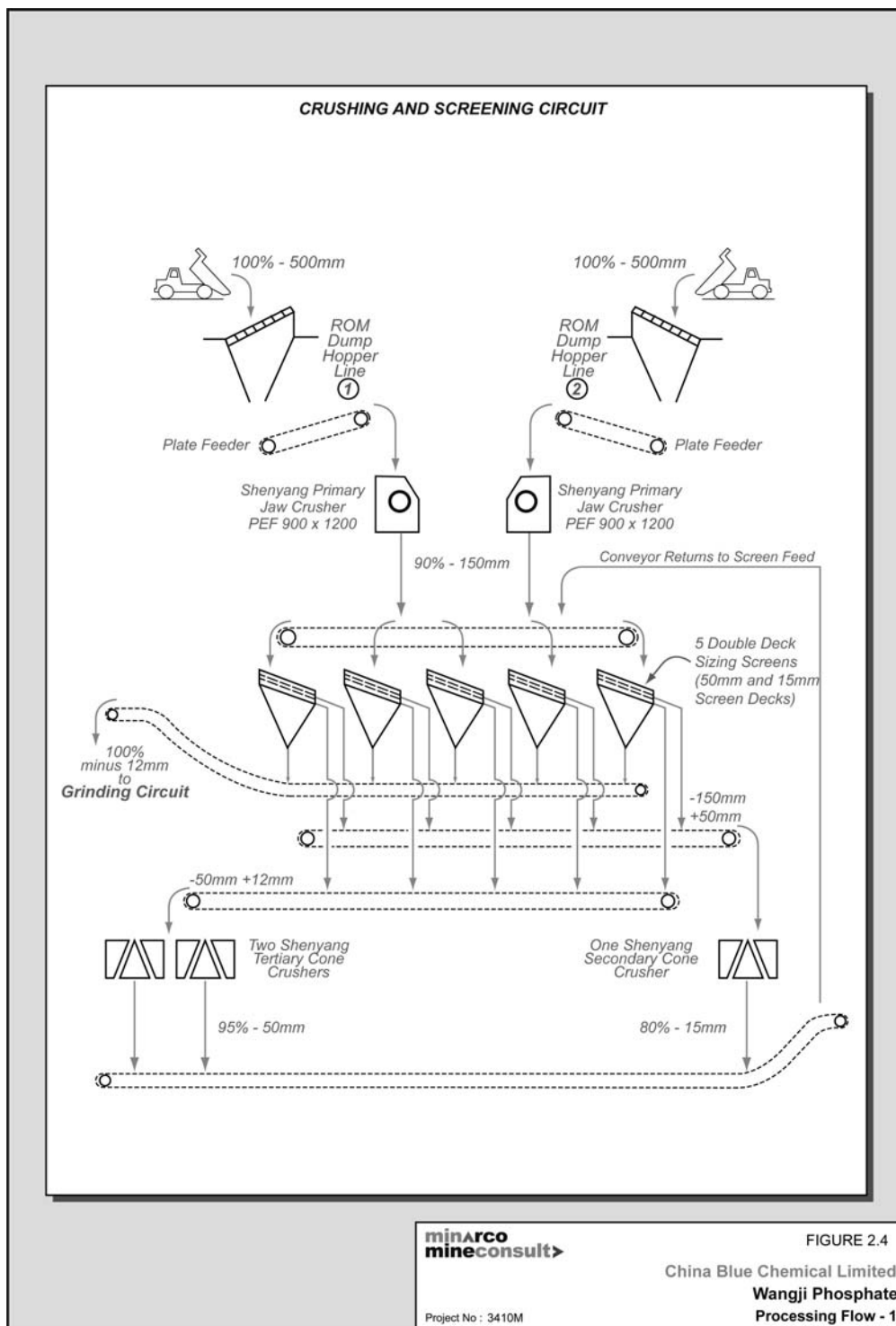


Figure 2.5: Wangji — Processing Grinding and Sizing Circuit

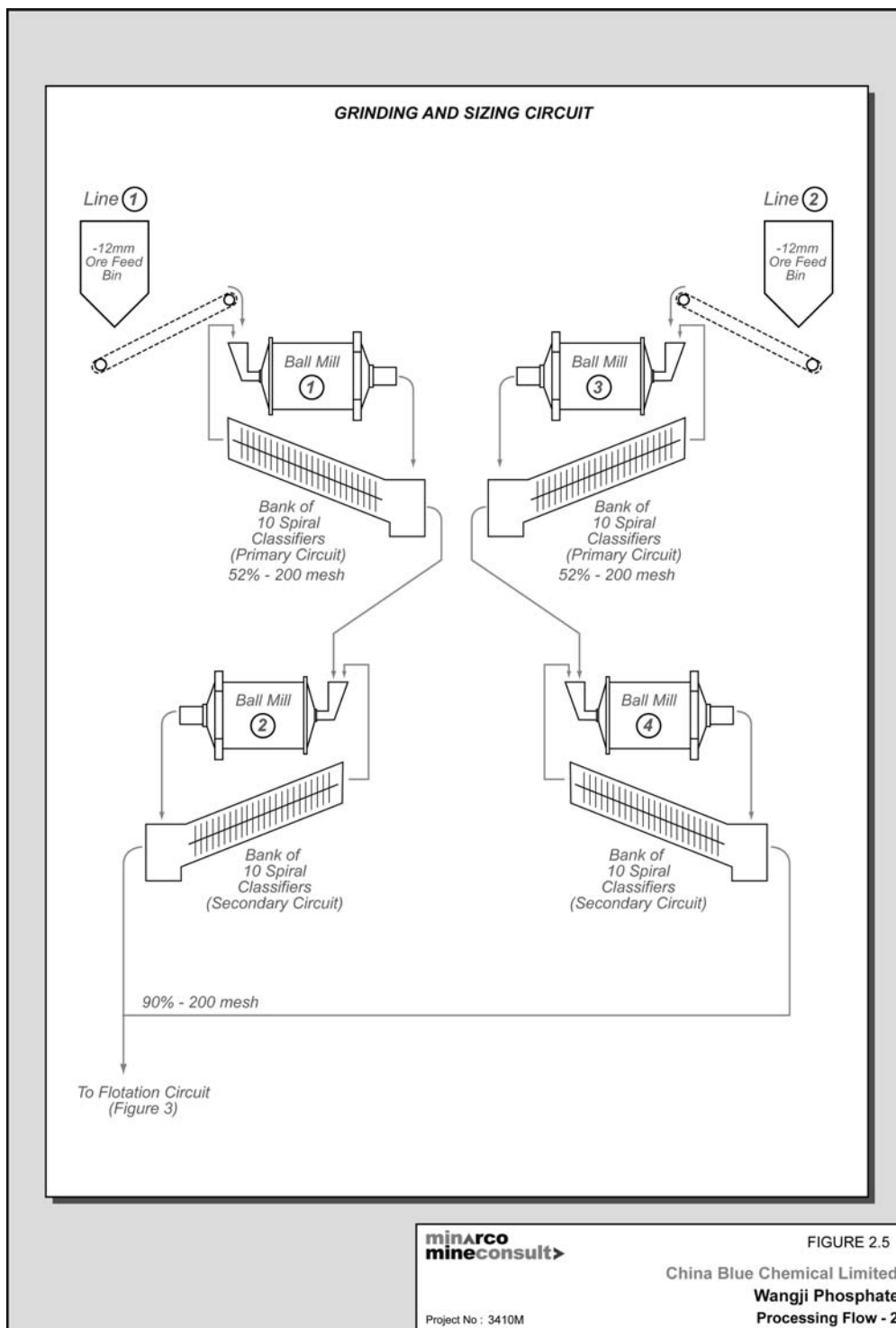
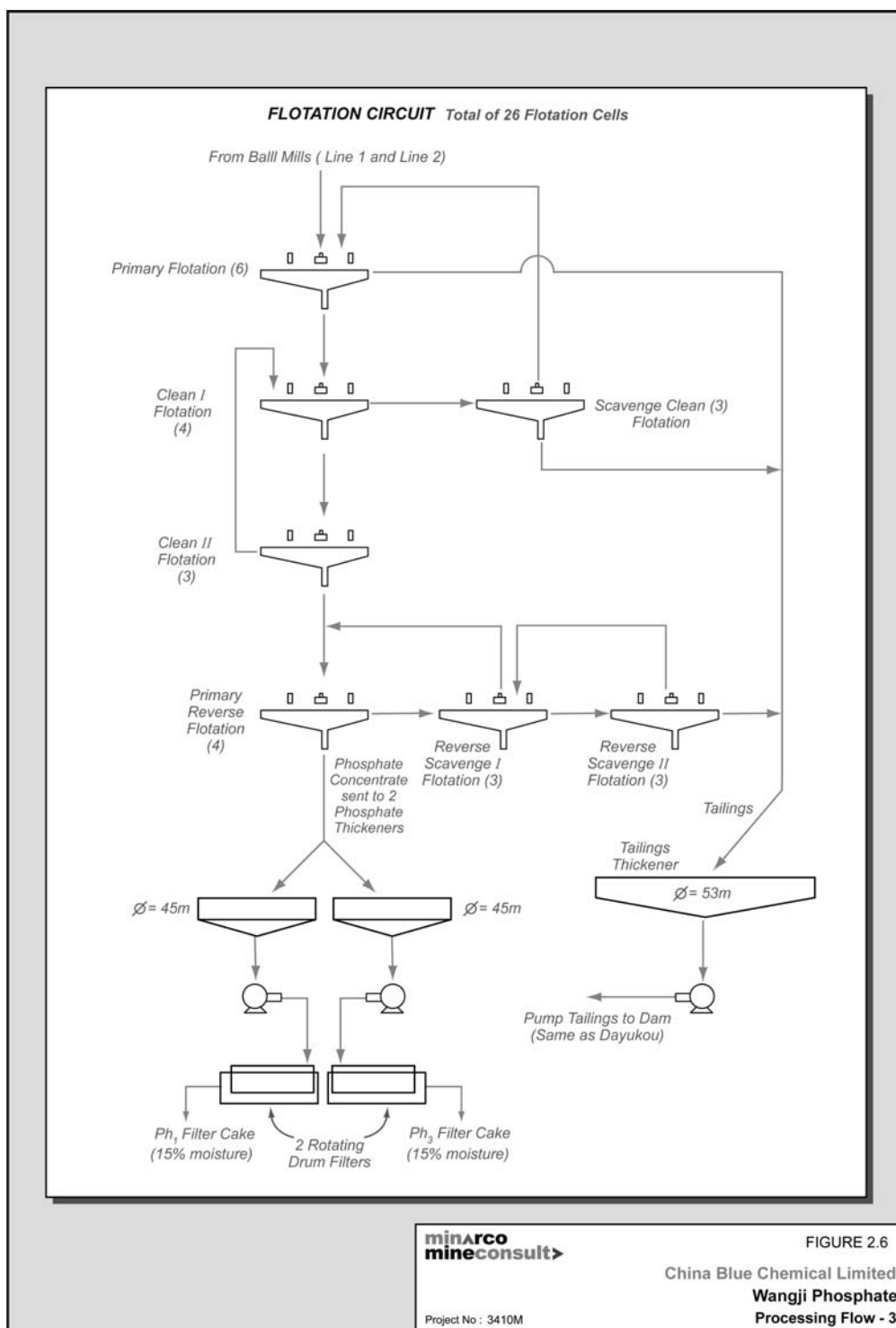


Figure 2.6: Wangji — Processing Floatation Circuit



The process design flowsheet for Wangji suggests a design capacity of 125 to 135tph of ore feedstock. Management have also advised that the upgraded Wangji processing plant will still retain the same primary, secondary and tertiary crushing and screening equipment as currently installed in the de-commissioned facility. On this basis the Wangji crushing and screening plant, once re-commissioned, should be similar in production capacity to the present Dayukou plant. The Wangji process design flowsheet is an illustration of how the plant could be upgraded. MMC's experience in China suggests that the final commissioned plant is often significantly different to the original design.

Should this be the case the Wangji plant will process Ph1 ore at plant capacities between 130tph to 135tph (depending on grade, silica content, MgO content, and the like). For Ph3 ore processing it is believed that the plant capacity will reduce to between 110tph to 120tph again depending on grade, silica content, MgO content, and other minerals such as CaO.

The process plant equipment at Wangji is similar to that at Dayukou and of Chinese design and manufacture with the bulk of the equipment supplied by Shenyang Heavy industries.

It is understood from management that most of the processing changes are intended to be made to the grinding circuit and the floatation house. The inclined spiral classifiers are to be removed and replaced with modern hydro-cyclone classifiers that will improve ball mill performance. It is not known if the ball mills themselves are to be repaired, upgraded, or replaced with new equipment.

The floatation house has already been substantially emptied of all plant and equipment in anticipation of the procurement and installation of modern floatation cells, pumps, and process control systems for the chemical dosing and control of the floatation processes. No new or replacement floatation equipment was evident during the Wangji plant inspection.

2.6.1 Key Wangji Processing Equipment

There are two primary jaw crushers at Wangji to match the two ROM ore dump bins and feeders. Both primary jaw crushers are Shenyang PEF 900 x 1,200 single toggle jaws with a jaw closed side setting of approximately 90mm. This size of jaw crusher is able to reduce a top size of approximately 500mm to 90% passing 150mm. Capacity of the jaw is typically between 250tph and 300tph. The primary jaw crushers are therefore considered appropriate for the proposed upgrade at Wangji.

The secondary cone crusher is a Shenyang short-head design able to process up to 300tph from a top size of approximately 150mm to 95% passing 50mm. This cone crusher is appropriate for the proposed upgrade at Wangji.

The tertiary cone crushers (x 2) consist of two medium-head Shenyang cone crushers. Each tertiary cone crusher is configured to produce 80% passing 15mm from a 95% passing 50mm feed. Each cone crusher is able to process up to 160tph for a total tertiary sizing capacity of approximately 320tph. The tertiary cone crushers are appropriate for the proposed upgrade at Wangji.

The vibrating screens (x 5) are a Shenyang design and are configured to allow for some redundancy in the screening of phosphate ore. Each screen is fitted with a 50mm upper screen deck and a 15mm lower deck. The upper deck allows -150mm + 50mm material to be directed to the secondary cone crusher and the -50mm + 15mm material to be directed to the both tertiary cone crushers. Minus 15mm material is passed to the ball mill feed bins. The vibrating screens are appropriate for the proposed upgrade at Wangji.

Two ball mill grinding circuits are present at Wangji. Each ball mill circuit consists of a pair of mills, of Chinese MQG design (2.7m diameter by 3.6m long), configured in series to make a total of four ball mills. The primary ball mill in each circuit grinds a nominal 12mm ore top size to 52% passing 200 mesh. The inclined spiral classifiers are being replaced with hydro-cyclones to improve size separation efficiencies. Wangji intends to install two primary classifying cyclones then direct oversize to the primary mill feed sump and undersize to the secondary mill discharge sump. The secondary ball mill in each circuit grinds a nominal 52% passing 200 mesh ore top size to 90% passing 200 mesh. Wangji also intends to install secondary classifying cyclones after the second milling stage to direct oversize to the secondary mill feed sump and undersize to the floatation circuit. Each pair of ball mills should be able to process approximately 50tph for a total grind circuit capacity of between 90tph to 100tph.

The floatation circuit does not exist at present as the plant and equipment required has not been purchased or installed according to management. The floatation circuit, as proposed by Wangji, shall consist of a total of 26 floatation cells and launders configured in a traditional Chinese design institute manner. The floatation cell equipment is believed to be of a Shenyang design (KYF or XCF type) although this has not been confirmed by Wangji plant management. Wangji is proposing 6 primary floatation cells split between the two grinding circuits with the Ph1 and Ph3 ores segregated due to differing floatation potentials and qualities. The 6 primary cells then feed a total of 4 clean “one” cells and then a total of 3 clean “two” cells then 4 primary reverse floatation cells. Clean “one” cells (3 units) froth is scavenged and feed back to primary floatation whilst clean “three” underflow enters the reverse floatation circuit (4 units). From the primary reverse floatation circuit the froth is directed to reverse scavenge “one” cells (3 units) and reverse scavenge “two” cells (4 units). Reagents being proposed in the floatation process comprise the commonly applied phosphoric and sulphuric acids along with sodium carbonate (Na_2CO_3) and sodium silicate (Na_2SiO_3). The Collector and Inhibitor reagents proposed for Wangji are code named WYJ and W. Other unspecified activators are also proposed. The composition and effectiveness of these reagents is not known.

The thickening and filtering circuit at Wangji shall comprise the two existing 45m diameter rotating rake thickening tanks, one for Ph1 ore and the other for Ph3 ore. Thickener underflow shall be concentrated to approximately 65% solids and held in two storage tanks at the process plant. Once thickened the P_2O_5 concentrate is pumped to one of two rotating drum filters where the concentrate is to be dried to moisture of between 13% and 15%. At such moistures the P_2O_5 concentrate is handleable by front

end loader onto trucks or trains for delivery to customers. Tailings are pumped to the Longhuichong Tailings Dam which is located in between the Wangji and Dayukou processing facilities.

The tailings dam at Longhuichong is the same facility as is used by the Dayukou processing plant. The tailings dam holds some 43.6 million cubic meters of clarified tailings. Like Dayukou the expected tailings stream from Wangji is likely to have an average pH of 7.5 to 8.0. Tailings are not pH corrected at the processing plant nor are they chemically dosed at the tailings dam. No measurements of pH were taken during the site inspection to confirm the tailings dam pH or that for the clarified water dam.

Clarified water return from the tailings dam back to Wangji has been estimated by the owner at 1800ML per annum, as for the current Dayukou processing facility. This return water requirement would appear excessive given Wangji concentrate is dried to a filter cake consistency with the filtrate returned to the tails thickener onsite at Wangji.

Figure 2.7: Wangji — Phosphate Plant Primary Jaw Crushers



Figure 2.8: Wangji — Phosphate Plant Tertiary Cone Crusher



Figure 2.9: Wangji — Phosphate Plant Vibrating Screen



Figure 2.10: Wangji — Phosphate MQG Ball Mill with Obsolete Inclined Spiral Classifiers in the Foreground



Figure 2.11: Wangji — Phosphate Plant Floatation House with Obsolete Cells Removed



Figure 2.12: Wangji — Phosphate 45m Diameter Thickeners



Figure 2.13: Wangji — Phosphate Concentrate Vacuum Drum Filter



2.6.2 Wangji Plant Capacity

The Wangji plant is not presently operational or able to be operated due to the decommissioning and removal of much of the floatation equipment and the grinding circuit classification equipment.

There are a number of proposed plans to upgrade the plant, including staged plans to gradually increase capacity to 1mtpa over a three to four year period. One plan has the plant in operations by late 2011 with one of two 400,000 t/yr crushing and screening lines feeding two grinding circuits. A subsequent upgrade may then increase capacity to 300,000 t/yr of Ph1 concentrate and 700,000 t/yr of Ph3 concentrate. Each concentrate is to be vacuum drum dried to 15% moisture cake able to be transported by truck or rail to customers.

It is understood from the owner that the timing of the upgrade works will depend on the domestic sales price of P_2O_5 concentrate and the availability of investment capital to fund the works.

Whilst work is presently underway at Wangji to remove obsolete plant and equipment, in anticipation of installing new plant, no details have been provided at this time on the nature of the upgrade or the intended changes to the existing operation to increase plant capacity.

2.6.3 Wangji Processing Plant Upgrade

If the Wangji processing plant is upgraded additional processing equipment, services, and other plant will be required to achieve a staged plant capacity increase commencing with 400,000t ROM ore and then being expanded to 1Mt ROM ore.

It is understood from management that the timing of the upgrade works will depend on the domestic sales price of P_2O_5 concentrate and the availability of investment capital to fund the works.

Whilst work is presently underway at Wangji to remove obsolete plant and equipment, in anticipation of installing new plant, no details have been provided at this time on the nature of the upgrade or the intended changes to the existing operation to increase plant capacity.

2.6.4 Wangji Processing Operational and Capital Costs

Table 2.15 details the forecast operating costs of the processing plant assuming the upgrade goes ahead, which were provided by Wangji based 300kt of Ph1 and 700kt of Ph3 feed ore per annum.

Table 2.15: Wangji — Forecast Operating Costs

Description	Unit	Unit Price	Consumption/PA	Total Cost RMB/PA	Cost (ROM/t)
					RMB
Power Consumption (Kwh)	RMB	0.59 (Kwh)	50 kwh (Rom/t)	29,500,000	30
Water Consumption	RMB	1.2 RMB/t	1,200 (Ml/t PA)	1,440,000	2
Materials					
Sodium Carbonate	RMB/kg	1.80	7.6 ROM/t	13,680,000	14
Sodium Silicate	RMB/kg	0.70	2.5 ROM/t	1,750,000	2
Inhibitor	RMB/kg	5.50	1.5 ROM/t	8,250,000	9
Positive Collecting Agent	RMB/kg	5.50	0.4 ROM/t	2,200,000	3
Negative Collecting Agent	RMB/kg	5.80	0.7 ROM/t	4,060,000	5
Negative Collecting Agent	RMB/kg	1.20	2.5 ROM/t	3,000,000	3
Negative Collecting Agent	RMB/kg	3.00	5.5 ROM/t	16,500,000	17
Labor	RMB/PA	25,000	150	3,750,000	4
Maintenance		6.5 ROM/t		6,500,000	7
Total				90,630,000	96

The operating costs, except for power consumption are reasonable for the type of equipment that is expected to be installed; however the design of the plant could change before commissioning. From the equipment that is expected to be installed and the increased production of Ph3 ore which requires additional grinding and floatation, power consumption is expected to be significantly higher per ROM tonne.

Details of capital costs for the Wangji processing plant upgrade have not been provided to MMC for review.

3 DAYUKOU PHOSPHATE MINE

The Dayukou Phosphate deposit is located in the Hubei province of Central China. The deposit is located 4 km west of the Huji township, and seven kilometres SSE of the Wangji deposit. The mine is owned and operated by Hubei Dayukou Chemical Industrial Co.,Ltd. The deposit contains two mineralised horizons (Ph1 and Ph3).

Access to the mine is by sealed road from the nearby 207 national highway, whilst the Jiaozhi railway also runs adjacent to the operation.

Mining at Dayukou is by means of an open cut (Chengpishan) and several underground mines (Heishan-Mujiashan, Zhangcong, Jianshan, Shigaolin).

The mine is in hilly topography, with the highest points of elevation being above 280mRL (open cut crest). The weather is temperate with four distinct seasons and high rainfall.

The mine is located in a well serviced area with well developed water, power infrastructure and good access to a labour force.

3.1 Exploration and Mining History

Exploration activity over the Dayukou mining area was first conducted from 1957 to 1959 when preliminary exploration was completed by The Geological Bureau Wuhan Geological Institute. Findings from the exploration campaign were reported in the report titled “Hubei Province Jingxiang Phosphorus Mine Huji Mining area Geological prospecting Summary Report.”

From February 1973 to September 1979, detailed prospecting work was undertaken by Hubei Province Geology Bureau No. 8 Geological Team, and in September, 1979 submitted “Detailed Exploration Geology Report on Hubei Province Zhongxiang County Jingxiang Phosphorus Mine Huji Mining area Dayukou Section.” On November 8, 1979 the Hubei Province Mineral Reserve committee authorized Mine reserves in the Dayukou phosphorus section. Those resources were quoted using the old Chinese categories B+C1+C2 geological resources as 162.847 Mt.

From March 1981 to December 1982, Hubei Province Geology Bureau No. 8 Geological Team conducted the research work to the hydrogeological conditions of Jingxiang phosphorus mine in Huji mining area, and presented a report titled “Hydrogeology Preliminary study Report of the Hubei Province Zhongxiang County Jingxiang Phosphorus Mine Huji Mining area”

In 1990 the Hubei Province No. 8 Geology Team completed the construction prospecting work of the first prioritised mining area (excluding the Chengpishan area). The resulting findings were presented in October, 1990, in the report titled “Mining and Chemical Construction Exploration Report of Jingxiang Phosphorus Mine Dayukou Section”. Construction of the mine and processing plant started in June 1991, and was completed by March 1995.

From January to June 2006, Hubei Province Hubei Northwest Geology Minerals Investigation Bureau carried out the examination work to Dayukou phosphorus mine. In May 2006 compiled a report “2006 Mineral Resource & Reserves Examination Geologic Report of Jingxiang Phosphorus Mine Huji Mining area Dayukou Section in Hubei Province “. The Land and Resources of Hubei Province inspected and approved this report.

Open cut mining commenced in 1990 at the initial design of 1.5 Mtpa. Mining of the pit continued until 1998, when the company focussed on underground mining. After a six year lay-off the open pit again started production in 2004. This coincides with a change of mine ownership from Jingxiang Company to New Dayukou Company.

In 2007 the mine produced in excess of 0.8 Mt of ore at a grade of almost 19% P₂O₅ and is expected to reach a mining capacity of 1Mtpa in 2008.

3.2 Land Tenure and Mineral Rights

Mining licence details for the Dayukou Operation are displayed in *Table 3.1*.

Table 3.1: Dayukou — Mining Licence

Mine/Project	Dayukou
Title	Mining License
No	1000000830053
Owner	Hubei Dayukou Chemical Industrial Co. Ltd
Mine/Project Name	Dayukou Phosphate Mine
Mine Method	Underground
Permit Capacity	1.5 Mtpa
Permit Area	8.1545 km ²
Permit Depth	270 mRL–(–215) mRL
Valid Date	April, 18th 2008–April, 18th 2038
Issue Date	April, 18th 2008
Issuer	Ministry of Land & Resources, PRC

The current mining license is held by Hubei Dayukou Chemical Industrial Co. Ltd for both Ph1 and Ph3 orebodies. The ore bodies are excavated under the Hubei Dayukou Chemical Industrial Co. Ltd Dayukou Phosphate Mine, license num. 1000000830053. The license is valid from 18th April 2008 to 18th April 2038, and was issued by Ministry of Land and Resources, PRC.

The Mining Lease coordinates are as follows:

Table 3.2: Dayukou — Mining Licence Coordinates

Point	X	Y
1	3481196	37620090
2	3480709	37619513
3	3480448	37619733
4	3479295	37618425
5	3478957	37618565
6	3478617	37618757
7	3478265	37618968
8	3478030	37619316
9	3477823	37619693
10	3477368	37619769
11	3477210	37620166
12	3477000	37620530
13	3477820	37621582
14	3477980	37621462
15	3478500	37622116
16	3478978	37621832

MMC recommends that land titles and ownership be reviewed by the Companies legal due diligence team. For this reason, MMC provides this information for reference only, and should not be relied upon.

Figure 3.1: Dayukou — Project Location



3.3 Geology

The Dayukou mining area is geographically located in the Upper Yangtze of the Yangtze paraplatform, Zhongxiang platformal fold bundle in a draped-faulted region of the central Hubei Province north of the Lexiangguan horst.

Strata exposed in the mining area (old to new) belongs to the pre-Sinian System (AnZ), Upper Sinian System Tushan Tableation (Z2d), Upper Sinian System Dengying Tableation (Z2dn), Quaternary System (Q), with host ore horizons belonging to the Tushan Tableation.

The structure of the mining area is relatively simple. Basic shape is smooth open synclinal and anticlinal structure. Fold axial planes are orientated north-south to slightly west of north-south, and folds plunge to the south. Inclinations of beds vary from a shallow 15° to 80°.

Offset faulting like that seen at Wangji is absent from the Dayukou mine area, and as such the continuity of the ore horizons is good.

Ore horizons in the Dayukou mine area are the Ph1 and Ph3 beds, and belong to the Tushan Tabulation (Z2d). The Ph1 seam has an average 4m thickness, whilst the Ph3 average thickness is 7m. Essentially the ore is composed of microcrystalline apatite, while gangue minerals include calcite, dolomite, quartz, limonite, pyrite, feldspar and clay.

The Ph1 and Ph3 phosphate seams have a true thickness separation distance of between 50 to 60 metres

3.3.1 Points of Observation

From the site visit conducted on the 1st of September MMC made the following observations;

- 13 Drill sections were counted on the Dayukou drillhole collar plan, with sections initially being located 400m apart before being closed in to 200m spacing in the central region of the mining license area.
- Drillholes are spaced 200m apart on the 400m spaced sections, while closer spacing (100m) was noted on the 200m spaced drill lines within the license area.
- Records for 69 resource diamond holes were found to be drilled into the Dayukou license area, for a total of 13,298 metres of drilling. All holes were drilled by the Hubei Province Geological Bureau 8th Geological Unit and are drilled vertically. It is unknown if and how the drillholes were surveyed downhole.
- MMC requested, but was not shown any drill core. MMC was told that the core no longer exists, so it is assumed that full core assay analysis has taken place.

- MMC requested to view the surface trenches but was told due to age (> 30 years), these trenches no longer exist.
- Assay analysis of core samples were not conducted at Dayukou.
- MMC requested, but was not shown Quality Control/Quality Assurance data, however it is unknown if the QAQC analysis was ever conducted.
- MMC was informed that Resources were updated by depleting mined production tonnes from the previous Resource Estimate to derive the most up to date resource. New resource estimates are completed by the Hubei Province Geological Bureau 8th Geological Unit only when requested by the company.
- During the site visit it was mentioned to MMC that an extra 43 core holes were drilled to test the Ph3 horizon on a 50m (50m by 100m) section spacing within the area of what was to become the Chengpishan open cut mine. This extra drilling was used to further define the position, quantity and quality of the ore in the Chengpishan mine.
- MMC was informed the bulk density values used in the resource estimate were derived from excavating 1 cubic metre pits and weighing the excavated rock. Several of these samples were taken and the resulting bulk density values were averaged to achieve an average bulk density. No bulk density values were derived from drill core.

3.3.2 Validation

MMC has carried out a brief validation of the mineral estimate which included:

- Exploration method appropriate for the style and geometry of mineralisation.
- Sampling and assaying methods are appropriate for the style of mineralisation.
- MMC was not supplied a comprehensive drilling database, so therefore was not able to carry out a complete validation of the data used in compiling the resource estimate. Validation of individual sample lengths and the associated raw assay grades was carried out against the resource cross-sections for the two most heavily drilled sections — W148 and W156 sections. In the course of validating the assays against the drill cross-sections MMC found the assay for sample 1605 on hole CK1481 was incorrectly transposed onto the cross-section. This error did not continue onto the Resource calculation plans and MMC has validated the Resource plans for this hole. No other errors were noted in the validation process and MMC regards the integrity of the work completed by the Hubei Province Geological Bureau 8th Geological Unit to be good.

- Weighted intercepts were then checked against resource plans. MMC found no issues with the data.

3.4 Resources and Reserves

The Chinese estimations do not comply with JORC guidelines and therefore MMC refers to JORC equivalent terms in this report. These estimates could be upgraded to JORC standards following validation of exploration methods, and estimation parameters and signed off by a “competent person”.

Mineral Resource and Ore Reserve estimates by the relevant Chinese Institute based on the Chinese Code. In MMC’ opinion, the Chinese estimates are reasonable; however without validation of exploration and estimation methods, these estimates do not comply with JORC guidelines.

The JORC Code requires that Ore Reserve estimates must apply relevant modifying factors including mining layout, pit shells, recovery and dilution factors to Indicated and/or Measured Resources. Where Mineral Resource and Ore Reserve estimates are not compliant with JORC guidelines MMC have used terms ‘In Situ Quantities’ and ‘Mineable Quantities’ respectively as follows:

JORC Equivalent Resource	are referred to as	Inferred or Indicated Mineral Resource
Chinese Code resources	are referred to as	In Situ Quantities
Chinese Code reserves	are referred to as	Mineable Quantities

Most projects estimated using the Chinese Code do not estimate Ore Reserves (Mineable Quantities). For these projects it is common for operational management and planning to use In Situ Quantities as indicative “ore reserves”. MMC considers the use of In Situ quantities as “ore reserves” to be unreasonable as it does not take into account any mining factors.

Where contained metal is estimated, the JORC Code requires reporting together with tonnes and grade of Mineral Resource estimates or more ideally with Ore Reserve estimates.

Mineral Resources and Ore Reserves are discussed in more detail in each of the projects chapters.

3.4.1 Mineral Resource Estimate

The In Situ Quantities remaining at Dayukou were last updated by the company in July 2007 and are shown in **Table 3.3** for areas within the currently defined Dayukou mine. This table only contains the In Situ Quantities from the underground mines and excludes the In Situ Quantities from the Chenpishan open cut. The total In Situ Quantity outside of the immediate mine area but within the license area are shown in **Table 3.4**. The surrounding In situ Quantities outside the mine area are shown for interest only and do not form part of any current Mineable Quantity according to

information gathered during the site visit. MMC recommends that further investigation be carried out to confirm the status of these In Situ Quantities and their potential economic viability.

Estimation parameters used include:

- Ph1 minimum average industrial grade of P_2O_5 above 22% (refers to single engineering on average); cut-off grade of P_2O_5 above 15%.
- Ph3 minimum average industrial grade of P_2O_5 above 15% (refers to single engineering on average); cut-off grade of P_2O_5 above 8%.
- Minimum mineable thickness is 1.5 metre and rock eliminating thickness of ore is 2 metres.

Table 3.3: Dayukou — Mine Area In Situ Quantity Table for Underground Mines Only

Chinese Code Classification	Ph1		Ph3		Subtotal	
	Tonnes (Kt)	Grade % P_2O_5	Tonnes (Kt)	Grade % P_2O_5	Tonnes (Kt)	Grade % P_2O_5
111b + 122b	20,569	24.85	64,757	17.45	85,326	19.23
333	19,722	24.72	18,968	15.94	38,690	20.42
Subtotal	40,291	24.79	83,725	17.11	124,016	19.60
2S21 + 2S22	29,544		128,794		158,338	
Total Remaining June 08	69,835		212,519		282,354	

Sourced from June 2008 “Hubei Province Zhongxiang City Jingxiang Phosphate Mine Huji Mining Area Dayukou Mine Section — 2008 Mineral Resource/Reserve Report” compiled by the Northwest Hubei Province Hubei Geological Minerals Investigation Bureau.

Table 3.4: Dayukou — Surrounding Mine Area In Situ Quantities

Layer	Category	Total (kt)	Mined out June 2006	Remaining
			(kt)	(06/06)
Ph1	111b	32.7	32.7	0
	333	135.8	0	135.8
Sub-total		168.5	32.7	135.8
Ph3	111b	59.6	59.6	0
	122b	110.1	0	110.1
	333	272.3	0	272.3
Sub-total		442	59.6	382.4
Total		610.5	92.3	518.2

Source: 2007 RRR & July.2007 feasibility study

MMC has reviewed the June 2008 update against the previous resources contained in the 2007 feasibility study and noted the following.

- Production occurred in the Ph1 orebody between June 2006 and June 2008. This production was mainly development and was not taken into account when the In Situ Quantity was recalculated in June 2008. This has led to an overestimation of the In Situ Quantity for Ph1 of 418.3kt.
- Quoted reconciled production from Ph3 from June 2006 to June 2008 amounted to 1,334.2kt with only 637kt having been depleted from the In Situ Quantity.

3.4.2 Mine Reserves

The Mineable Quantity remaining within the Dayukou group of mines has been estimated by the Beijing Zhongxin Zhonghe Mining Right Appraisal and Consultant Co. Ltd as at June 2008 based on the resources calculated by the Northwest Hubei Province Hubei Geological Minerals Investigation Bureau.

The Mineable Quantities have been estimated by applying the following factors to the In Situ Quantity quoted in **Table 3.3**.

- Only Chinese Code 111b, 122b and 333 In Situ Quantities have been used to estimate the Mineable Quantities.
- A confidence/conversion factor of 45% has been applied to the 333 In Situ Quantity.
- Design loss from pillars was provided by the company and removed from the In Situ Quantity.
- The remaining In Situ Quantity were further factored using a mining recovery factor of 95% for open cut and 82% for underground.

The Estimated Mineable Quantity remaining as at June 2008 within the Dayukou group of mines is shown in *Table 3.5*.

Table 3.5: Dayukou — Mine Area Mineable Quantities Remaining as at June 2008

Mine Area	Chinese Code Classification	Ph1 Tonnes (Kt)	Ph3 Tonnes (Kt)	Ph1 + Ph3 Tonnes (Kt)
Heishan—Muiashan	111b + 122b + 333	4,720	21,941	26,662
Zhangchong—Jianshan	111b + 122b + 333	10,201	16,014	26,215
Shigaolin	111b + 122b + 333	225	3,279	3,504
Chengpishan underground	111b + 122b + 333	6,623	303	6,926
Subtotal		21,769	41,537	63,306
Chengpishan open cut	111b + 122b + 333		14,447	14,447
Total	111b + 122b + 333	21,769	55,984	77,753

Sourced from June 2008 Mineable Quantity Appraisal report by the Beijing Zhongxin Zhonghe Mining Right Appraisal and Consultant Co. Ltd.

MMC has reviewed the method employed in estimating these Mineable Quantities and considers them reasonable. Grades were not quoted in the report and MMC considers this crucial to understanding the economics of the project. A previous estimate of the Dayukou Mineable Quantities was carried out in June 2006 and included in the 2007 feasibility report. This report showed a break down of the Dayukou Mineable Quantities with their relevant grades. These are shown below as a reference only.

- Dilution does not appear to have been factored into the Mineable Quantity estimates both in 2008 and 2006.

Table 3.6: Dayukou — Mine Area Mineable Quantities Remaining Average P₂O₅ Grades as at June 2006

Mine Area	Ph1 Grade % P ₂ O ₅	Ph3 Grade % P ₂ O ₅	Ph1 + Ph3 Grade % P ₂ O ₅
Heishan—Muiashan	25.21	16.87	18.6
Zhangchong	23.39	16.83	19.09
Jianshan	24.29	16.01	20.79
Shigaolin		17.81	17.81
Subtotal	24.23	16.82	19.19
Chengpishan		18.34	18.34
Total	24.23	17.14	19.07

Source 2007 Underground Feasibility Report.

Note: Heishan—Mujiashan, Zhangcong, Jianshan, Shigaolin are Underground mines, whereas Chengpishan is an Open Cut mine.

3.4.3 Comparison with the JORC Code

For resources to be quoted under the recommendations of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves by the Joint ore reserves Committee (JORC), they must meet the following criteria.

- Reasonable expectation for eventual economic extraction.
- Data collection methodology and record keeping for geology, assay, bulk density and other sampling information must be relevant to the style of mineralisation and Quality Checks have to have been carried out to ensure confidence in the data.
- Geological and grade interpretation of the resource and their continuity must be well defined.
- Estimation methodology must be appropriate to the style of mineralisation and reflect internal grade variability, sample spacing and selective mining units.
- Classification must take into account varying confidence levels and assess whether appropriate account has been taken of all relevant factors i.e. relative confidence in tonnage/grade, computations, confidence in continuity of geology and metal values, quality, quantity and distribution of the data and whether the results reflect the view of the competent person.

MMC considers that most Chinese Code estimates meet some of the criteria's of the JORC Code but often due to lack of record keeping and systematic approach to Quality control they do not meet the recommendations for competent sign off. MMC therefore refers to JORC equivalent terms in this report.

The Dayukou deposit is an evaporate deposit which has formed in a relatively simple structural setting; it therefore shows good grade and geological continuity along strike with relatively small changes in thicknesses along strike. It has not been influenced by late stage faulting as seen in the Wangji deposit. Records checked by MMC during the site visits failed to confirm historical quality control of assaying. Based on this fact MMC considers the JORC equivalent resource classification for the Dayukou deposit above cut off to be as outlined in **Table 3.7**, based on the In situ quantities remaining as at June 2008.

Table 3.7: Dayukou — Mine Area — JORC Equivalent Resources

Chinese Code Classification	JORC Equivalent	Ph1		Ph3		Subtotal	
		Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅	Tonnes (Kt)	Grade % P ₂ O ₅
111b + 122b	Indicated	20,569	24.85	64,757	17.45	85,326	19.23
333	Inferred	19,722	24.72	18,968	15.94	38,690	20.42
Subtotal		40,291	24.79	83,725	17.11	124,016	19.60
2S21 + 2S22	Mineral Potential	29,544		128,794		158,338	
Total Remaining		69,835		212,519		282,354	

Note: MMC provides JORC Equivalent Terms for reference only. The results displayed in the above table are not based on a JORC Compliant Resource Statement.

* In Situ Quantities remaining as at June 2008

3.4.4 Resource/Reserve Risk and Opportunities

Resource/Reserve Risks

- Resource tables were last updated by the company in June 2008. Production from orebody Ph1 and parts of Ph3 were not accounted for properly in this update and have resulted in a slight overestimation of In Situ Quantities quoted in the June 2008 report. This will not have lead to a significant error in the quoted Mineable Quantities from the same report.
- Mineable Quantity figures do not account for dilution.

Resource Reserve Opportunities

- Current production development grades should be incorporated into the resource update to better reflect the internal grade variability. This will assist in mine to mill reconciliation.
- In Situ Quantities outside of the immediate mine area are currently not reported in the total In Situ Quantities for the project. These should be assessed and a decision made on their economic potential and inclusion into the overall global In Situ Quantity estimate for Dayukou.

- Elements which impact on processing rates such as Silica, MgO and CaO have not been assayed and are not estimated in the current resource. Analysis and estimation of these elements may allow for better blending of these and increased production throughput.
- A 3D resource estimate should be created to better define the internal grade variability and assist with the creation of more realistic mine reserves and production schedules.

Figure 3.2: Dayukou — Topography and Geology

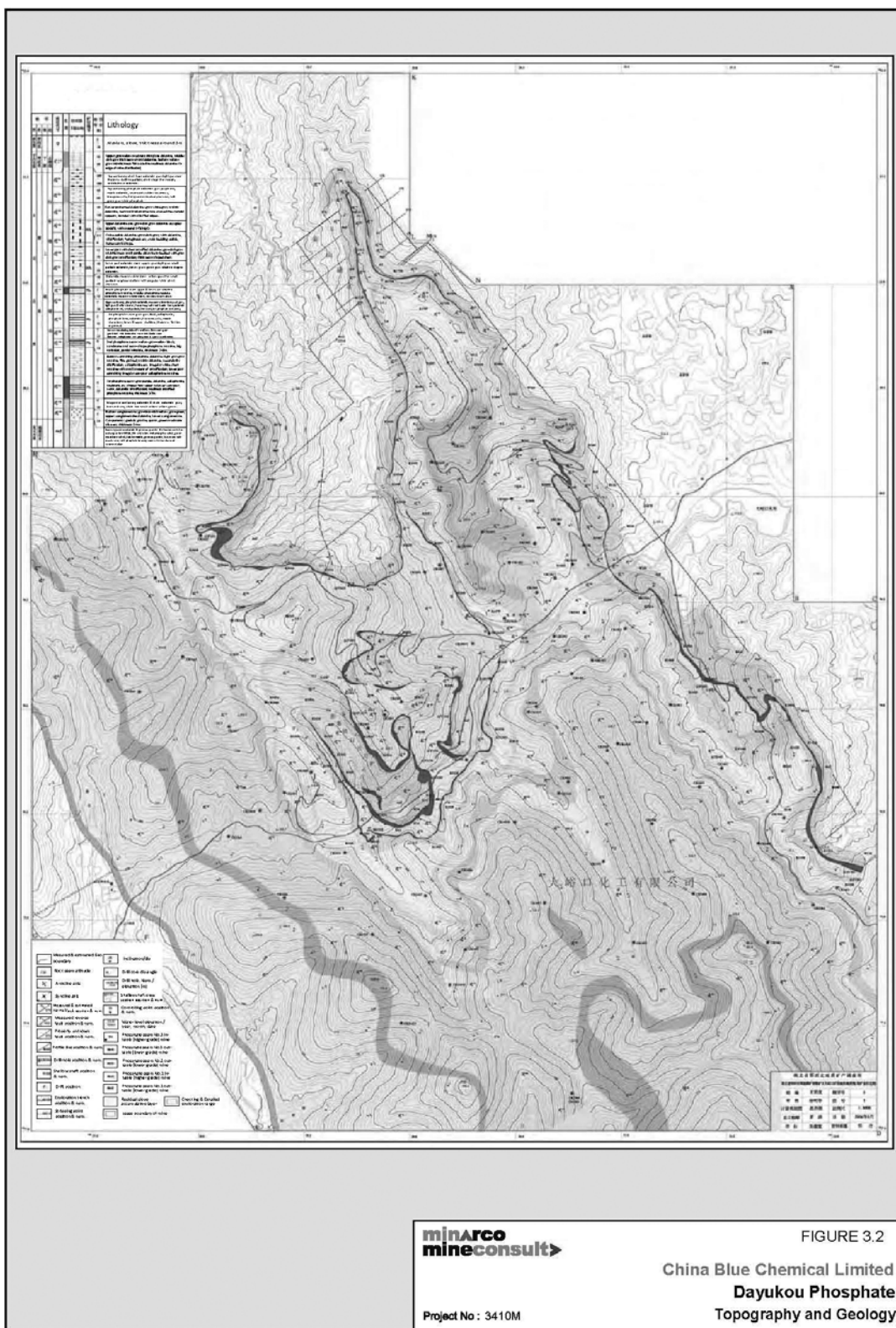


FIGURE 3.3
China Blue Chemical Limited
Dayukou Phosphate
Section on Line W-148

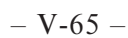


FIGURE 3.4
China Blue Chemical Limited
Daykou Phosphate
Section on Line W-156

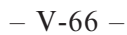


Figure 3.5: Dayukou — Ph1 Resource Plan

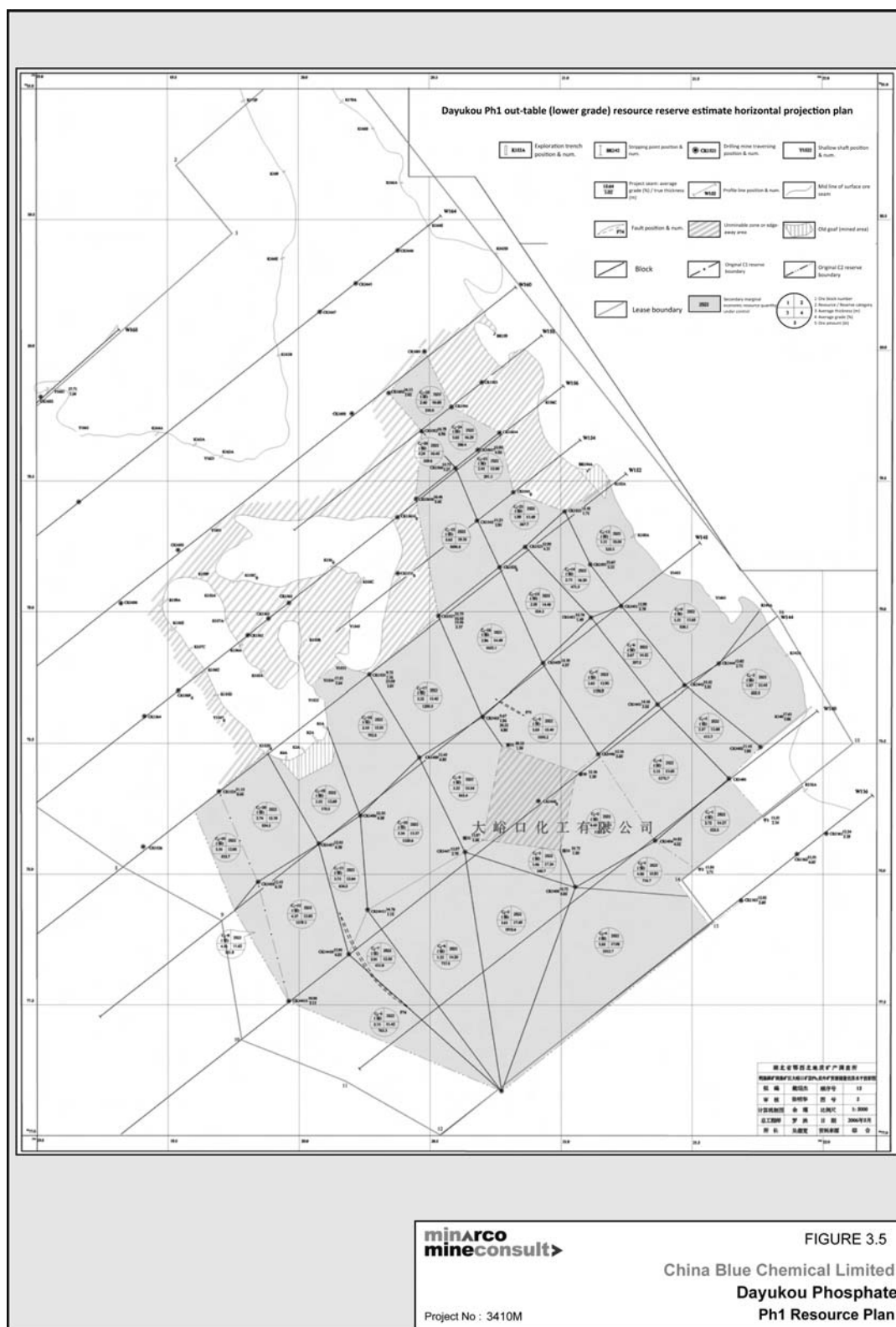
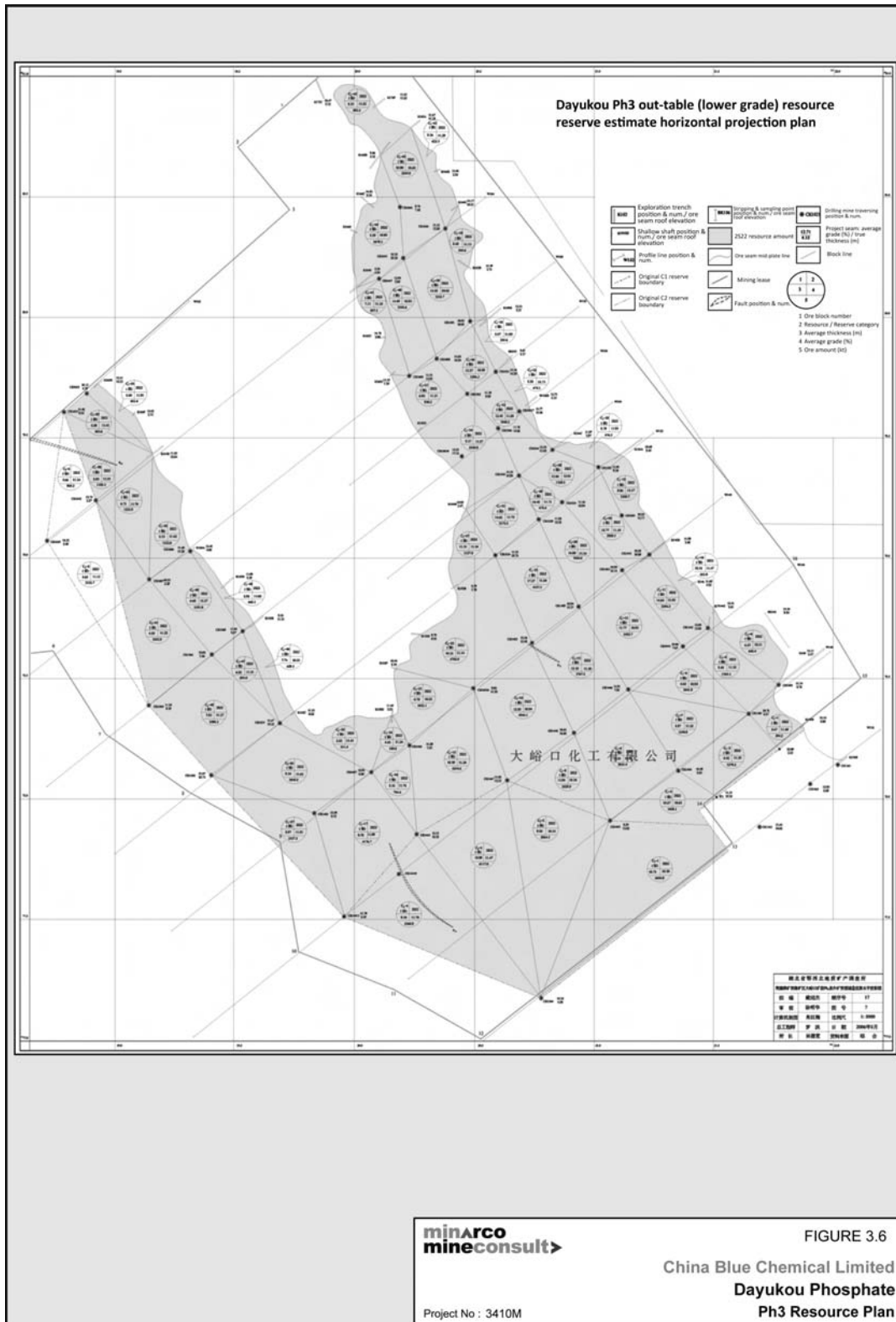


Figure 3.6: Dayukou — Ph3 Resource Plan



3.5 Mining

The Dayukou mine has been an active mine since 1974 when it was owned by Hubei Jingxiang Chemical Industry (Group) Company Limited. Ownership was transferred to the Hubei Dayukou Chemical Industrial Company Limited in March 2004. Mining is currently performed by both underground and open cut methods, which target two (2) horizons, named Ph1 and Ph3. The mining lease is broken up into 5 different sectors or mining areas and incorporates several small underground declines, adits and shafts. The Chengpishan mining area covers the open pit operation, whilst mining areas Heishan — Mujiashan, Zhangcong, Jianshan and Shigaolin encompass the underground workings.

Due to the long history of the mine, many of the upper levels have been completely mined out, leaving only deeper areas to be mined using a room and pillar mining method and a top down extraction sequence.

In 2007 a combined 820kt of ore was extracted from the Ph1 and Ph3 ore horizons, while 1Mt is forecast to be mined in 2008. Further historical and forecast figures are discussed in a later section.

A summary of mine development for the Ph1 and Ph3 horizons is shown in the tables below.

Table 3.8: Dayukou — South East Mine Area

Level (mRL)	Ph1
above 57	Mined Out
50	Developed
43	Developed
35	Developed
28	Developed
28–(–40)	Not yet developed

Table 3.9: Dayukou — South Central Mine Area

Level (mRL)	Ph1
above 98	Mined Out
80	Developed
70	Designed but not yet developed
63	Developed
57	Developed — Lowest level

Table 3.10: Dayukou — South West Mine Area

Level (mRL)	Ph1
above 98	Mined Out
80	Developed
70	Developed
63	Developed
57	Developed
50	Developed
50–(–215)	Not yet developed

Table 3.11: Dayukou — North East Mine Area

Level (mRL)	Ph3
above 220	Mined Out
220–60	Designed but not yet developed — Lowest level

Table 3.12: Dayukou — North Central Mine Area

Level (mRL)	Ph3
above 147	Mined Out
147	Developed
147–92	Designed but not yet developed
92	Developed
85	Developed
78	Developed — Lowest level

Table 3.13: Dayukou — North West Mine Area

Level (mRL)	Ph3
above 234	Mined Out
220	Developed
208	Developed
200	Developed
186	Developed
186–(–215)	Developed — Lowest level

Table 3.14: Dayukou — South West Mine Area

Level (mRL)	Ph3
above 170	Mined Out
163	Developed
158	Developed
150	Developed
141	Developed — Lowest level

Table 3.15: Dayukou — South East Mine Area

Level (mRL)	Ph3
127	Mined Out
130	Developed
106	Developed
100	Developed
93	Developed
86	Developed
86–20	Designed but not yet developed

3.5.1 Mining Method

Underground

The Dayukou Underground Phosphate Mine has relatively flat dipping horizons, which are mined using a typical top down room and pillar mining method. Development drives, 2.9mH by 3.0mW, are driven in ore along the strike of the orebody (strike drives), which provide access to the stoping areas above. Compressed air powered airleg rockdrills are used for development, with approximately a 1.8m round being achieved with each drill and blast cycle. Development drives are spaced at 7m vertical intervals and the strike length of the orebody varies from between 1,500m in the Shigaoling mining area to 3,300m in the Zhangchong mining area. The thickness of the ore body in the Heishan and Zhangchong mining area has been estimated to be between 4m and 5m and the thickness of ore body in the Jianshan mining area has been estimated to be between 4m and 9m with an average of 7.2m.

Once the strike drive has been completed, a drive is mined up dip of the orebody, referred to as a connection drift, to intersect with the strike drive located above. The remainder of the “Room” is then stripped out using airleg drills and explosives. The broken ore is scraped down the footwall of the room with a combination of an electric scraper and a small excavator, depending on thickness of the ore and dip of the orebody, into an orepass, located on the footwall side of the strike drive. The orepass transports the ore to the extraction level, where it is loaded into 2.0m³ skips and hauled to the inclined shaft. There is no need for mechanical loaders as gravity is used to transport the ore from the room to the skips.

Strategically placed pillars are left behind for geotechnical stability and to ensure safety of the workers. These pillars are generally unrecoverable and have been included in the overall recovery calculations, which is approximately 85%. This recovery percentage takes into account pillars and also small areas that cannot be mined due to geological faulting. Dilution has been calculated by the client from historical data to be approximately 6%.

90m long panels are designed along the strike drive, which consist of 6 by 15m stoping blocks. 5m of continuous pillar is left between each stoping panel for structural support and each stoping block is separated by several smaller pillars as can be seen in the figure below.

The development advance rate has been forecasted to be 1,400m/month from the Ph1 and Ph3 orebodies. This development advancement rate seems to be sufficient in order to maintain the forecast production rates and maintain multiple working areas.

Figure 3.7: Dayukou — Room and Pillar — Plan View

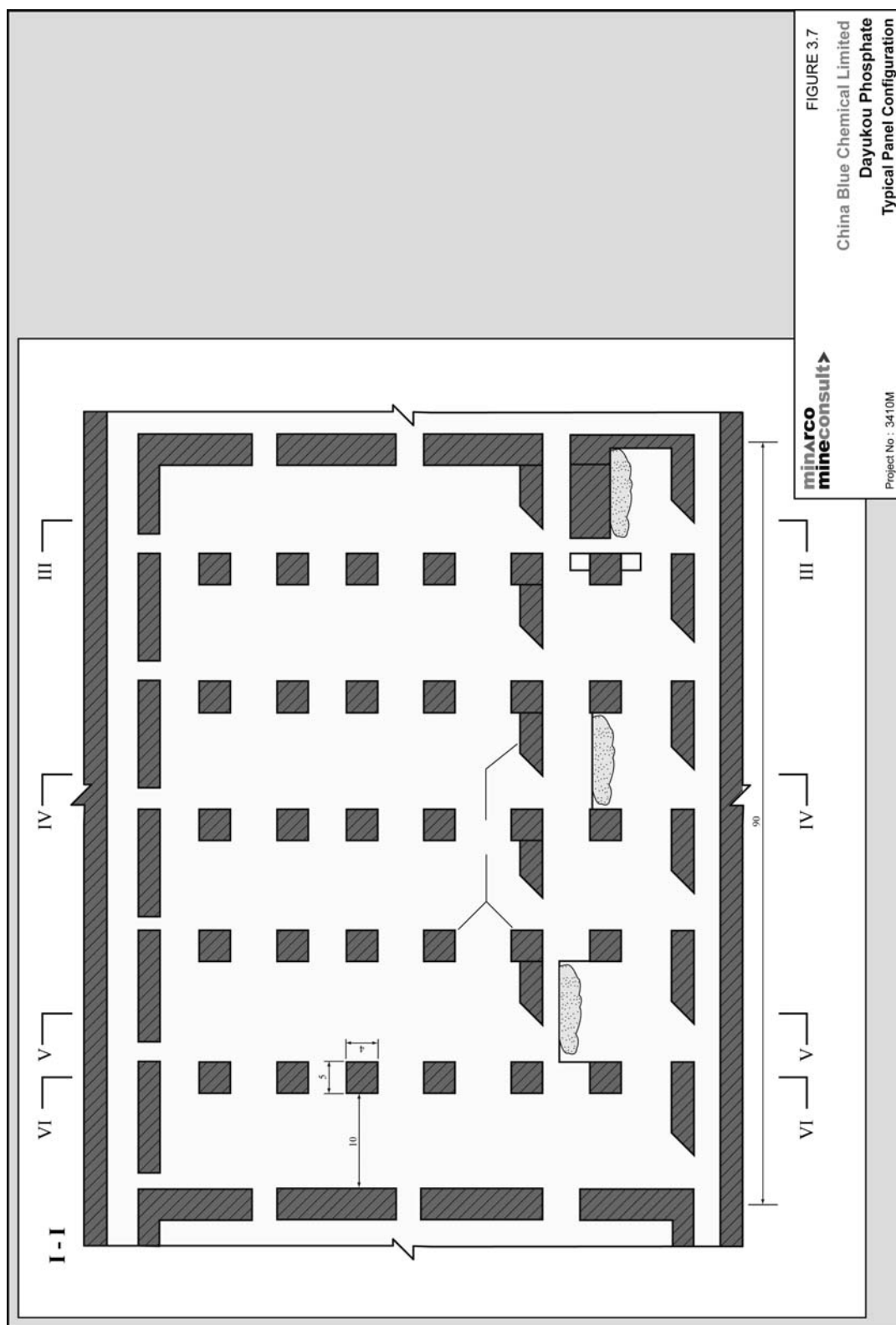


Figure 3.8: Dayukou — Room and Pillar — Section View

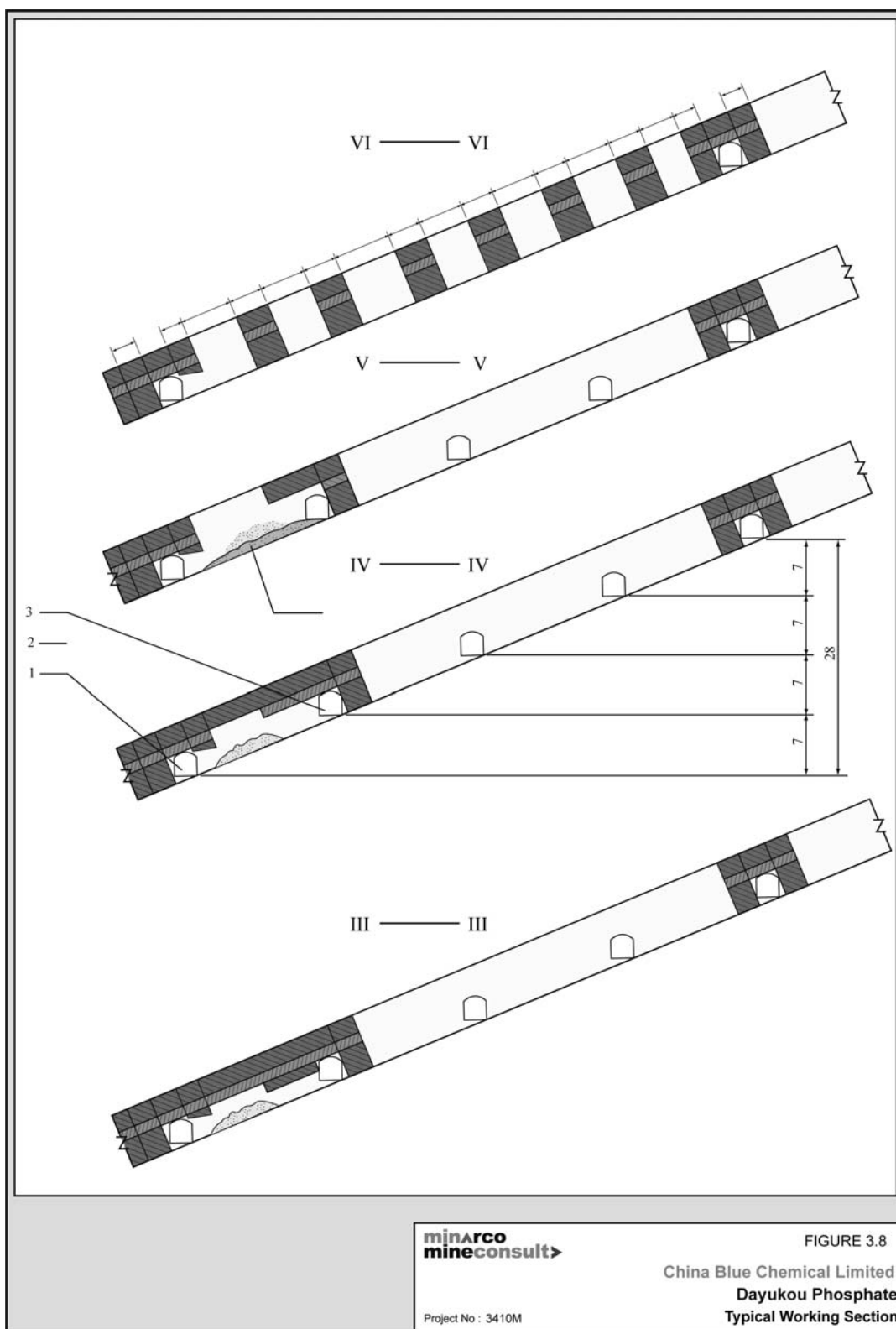


Figure 3.9: Dayukou — Ph1 Mine Plan

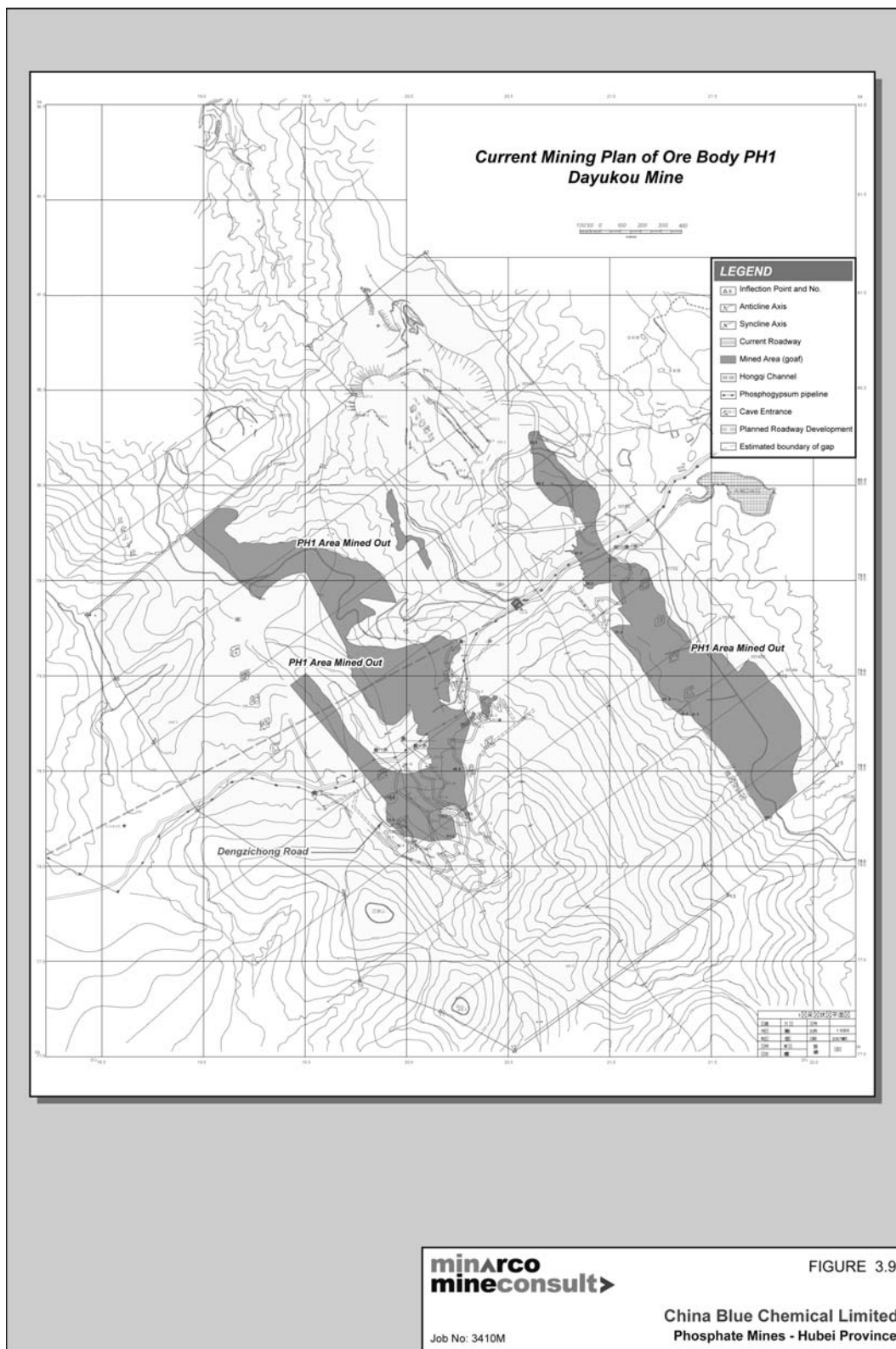
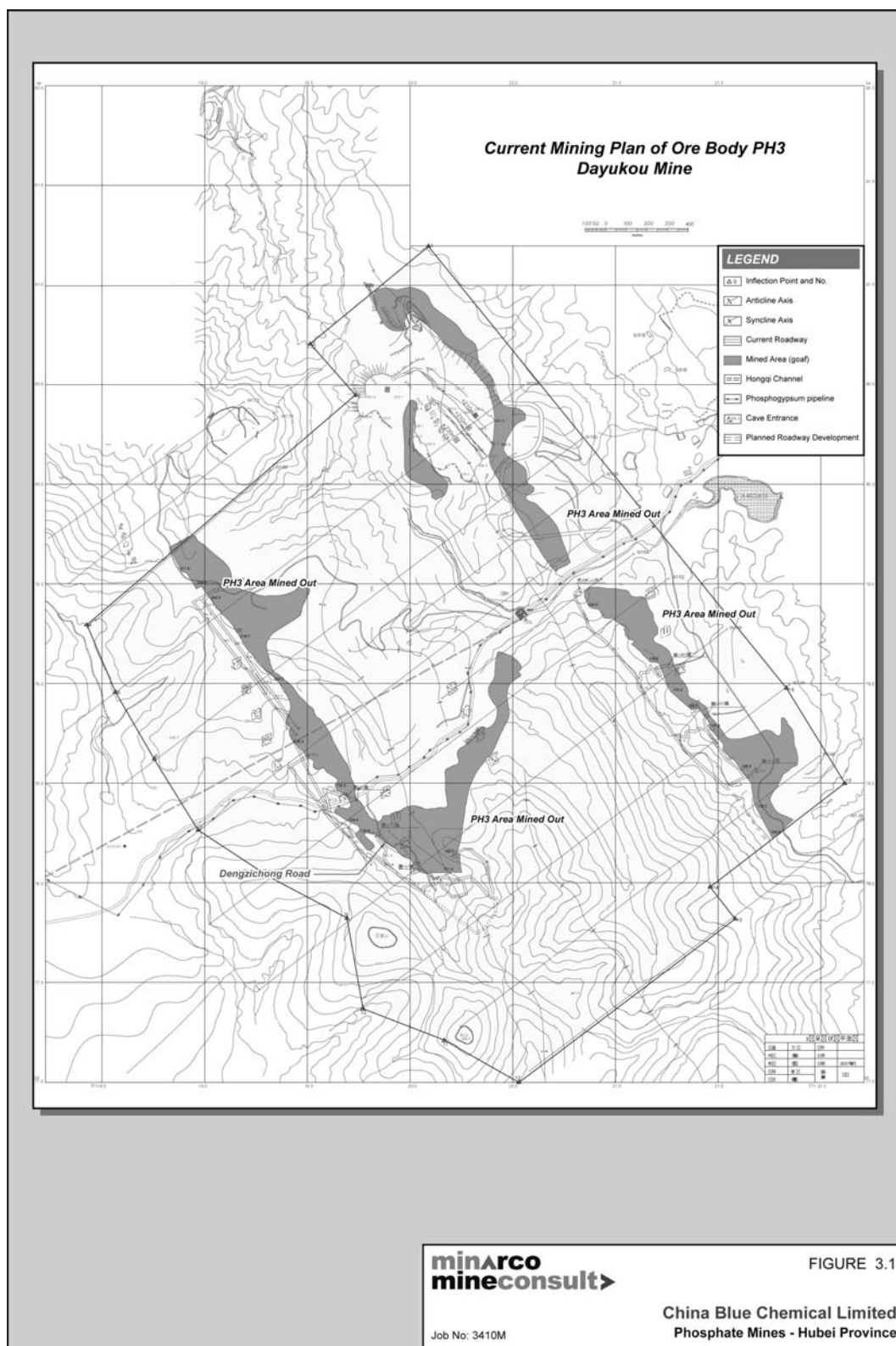


Figure 3.10: Dayukou — Ph3 Mine Plan



3.5.2 Equipment

Due to the simple nature of the underground mining method used at Dayukou, there is little requirement for large or expensive equipment. The room and pillar mining method is highly labour intensive and as such, equipment is limited to:

- Airleg rockdrills
- 3 wheeled trucks
- Small excavators/bobcat.

The total number of each type of equipment was not available for the underground operation, yet from the historical production figures, it appears that there is sufficient equipment currently on site to achieve and maintain the forecast production and development rates.

The open cut mine utilises the equipment listed below to mine 10m benches at a time, from the open pit operation:

- Atlas Copco blast hole drill rigs
- 5 caterpillar 310 (30t) excavators
- 10 Terex (30t) dump trucks

Figure 3.11: Dayukou — Terex 30t Dump Trucks



3.5.3 Mining Risks and Opportunities

Mining Risks

- Greater than expected dilution.

Mining Opportunities

- Low capital costs making equipment upgrades easily justified.
- Multiple working areas providing many alternative sources for production.
- Mining dilution from the open cut operation could easily be reduced and production grades increased by mining 5 to 2.5m benches better suited to the available machinery on site. The current methodology of mining the whole 10m bench in one pass, results in excessive amounts of double handling and much higher rates of dilution.

3.5.4 Mining Costs

The table below details the mining operating costs based on information provided in a financial model compiled by Beijing Tianxiang Xingye Assets Appraisal Co., Ltd.

Table 3.16: Dayukou — Mining Operational Costs

Mining Costs	Cost Centre	Unit	Cost
Wage	Labour	RMB/t	17
Material	Materials	RMB/t	31
Electricity	Power	RMB/t	5
Maintenance Expense	Maintenance	RMB/t	10
Other	Other	RMB/t	6
Total			69

The mining method used is highly labour intensive so it would be assumed that the labour and materials components of the costs should make up the majority of the operating costs. This assumption is confirmed in the operational costs table above. Considering the simple mining method used at both Dayukou and Wangji, the fact that major capital development has been completed and the equipment used is relatively inexpensive, the costs displayed above seem reasonable for this type of operation.

3.5.5 Historic and Forecast Production

Table 3.17 details the historic production quantities until 2007. Table 3.18 details the forecast production quantities of Ph1 ore and Ph3 ore.

Table 3.17: Dayukou — Historic Production

Period	Mined (Kt)	Loss (Kt)	Total (Kt)
until end of 1986	4,709	94	4,804
1987	340	70	409
1988	465	16	481
1989	431	17	448
1990	387	16	403
1991	349	13	362
1992	335	21	356
1993	204	18	222
1994	384	34	418
1995	580	46	626
1996	466	39	505
1997	761	70	831
1998	790	115	905
1999	596	8	676
2000	172	36	208
2001	396	93	489
2002	623	153	776
2003	518	126	644
2004	147	323	179
2005	200	522	252
2006	684	55	689
2007	882		
Total	13,536	115	1,468

Source from July.2007 feasibility study from the open cut.

Table 3.18: Dayukou — Forecast Production

Ore	Ph1 Ore (Kt)	Ph3 Ore (Kt)	Total Ore (Kt)
2008	100	550	650
2009	200	600	800
2010	200	600	800
2011	200	600	800
2012	200	600	800
2013	250	2,350	2,600
2014	250	2,350	2,600
2015	250	2,350	2,600
2016	250	2,350	2,600
2017	250	2,350	2,600
2018	250	2,350	2,600
2019	250	2,350	2,600
2020	250	2,350	2,600
2021	250	2,350	2,600
2022	250	2,350	2,600
Total	3,400	26,450	29,850

In 2013, Ph3 ore is scheduled to ramp up from 60kt to 235kt. This is a significant increase in production from a single ore body in one year and MMC has seen no evidence in the way of mine plans to determine if this increase is practicable or achievable.

3.6 Dayukou Processing

Dayukou and Wangji Phosphate ores are currently processed only at the Dayukou process plant. The Wangji process plant has been de-commissioned ahead of a major re-fit.

Processing facilities at Dayukou include a crushing, grinding, floatation, and thickening (“process”) plant as well as a ROM ore “bypass” plant.

The Dayukou “process” plant has been designed for a throughput of 100tph but operates at varying nominal capacities due to material differences in the Ph1 and Ph3 ore types. The overall plant throughput currently is typically between 80 tph and 110 tph with Ph1 ore production rates higher than Ph3 ore production rates. An upgrade project is planned for Dayukou during 2009 aimed at increasing ore processing capacity to 125tph or 135 tph.

The “bypass” plant operates at a nominal capacity of 40tph.

The processing plant is scheduled to operate for 300 to 325 days per annum with three eight hours shifts per day. Prior to the upgrade project total (theoretical) annual production capacity for phosphate ore is approximately 750,000 tonnes. The crushing plant (pre ball mills) is only currently required to operate for two eight hour shifts to feed the grinding and

floatation circuit with sufficient material for three shifts per day. After the upgrade project the forecast production capacity shall increase to 1,000,000 tonnes per annum. This increase in grinding and floatation capacity will require the crushing and screening plant to operate on three shifts per day to match the balance of the processing plant.

The bypass plant only operates intermittently when high grade phosphate ore is available from selected mining operations.

3.6.1 Dayukou bypass plant

The Dayukou facility includes a separate ROM ore bypass plant capable of sizing Ph1 select grade ores to 90% passing 100 mesh (approximately 150 microns) at a throughput rate of 40tph. This bypass phosphate ore is not washed or subjected to floatation but rather sized and sent directly by truck to customers as a high grade phosphate feedstock.

The selection of the ore by quality necessarily needs to target Ph1 seam material that is 27% to 28% P_2O_5 . Once sized this ore is able to be processed directly by local chemical and fertiliser manufacturers without the need to remove, by floatation, any slimes or contaminants.

Figure 3.12: Dayukou — Phosphate Ore Bypass Processing Facility



It is not known how much select Ph1 ore is available presently, or into the future, that may be suitable for bypass production.

3.6.2 Dayukou process plant

The Dayukou process plant follows a traditional Chinese design institute flowsheet that comprises primary jaw crushing, secondary & tertiary cone crushing, ball mill grinding, and froth floatation. Phosphate concentrates from the Dayukou

process plant are thickened, to approximately 65% solids, and then pumped to the nearby chemical plant to be used as a 30% to 32% P_2O_5 feed stock in the manufacture of specialty chemicals and fertilizers.

Table 3.19 illustrates that the 2007 Dayukou Feasibility Report (LHKX-73B-2007 (A)) assumes a processing recovery factor of approximately 72%. In MMC's opinion, this is a conservative assumption.

Table 3.19: Dayukou — Mass Balance

New Processing Plant	Data	Year 1		Year 2		Year 3		Year 4	
Feed Tonnes	Source	Tonnes	Grade	Tonnes	Grade	Tonnes	Grade	Tonnes	Grade
Ph1 Ore	FS Study							25	23.0
Ph3 Ore	FS Study	120	16.5	200	16.5	200	16.5	175	16.5
Total/Avg Feed Grade		120	16.5	200	16.5	200	16.5	200	17.3
Processing Recovery	MMC	72%		72%		72%		72%	
Concentrate Quantity (30%) Grade	MMC	47.5		79.2		79.2		83.1	
Dayukou Concentrate Amount (30%)	FS Study	47.6		79.4		79.4		83.5	

Figure 3.13: Dayukou — Processing Crushing and Screening Circuit

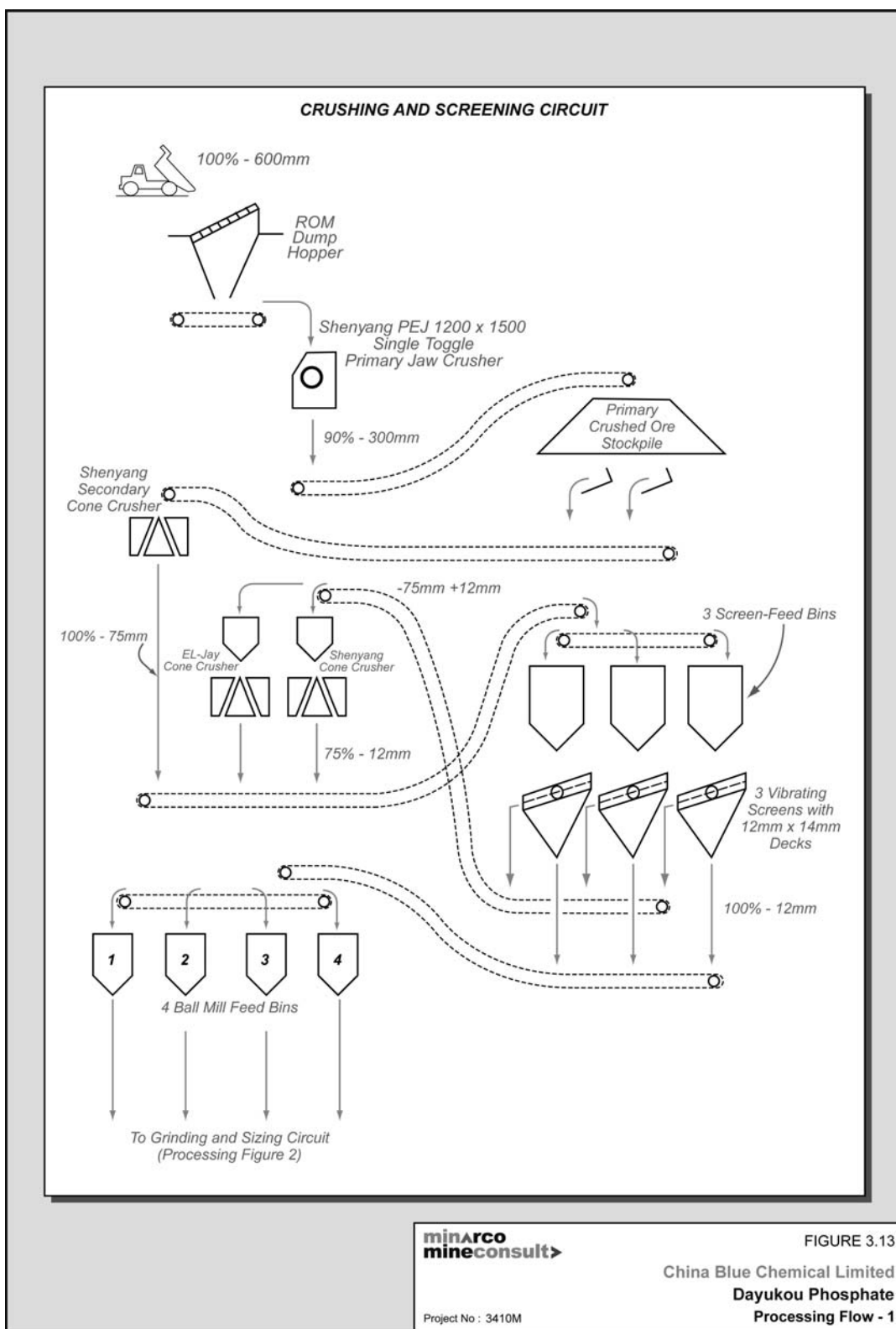


Figure 3.14: Dayukou — Processing Grinding and Sizing Circuit

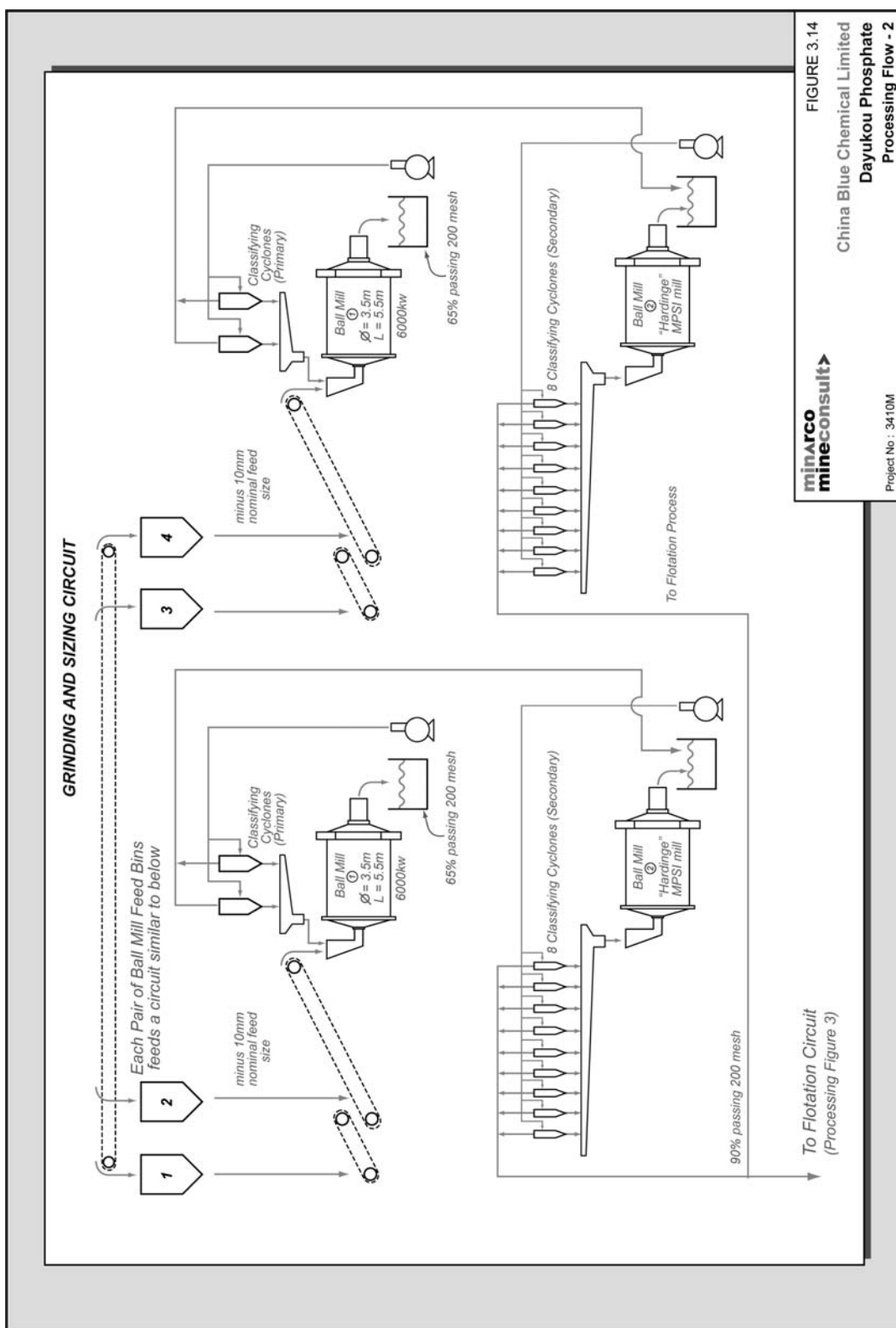
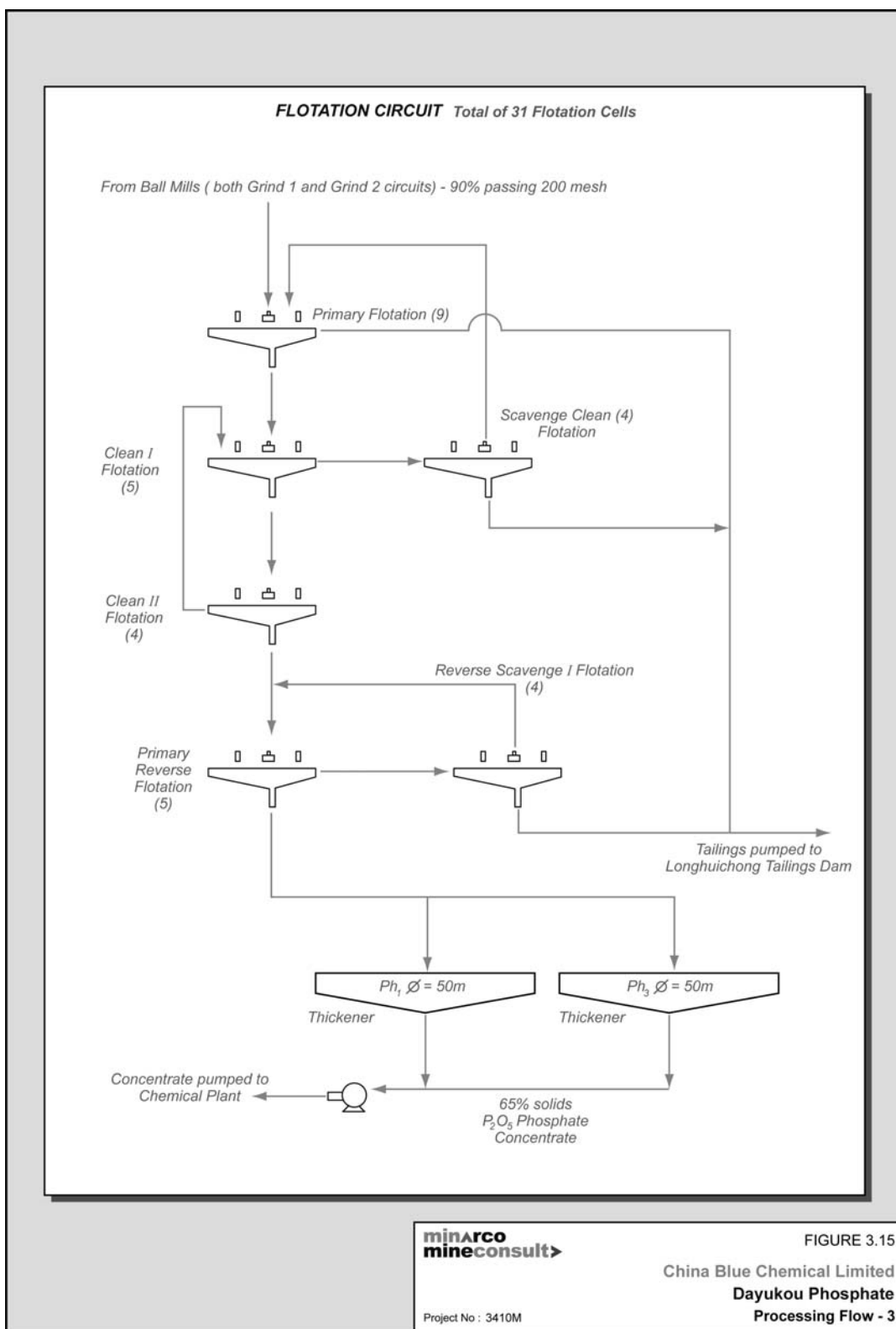


Figure 3.15: Dayukou — Processing Floatation Circuit



The process design flowsheet above suggests a design capacity of 100tph of ore feedstock with the present plant configuration.

For Ph1 ore processing it is believed that the plant capacity ranges between 80tph to 110tph depending on grade, silica content, MgO content, and mineral composition generally. For Ph3 ore processing it is believed that the plant capacity ranges between 80tph to 90tph depending again on grade, silica content, MgO content, and other minerals such as CaO.

Process plant equipment at Dayukou is predominantly of Chinese design and manufacture with the bulk of the equipment supplied by Shenyang Heavy industries. There is one tertiary cone crusher from EL-JAY (USA manufacture), with a 1991 manufacture date, and the four ball mills are MPSI mills from HARDINGE, also USA manufacture.

3.6.3 Key Dayukou Processing Equipment

The primary jaw crusher is a PEJ 1,200 x 1,500 single toggle jaw with a jaw closed side setting of approximately 120mm. This size of jaw crusher is able to reduce a top size of approximately 750mm to 90% passing 300mm. Capacity of the jaw is typically between 400tph and 600tph. The primary jaw crusher is therefore considered appropriate for the application at Dayukou.

The secondary cone crusher is a Shenyang short-head design able to process up to 350tph from a top size of approximately 300mm to 100% passing 75mm. This cone crusher is appropriate for the Dayukou application.

The tertiary cone crushers (2 off) consist of one medium-head Shenyang cone and one EL-JAY medium-head cone crusher. Each tertiary cone crusher is configured to produce 75% passing 12mm from a 100% passing 75mm feed. Each cone crusher is able to process up to 200tph for a total tertiary sizing capacity of approximately 400tph. The tertiary cone crushers are appropriate for the Dayukou application.

The vibrating screens (3 off) are a Shenyang design and are configured to allow for some redundancy in the screening of phosphate ore. Each screen is fitted with a 12mm deck that allows –75mm + 12mm material to be returned to the tertiary cone crushers. Minus 12mm material is passed to the ball mill feed bins. The vibrating screens are appropriate for the Dayukou application.

Two ball mill grinding circuits are present at Dayukou. Each ball mill circuit consists of a pair of 3.5m diameter by 5.5m long MPSI mills from HARDINGE configured in series, making a total of four ball mills. The primary ball mill in each circuit grinds a nominal 10mm ore top size to 65% passing 200 mesh. Two primary classifying cyclones then direct oversize to the primary mill feed sump and undersize to the secondary mill discharge sump. The secondary ball mill in each circuit grinds a nominal 65% passing 200 mesh ore top size to 90% passing 200 mesh. Eight secondary

classifying cyclones then direct oversize to the secondary mill feed sump and undersize to the floatation circuit. Each pair of ball mills should be able to process up to 55tph for a total grind circuit capacity of between 90tph to 110tph.

The floatation circuit consists of a total of 31 floatation cells and launders configured in a traditional Chinese design institute manner. The floatation cell equipment is believed to be of a Shenyang design although this has not been confirmed by Dayukou plant management. Dayukou has 9 primary floatation cells split between the two grinding circuits with the Ph1 and Ph3 ores segregated due to differing floatation potentials and qualities. The 9 primary cells then feed a total of 5 clean “one” cells and then a total of 4 clean “two” cells. Clean “one” cells froth is scavenged and feed back to primary floatation whilst clean “two” underflow enters the reverse floatation circuit (5 units) and reverse scavenge circuit (4 cells). Reagents used in the floatation process comprise the commonly applied phosphoric and sulphuric acids along with sodium carbonate (Na_2CO_3) and sodium silicate (Na_2SiO_3). The Collector and Inhibitor reagents used at Dayukou are code named DYK, DYS, DYP, and C1. The composition and effectiveness of these reagents is not known.

The thickening circuit comprises two 50m diameter rotating rake thickening tanks, one for Ph1 ore and the other for Ph3 ore. Thickener underflow is concentrated to approximately 65% solids and held in two storage tanks at the process plant. Once required the P_2O_5 concentrate, at a pH of 6, is pumped approximately 2km to the nearby chemical plant. Tailings are pumped to the Longhuichong Tailings Dam which is located in between the Wangji and Dayukou processing facilities.

The tailings dam at Longhuichong comprises one primary dam (43.6m tonnes capacity) and a smaller clarified water dam located immediately below the primary receiving dam headwall. Dam capacity is adequate for current and expected production levels over the medium term (the proposed upgrades to both Dayukou and Wangji will see annual ore production equal 2.5mtpa). Evaporation from the tailings dam is considerable during the summer months as is dilution from rainfall events. Summer temperatures at the tailings dam can exceed 39°C and annual rainfall in the Huji area can exceed 1,100mm. Tailings are slightly alkaline when pumped to the tailings dam with an average pH of 7.5 to 8.0. Tailings are not pH corrected at Dayukou nor are they chemically dosed at the tailings dam. No measurements of pH were taken during the site inspection to confirm the tailings dam Ph or that for the clarified water dam.

Figure 3.16: Dayukou — Phosphate Plant Primary Jaw Crusher

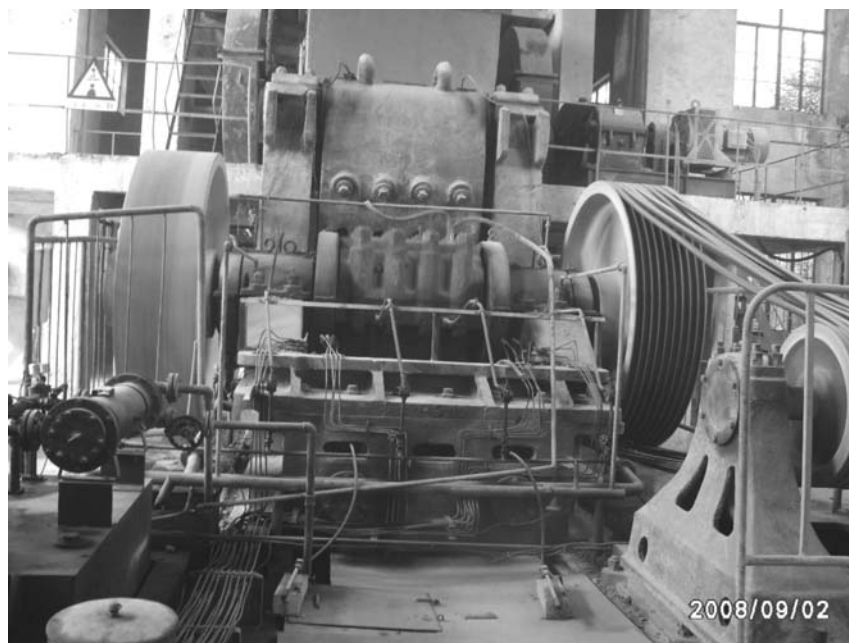


Figure 3.17: Dayukou — Phosphate Plant Tertiary Cone Crusher



Figure 3.18: Dayukou — Phosphate Plant Vibrating Screen



Figure 3.19: Dayukou — Phosphate Plant Hardinge Ball Mill



Figure 3.20: Dayukou — Phosphate Plant Floatation Cells



Figure 3.21: Dayukou — Phosphate 50m Diameter Thickeners



Figure 3.22: Dayukou & Wangji — Tailings Dam at Longhuichong



3.6.4 Dayukou Processing Plant Capacity

1. By mass balance on the phosphorus pentoxide (P_2O_5) content of the **Ph1 ore** processed at Dayukou the following product concentrate capacities are possible;
 - (a) Assuming Ph1 ore processing, with a floatation circuit capacity of 100tph, at an ore grade of 22.96% P_2O_5 realising a 30% P_2O_5 concentrate with an overall 80% recovery of P_2O_5 ;

Then;

 - (i) The production of phosphate concentrate from Ph1 ore is approximately 61.23 tph of which P_2O_5 content equals 18.37 tph if in a 30% concentrate.
 - (ii) Annual production of phosphate concentrate from Ph1 ore is approximately 440,832t/yr of which P_2O_5 content equals 132,264 t/yr if in a 30% concentrate. Annual production assumes 300 operating days with 24 hour processing per day.
 - (b) Other processing numbers have been obtained from Dayukou management which suggest a higher production rate of 110 tph, a higher recovery of P_2O_5 (@83.86%), and a concentrate of 33.17% P_2O_5 .

Operating days per annum have also been quoted at 325 days/yr rather than 300 days/yr. Assuming these numbers rather than those in point (a) above;

Then;

(iii) The production of phosphate concentrate from Ph1 ore is approximately 63.85tph of which P_2O_5 content equals 21.18 tph if in a 33.17% concentrate.

(iv) Annual production of phosphate concentrate from Ph1 ore is approximately 498,044t/yr of which P_2O_5 content equals 165,204 t/yr if in a 33.17% concentrate. Annual production assumes 325 operating days with 24 hour processing per day.

2. By mass balance on the phosphorus pentoxide (P_2O_5) content of the **Ph3 ore** processed at Dayukou the following product concentrate capacities are possible;

(a) Assuming Ph3 ore processing, with a floatation circuit capacity of 80 tph, at an ore grade of 16.50% P_2O_5 realising a 30% P_2O_5 concentrate with an overall 80% recovery of P_2O_5 ;

Then;

(v) The production of phosphate concentrate from Ph3 ore is approximately 35.20 tph of which P_2O_5 content equals 10.56 tph if in a 30% concentrate.

(vi) Annual production of phosphate concentrate from Ph3 ore is approximately 253,440 t/yr of which P_2O_5 content equals 76,032 t/yr if in a 30% concentrate. Annual production assumes 300 operating days with 24 hour processing per day.

(b) Other processing numbers have been obtained from Dayukou management which suggest a higher production rate of 90tph, a higher recovery of P_2O_5 (@82%), and a concentrate of 32.87% P_2O_5 . Operating days per annum have also been quoted at 325 days/yr rather than 300 days/yr. Assuming these numbers rather than those in point (a) above;

Then;

(vii) The production of phosphate concentrate from Ph3 ore is approximately 37.06 tph of which P_2O_5 content equals 12.18 tph if in a 32.87% concentrate.

(viii) Annual production of phosphate concentrate from Ph3 ore is approximately 289,030 t/yr of which P_2O_5 content equals 95,000 t/yr if in a 32.87% concentrate. Annual production assumes 325 operating days with 24 hour processing per day.

3. Dayukou management have reported a total P_2O_5 concentrate production of 780,000 t in calendar year 2007. It is not known how much of this total may comprise Ph1 concentrate, Ph3 concentrate, or bypass ore concentrate.

Assuming a 50% blend of Ph1 and Ph3 ore production during the 2007 calendar year then the total floatation concentrate production may equal approximately 400,000 t of 30% P_2O_5 concentrate. For a total production figure of 780,000 t P_2O_5 concentrate, as reported for 2007, the balance of the production, some 380,000 t may have been produced from bypass ore or from third party supply contracts from independent P_2O_5 concentrate producers in the area.

Production so far this year (1 January 2008 to 31 August 2008) is reported to be 410,000 t of 30% P_2O_5 concentrate. Assuming production can be extrapolated linearly to the end of the year the 2008 annual production would amount to 615,000 t of 30% P_2O_5 concentrate. The blend of Ph1 and Ph3 as well as bypass concentrate, or third party producer supply, for the 2008 calendar year is not known at this time.

4. Dayukou processing operations effectively limit the magnesium oxide (MgO) content in the concentrate to approximately 1%. Selective floatation (by chemical addition) of this oxide removes up to 80% of the oxide to tailings. The imperative of MgO removal from the Phosphorous concentrate, for customer specification reasons, has not been defined by the company at this time. The degree to which the chemical manufacturer customers can tolerate MgO in their downstream processing of the Dayukou concentrate may need to be defined by the company.
5. Both Ph1 and Ph3 ores contain phosphorus in the form of phosphorite both as 'aphanitic fluorapatite' and as 'collophanite'. Other key mineral and elemental content includes SiO_2 , Fe_2O_3 , CaO, MgO, Al_2O_3 , CO_2 , and F. In addition minor traces of Cl, Cd, As, Sb, and Ba can be found in the ores presenting for processing at Dayukou. The removal of trace heavy metals to either tailings or other filtrates is not known at this time.
6. Dayukou management reported that processing operations require a total staff of 54 persons to operate the facility on three shifts. This staffing figure does not include mining operations or senior (executive) management or other support personnel such as marketing, sales, accounts, technical planning or technical support. An operational crewing of 54 appears appropriate for the present Dayukou operation albeit with some potential to reducing the crewing required with the implementation of further operator training.

7. Power demand at Dayukou is reported to be 12.7MW. Power supply from the local high voltage electricity grid is costed at 0.59 RMB/KWhr. For 7,440 operational hours per annum (310 days @ 24hrs/day) and a power factor correction of 0.80 the power consumption at Dayukou maybe 102 KWhrs per concentrate tonne (100tph concentrate rate assumed). At a supply cost of at 0.59 RMB/KWhr the electricity cost for Dayukou amounts to RMB60/hr or RMB446,000 per annum.

The owner reports that in 2007 the power consumption 'actual' figure was 60 KWhrs per concentrate tonne, and thus far in 2008 the figure reported is 75 KWhrs per concentrate tonne. The increase in power consumption being attributed to more Ph3 ore processing in 2008 compared to 2007. Ph3 ore processing, to produce a standard 30% P_2O_5 concentrate, requires more ore crushing and grinding and these processes are power intensive.

The apparent discrepancy in power consumption may arise due to the power reticulation and power factor correction applied at Dayukou. No information has been provided at this time to resolve the difference between the reported power consumption figures with those calculated from other data provided.

8. Process water demand at Dayukou is reported to be 3,000ML per annum of raw water and 60% (1,800ML/yr) make-up water from clarified tailings return. It is understood that pit water, from mining de-watering operations, is also pumped to Dayukou for raw water top-up. It is not known how much of the total raw water make-up requirement is partially being met from mine de-watering operations.
9. Given P_2O_5 concentrate is pumped to customers at 65% solids, and the raw ore has a moisture content of approximately 12%, the water lost with the concentrate amounts to 10 to 13 tph depending on the ore type and P_2O_5 concentrate density. Over a year the water lost with concentrate product could amount to 72 to 94 ML/yr which would suggest that the tailings return water requirement maybe much lower than the advised figure of 1,800ML/yr.
10. Raw water for process use is understood to cost 1.2 RMB per tonne. For an annual make-up requirement of 1,200ML (40% of 3,000ML), as advised by the owner, the annual water supply cost will amount to 1.44m RMB. It is likely that the actual raw water make-up requirement will be much less than 1200ML/yr given pit de-watering operations and the significant capacity of the tailings and clarified water dams.

3.6.5 Dayukou Processing Plant Upgrade

Dayukou is planning to build a new processing plant which is due to be commissioned in 2013. No details have been provided at this time on the nature or design of the new plant.

It is understood from management that the ROM ore capacity shall be 1.5 Mtpa and be of a suitable design to cater for both Ph1 and Ph3 ore types. It is also understood that 0.2mtpa of ore from Wangji mining operations shall be sent to Dayukou for processing into P_2O_5 concentrate.

3.6.6 Dayukou Processing Operational and Capital Costs

The table below details the capital costs of the new Dayukou processing plant which is scheduled to be commissioned in 2013. MMC is not in a position to comment on these capital costs since MMC has not been provided with the design of the new plant or how much of the existing infrastructure will be used in the construction of the new plant. Also, from MMC experience in China, the final commissioned plant is often significantly different to the original design.

Table 3.20: Dayukou — Capital Costs for Dayukou Plant Upgrade

Description	Facility				Total
	(k RMB)	Installation	Construction	Other	(k RMB)
UG coarse crush phase	2,438	635	—	—	3,072
Raw ore piling	561	146	2,216	—	2,923
Surface coarse crush	2,632	682	291	—	3,605
RL fine crush	15,323	3,985	1,942	—	21,250
Screening	2,755	711	923	—	4,389
Fine ore bin	1,474	384	4,532	—	6,390
Milling	23,794	6,195	12,703	—	42,692
Floatation	10,397	2,706	9,160	—	22,263
Thickening	5,420	1,411	3,886	—	10,717
Ore concentrate piping	3,483	1,873	—	—	5,356
Auto-control instrument	8,290	1,768	—	—	10,057
Verticle distribution	1,789	10	6,571	—	8,370
Acid tank zone	353	92	—	—	445
Chemical agent	468	122	475	—	1,065
Utility engineering items	9,667	11,301	107	—	21,075
Tailings engineering	2,970	24,182	21,727	—	48,880
Waste water treatment	1,082	345	812	—	2,240
Water	—	1,029	48	—	1,076
Power	11,706	16,732	—	—	28,438
Other	—	—	—	58,147	58,147
Total	104,602	74,309	65,392	58,147	302,451

Source: Dayukou Feasibility Study Report (LHKX-73B-2007(A)), July 2007

Table 3.21 details the forecast operating costs of the processing plant which were provided by Dayukou based 250kt of Ph1 and 1,750kt of Ph3 feed ore per annum.

Table 3.21: Dayukou — Capital Costs for Upgraded Dayukou Plant

Description	Unit	Unit Price	Consumption/PA	Cost	
				Total Cost (ROM/t) RMB/PA	RMB
Power Consumption (Kwh)	RMB	0.60 (RMB/Kwh)	41 (kwh/t ROM)	49,200,000	25
Water Consumption	RMB	0.73 RMB/t	1860 (Ml/t PA)	2,715,600	1
Vapour	RMB	80 RMB/t	0.12t (ROM/t)	19,200,000	10
Materials					
Sodium Carbonate	RMB/kg	1.3	4.4	11,440,000	6
Sodium Silicate	RMB/kg	0.68	1.08	1,468,800	1
DYK	RMB/kg	5.2	1.12	11,648,000	6
C1	RMB/kg	3.25	1.16	7,540,000	4
DYS	RMB/kg	1.75	2.4	8,400,000	4
DYP	RMB/kg	2.56	2.4	12,288,000	6
Activator	RMB/kg	8.55	0.08	1,368,000	1
Other	RMB/kg			3,215,800	2
Labor	Employee	31,320	134 People	4,196,880	2
Maintenance			21.97 RMB/t ROM	43,940,000	22
Total				176,621,080	88

The operational costs as detailed in *Table 3.21* are reasonable except for electricity. According to information verbally expressed during the site visit stated that the power consumption of the original processing plant was approximately 75 kwh per ROM tonne. Since more Ph3 ore will be processed in the future as the higher grade Ph1 ore is depleted, additional grinding and floatation is required. MMC assumes that electricity consumption would be closer to 100 kwh per ROM tonne.

4 ENVIRONMENT AND SAFETY

4.1 Key Safety Issues

In general, health and safety standards in China and other developing countries tend to lag significantly behind developed countries. One key difference is that Chinese mining operations tend not to use personal protective equipment (such as safety boots, hearing protection, dust masks, eye protection and safety vests) as comprehensively as in the more advanced western countries.

MMC considers that the Company is above average by Chinese standards and it does have elements of a documented system in place to address fundamental safety management issues. These management plans and policies are associated with relevant regulatory requirements as well as reflecting the risk management operating context typically found in the domestic mining and processing industries.

Industrial deafness is a condition which often goes ignored in China but is widespread in mining industry. Industrial deafness occurs after long exposure to loud noise generate by industrial equipment.

The issues relating to industrial noise could be easily fixed by supplying workers with hearing protection and instructing them on the operation and safe use of these protective devices. Although they are not widely used in China, in almost all developing countries, they are compulsory for workers exposed to any potential source of noise that could lead to industrial deafness.

The company appears to have a positive and pragmatic approach to dealing with safety issues compared with other similar Chinese operations. The Company has acknowledged that currently, one of the biggest issues that it faces is a workforce culture that does not always take safety issues seriously. The Company understands this and is actively investing time and money into workforce training at all levels, company, management, operators, to help build a business culture focused on safety.

4.2 Key Environmental Issues

The main environmental concern with this type of operation (heap leaching) is the escape into the environment of cyanide. In this case the climate is such that escaping cyanide should break down before leaving the lease. In cold climates cyanide can accumulate in the environment.

Other environmental issues are briefly discussed as follows:

- **Land Clearing** — Dense forest over much of potential ore deposit may require environmental clearance to clear-fell the forest to allow opencut mining.
- **Waste Rock** — waste rock currently produced by the mine is dumped in a waste dump on the surface. Company management have indicated that in the future, the rock will be used for filling voids generated resulting from the mining operation;

- **Dust** — dust is primarily produced as a result of crushing, screening and ore transportation. The Company has in place dust suppression systems involving both dust suppressions sprays as well as mechanical dust collection devices to minimise the nuisance dust;
- **Tailings & Waste Water Management** — In MMC's opinion this is adequate with tailings contained in a tailings dam. Excess water from the tailings is recycled in the processing plant. Waste water is contained within the pad area and subsequently released to a stream.
- **Noise** — there are no major sources of noise; and
- **Waste Water** — Waste water is discharged into a local stream which runs through the mining lease. The stream is said to be monitored before it leaves the property and MMC consider it to be a low risk considering the local environment.

5 ANNEXURE A — QUALIFICATIONS AND EXPERIENCE

Technical Experts Involved in Preparation of the ITRR

Romeo Ayoub — General Manager — China, Minarco-MineConsult — Bachelor of Engineering (Mining) University of New South Wales, Master of Business Administration — University of Queensland.

Romeo has over 17 years experience as a mining engineer in Australia and internationally, being involved in numerous coal mining studies and operations. Romeo has both worked and project managed a wide range of due diligence studies, feasibility studies, pre-feasibility studies, mine optimisation studies, concept studies, reserve statements, mine design and resource generation, life of mine scheduling and project valuation. As a senior member of the global Runge team, Romeo has managed numerous large-scale mine planning studies, facilitating technical personnel from geology through to financial evaluation. Romeo is a member of the Australian Institute of Mining and Metallurgy (AUSIMM).

Andrew Ryan — Minarco-MineConsult China Manager — Consulting — Bachelor of Engineering, Mining — University of New South Wales, Master of Applied Finance and Investment (Finsia) — Member of Australasian Institute of Mining and Metallurgy — Associate of Financial Services Institute of Australasia

Andrew has worked with MMC over the past six years and has been actively involved in all areas of mining consulting. Most recently, in 2005 Andrew moved to Beijing as MMC's Chinese Business Manager (Technical) responsible for the establishment and growth of MMC's China business. During this time Andrew has been involved with and/or project managed numerous mining related assignments in China. This work has included the project management of due diligence studies, valuation reports, opportunity assessments, conceptual development studies, and feasibility assessments for both domestic and international clients. The projects that these studies have focused on have covered a variety of minerals including coal, iron Mine, gold and molybdenum. Andrew has also had significant experience with due diligences for capital raisings and IPO related projects.

Philippe Baudry — Geologist/Geostatistician, Bsc. Mineral Exploration and Mining Geology, Assoc Dip Geo science, Grad Cert Geostatistics

Philippe has worked as a consultant geologist for over 3 years first with Resource Evaluations and subsequently with Runge after they acquired the ResEval group in 2008. During this time Philippe has worked extensively in Russia assisting with the development of 2 large scale copper porphyry projects from exploration to feasibility level, as well as carrying out due diligence studies on metalliferous projects throughout Russia. His work in Australia has included resource estimates for BHPB, St Barbara Mines and many other clients both in Australia and overseas on most styles of mineralisation and metals. Philippe furthered his modelling and geostatistic skills in 2008 by completing a Post Graduate Certificate in Geostatistics at Edith Cowan University. Philippe is a member of the Australian Institute of Geoscientist (AIG).

Prior to working has a consultant Philippe spent 7 years working in the Western Australian Goldfields in various positions from mine geologist in a large scale open cut gold mine through to Senior Underground Geologist. Before this time Philippe worked as a contractor on early stage gold and metal exploration projects in central and northern Australia.

Matthew Hoare — Minarco-MineConsult Mining Analyst, Bachelor of Information and Technology, MBA

Matthew's experience has mainly been in the form of opencut coal mines where he worked in a long term planning position at Kideco, a large Indonesian coal mine for over three years. He was also seconded to the Dawson Project in central Queensland where he assisted in short and medium term planning. Matthew has recently completed a Master of Business Administration majoring in finance. His undergraduate studies included Information Technology and Indonesian Language at the University of Southern Queensland. He is proficient in the use of Minescape.

Gary Harradine — Bachelor of Chemical Engineering (hons 1), Grad. Dip. in Management (Distinction), Master of Business Administration(part). Fellow APESMA, Member IPA, Member AIPM

Gary has 28 years experience in Australia and internationally in project development & management in the mining, quarrying, bulk materials handling, minerals processing, infrastructure, and food industries. He has been Project director for more than US\$4bn worth of projects since 2000. Gary has conducted due diligence, feasibility & scoping studies, and strategic analysis for major projects in Australia and internationally, developed major project systems for owner, contractor, and consultancy organizations, and conducted bid and commercial negotiations for large mining & infrastructure projects in Australia, Asia, South America, Russia and Africa. He has provided Strategic advice to mining and mineral companies on a range of management, technical, commercial, and financing issues as well as conducting forensic project and construction management and Project recovery strategies for mining and mineral projects. Gary has extensive experience in major infrastructure projects within Australia, China, Mongolia, Kalimantan, Russia Mauritania, Mozambique, Uganda, and Pakistan. Gary is a fellow of the Association of Professional Engineers, Scientists & Managers, Australia (APESMA) and a member of Project Management Institute (PMI) and Australian Institute of Project Management (AIPM).

Brendan Parker — Mining Engineer, B.E (Mining)

Brendan has over 5 years of experience working in the mining industry. During this time he has been responsible for the planning, design and day to day operation of several underground mines. Brendan's wide range of experience within various mining operations in Australia and Canada gives him an excellent practical basis for the design and planning of underground metalliferous mines.

Brendan has gained extensive experience in the planning and design of underground mines. This includes design and operating experience with both narrow vein and bulk long-hole stope methods, as well as flatback — cut and fill mining. His knowledge obtained as a ventilation officer, production engineer, planning engineer and his exposure to managerial roles have provided him with a sound understanding of all aspects of underground mining.

Brendan has also gained experience using software packages specific to underground mine design, production stope ring design and mine scheduling. These include Surpac, RingKing, Vulcan, Datamine and Ventsim.

Ron Siwinski — BSc. Minarco — Minarco-MineConsult Senior Mining Engineer, Engineering (Massachusetts), Water Resources (MIT)

After a 6 year career as a civil engineer, he worked as Senior Mining Engineer, Operations at Cliffs Robe River Iron Mine in Western Australia in the 1970's. From 1980 to 2000 he was Mining Engineer, Project Management Engineer and General Manager, Engineering for Southern Pacific Petroleum NL and was heavily involved in their Queensland shale oil projects. Ron has considerable experience in mine planning, feasibility studies, economic analysis and mine development. His main area of expertise is project management. Ron has been a mining consultant since 2000.

Company's Relevant Experience

Minarco-MineConsult, part of the Runge Group, is a premier international consulting and engineering firm. We provide a full range of services from pure technical consulting through to strategic corporate advice. We undertake assignments on mining projects covering a range of commodities and countries, and we serve clients in most of the countries around the West Pacific Rim region.

Minarco-MineConsult maintains a full-time staff of qualified specialists in the fields of mining engineering, geology, process and metallurgical engineering, environmental and geotechnical engineering, and environmental economics.

Minarco-MineConsult typically completes over 200 assignments per year and has over 300 professionals (through Runge Group) available in disciplines including:

- Mining Engineering;
- Minerals Processing;
- Coal Handling and Preparation;
- Power Generation;
- Environmental Management;
- Geology;
- Contracts Management;

- Project Management;
- Finance;
- Commercial Negotiations.

The roots of Minarco-MineConsult were established in the Australian mining industry. Minarco-MineConsult is committed to compliance with the codes which regulate Australian corporations and consultants and has established an International business which has continued to give its clients and those that rely on its work the confidence that the relevant Australian codes invoke.

These codes include:

- The Australian Corporation Law;
- The Australian Institute of Company Directors Code of Conduct;
- The Securities Institute of Australia Code of Ethics;
- The Australasian Institute of Mining and Metallurgy Code of Ethics;
- The Australasian Code for Reporting of Exploration Results, Mined Resources and Mine Reserves (The JORC Code).

Minarco-MineConsult has conducted numerous mining technical due diligence programmes and reporting for IPO's and capital raisings over the past 6 years, with involvement in projects raising a total of over US\$10 billion of capital. This and other work is summarised in *Table A1*.

Table A1 — Mining Related IPO and Capital Raising Due Diligence Experience

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine — Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Railway Company Limited, African Copper/Cobalt Assets — Capital raising for mining assets on the Hong Kong Stock Exchange. Preparation of CPR for planned IPO on the HKSE.

2007 Ko Yo Ecological Agrotech (Group) Limited Sichuan Phosphate — Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 Prosperity International Holdings Limited, Guilin Granite Project — Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Primary Resources — Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by China Primary Resources.

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine — Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 Gloucester Coal Limited — Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2007 Confidential Hong Kong Private Equity Partners — Independent Technical Review to support private equity capital raising to purchase lead/zinc mining assets in Tibet.

2007 Confidential International Investor — Independent Technical Review to support private equity capital raising to purchase Iron Mine assets in Hubei. Preparation of ITR.

2007 Whitehaven Coal Limited — Independent Technical Review for Australian Stock Exchange IPO.

2007 Confidential Privately Owned Coke Producer — Capital raising for purchase of Coal Mines and downstream coal washing, coke production and chemical production facilities. Preparation of CPR for planned IPO on the HKSE.

2007 China Molybdenum Group — Capital raising for large scale Molybdenum mine on the Hong Kong Stock Exchange. Preparation of CPR for IPO on the HKSE.

2007 Confidential International Investor — Independent Technical Review to support purchase of Gold Mine In Hubei Province.

2006 Excel Mining — Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2006 Celadon Mining Investment Group (UK) — Capital raising for coal mine purchase in China and planned subsequent listing on AIM

2005 Yanzhou Coal Mining Company Limited — Independent Technical Review of coal projects to satisfy ongoing listing requirements of the HKSE and NYSE following IPO.

2004 Excel Mining — Independent Technical Review for Australian Stock Exchange IPO (current market capitalisation over US\$1 billion)

2004 Excel Mining — Independent Market Review for Australian Stock Exchange IPO

2003 New Hope — Independent Market Review for Australian Stock Exchange IPO

2003 Confidential — Independent Market Review on 50 mtpa operation in Kazakhstan for LSE listing (has not proceeded)

2003 Xstrata plc — Competent Person's Report for London Stock Exchange Chapter 19 Report for Acquisition of MIM Assets including mines, rail and port review (US\$2.5 billion)

2002 Xstrata plc — Competent Person's Report for London Stock Exchange IPO (US\$2.3 billion)

2002 Kaltim Prima, Indonesia — Independent Technical Review for advising project financiers to acquisition (US\$445 million)

2001 Enex Resources — Independent Technical Review for Australian Stock Exchange IPO

2001 Macarthur Coal Limited — Independent Technical Report and Market Review for Australian Stock Exchange IPO

6 ANNEXURE B — GLOSSARY OF TERMS

The key terms used in this report include:

- **\$** refers to United States dollar currency
- **CBCL** refers to China BlueChemicals Ltd
- **cog** means cut off grade for Mine types
- **Company** means China BlueChemicals Ltd
- **gangue** is a mining term for waste rock
- **grade** is the percentage of useful elements or their components, in Mines
- **grind** means to crush, pulverize, or reduce to powder by friction, especially by rubbing between two hard surfaces
- **HKEX** stands for Hong Kong Stock Exchange
- **In situ** means rock or Mine in place in the ground
- **ITR** stands for Independent Technical Review
- **ITRR** stands for Independent Technical Review Report
- **JORC** stands for Joint Ore Reserves Committee
- **JORC Code** refers to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Mine Reserves 2004 edition, which is used to determine resources and reserves, and is published by JORC of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia
- **km** stands for kilometre
- **kt** stands for thousand tonnes
- **lb** stands for pound, a unit of weight equal to 453.592 grams
- **m** stands for metres
- **mRL** means meters above sea level
- **MMC** refers to Minarco-MineConsult
- **mine production** is the total raw production from any particular mine

- **mining rights** means the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
- **Mt** stands for million tonnes
- **Mtpa** means million tonnes per annum
- **OC** means open cut mining
- **Mine** is a naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
- **Mine processing** is the process through which physical or chemical properties, such as density, surface reactivity, magnetism and colour, are utilized to separate the useful components of Mines from useless stones, which are then concentrated or purified by means of floatation, magnetic selection, electric selection, physical selection, chemical selection, reselection, and combined methods
- **Mine t** stands for Mine tonne
- **ounce** refers to troy ounce which is equal to 31.1034768 grams
- **primary mineral deposits** are mineral deposits formed directly from magmas, which are subsequently altered
- **project** means a coal deposit which is in the pre-operating phase of development and, subject to capital investment, feasibility investigations, statutory and management approvals and business considerations, may be commissioned as a coal mine
- **raw Mine** is Mine that has been mined and crushed in an in-pit crusher, but has not been processed further
- **recovery rate** refers to the total amount of the valuable mineral which is successfully extracted and contained in the concentrate as a percentage of the total amount of metal contained in the Mine
- **RL** means Reduced Level, an elevation above sea level
- **RMB** stands for Chinese Renminbi Currency Unit; 10^3 RMB means 1,000 RMB
- **ROM** stands for run-of-mine, being material as mined before beneficiation
- **t** stands for tonne
- **t/bcm** stands for tonnes per bank cubic metre (i.e. tonnes in situ)
- **tonne** refers to metric tonne

- **tpa** stands for tonnes per annum
- **tpd** stands for tonnes per day
- **USD** stands for United States dollars
- **UG** means underground mining
- **upgrade** ratio is a processing factor meaning ROM Grade%/Product Grade %
- **VALMIN Code** refers to the code and guidelines for technical assessment and or valuation of mineral and petroleum assets and mineral and petroleum securities for independent expert reports
- **¥** is the symbol for the Chinese Renminbi Currency Unit

Note: Where the terms Competent Person, Inferred Resources and Measured and Indicated Resources are used in this report, they have the same meaning as in the JORC Code.

7 ANNEXURE C — CHINESE RESOURCE REPORTING STANDARDS

Chinese Resource Reporting Standards

In 1999, with a view to creating a standard that was comparable with international resource reporting standards, The Chinese National Land and Resource Department introduced its own national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766—1999).

This code was to replace the previous code (China GB 13908-1992 — General rules for Geological Exploration of Solid Mine Resources) and was based upon the United Nations international code (UN Economic and Society Committee, UN document ENERGY/WP.1/R.70). Some elements of the American resource reporting standards were included and modifications made to suit Chinese conditions. All new resource estimates are reported under this new code and old estimates either re-estimated or converted to the new system.

The previous Chinese standard (GB 13908-1992) divided resources into four categories (A, B, C and D) which were loosely comparable to the JORC — (December 2004) classifications of Measured Resource (A-B), Indicated Resource (B-C) and Inferred Resource (D). The old standard was more prescriptive than JORC in that it specified minimum borehole spacings (see *Table C1*) for each category, along with implied levels of geological understanding.

Table C2 — Borehole Spacing Comparison (Chinese, UN and JORC Codes)

(Chinese Reserve Code)	Classification (Chinese Reserve Class)	UN Code	JORC (Dec 2004)	Minimum Borehole/Drill Line Spacing
A	111–121		Measured	< 100 m
B	121–122	331	Measured	< = 100 m x 100 m
C	122–2m22	332	Indicated	< = 200 m x 100 m
D	122	333	Inferred	> 200 m

The old code was essentially a geological classification, taking little account of the deposits economics or the level of mining studies that had been carried out on it. The new code (see *Figure C1*) attempts to address this by using a three component system (EFG) that considers the deposit economics (E), the level of mining feasibility studies that have been carried out (F) and the level of geological confidence (G) using a numerical ranking.

Figure C1 — New Chinese Resource/Reserve Classification Matrix (1999)

This system produces a three digit code for a deposit that reflects these three variables. For example a deposit classified as a 121 is economically viable (1), has had pre-feasibility studies carried out (2) and is well understood geologically (1). Various suffixes are used to distinguish Basic Reserves — essentially JORC Resources — (121b) from Extractable Reserves (121) and to identify the assumed economic viability (S or M). Certain categories are not allowed, for example pre-feasibility or feasibility level studies cannot be conducted on Inferred Resources, and so 123 and 113 are invalid classifications. Also Extractable

Reserves are not estimated for marginally economic (or lesser) deposits so the (b) suffix is considered redundant. The term Intrinsically Economic indicates that while the deposit may be economic, insufficient studies have been carried out to clearly determine its status.

A tabulation of this concept is shown in *Table C3*.

Table C3 — New Chinese Resource/Reserve Categories (1999)

Economic Viability	Geological Confidence			
	Identified Mineral Resource			Undiscovered Resource
	Measured (1)	Indicated (2)	Inferred (3)	Reconnaissance (4)
Economic (1)	Basic Reserve Resource — 111b			
	Proved Extractable Reserve — 111			
	Basic Reserve Resource 121b	Basic Reserve Resource — 122b		
	Probable Extractable Reserve — 121	Probable Extractable Reserve — 122		
Marginally Economic (2 m)	Resource 2 m11			
	Resource 2 m21	Resource 2 m22		
Sub-marginally Economic (2S)	Resource 2S11			
	Resource 2S21	Resource 2S22		
Intrinsically Economic (3)	Resource 331	Resource 332	Resource 333	Resource 334

Note: First digit reflects Economic viability; 1 = Economic; 2 m = Marginally Economic; 2S = Sub-marginally Economic; 3 = Intrinsically Economic; 4 = Economic interest undefined.

Second digit reflects Feasibility assessment stage, 1 = Feasibility; 2 = Pre-feasibility; 3 = Geological study.

Third digit reflects Geological assurance, 1 = Measured, 2 = Indicated, 3 = Inferred, 4 = Reconnaissance.

b = Basic Reserve (prior to recovery factors, mining losses and dilution) — JORC Resource.

Unlike the old code, the new code does not specify required bMinehole spacings for each category. In the case of copper Cobalt and Gold (and other metals), there is an accompanying Chinese Professional Standard (DZ/T 0214-2002) that lays out rules for determining the level of geological confidence.

International Standards and the JORC Code for Resources

Two main styles of resource reporting codes exist internationally. These are the American style (USA and much of South America) and the JORC style (Australia, South Africa, Canada, and UK). This is further complicated by the listing and reporting requirements of different stock exchanges. It is generally true that a resource estimation that complies with the JORC Code (or one of its sister codes) will meet the standards of most international investors.

The new Chinese code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, in that it does not lay out specific limits for resource classification in terms of such things as bMinehole spacing. Instead it emphasises the principles of transparency, materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australian Guidelines for the Estimation of Coal Resources and Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese code is much more prescriptive but does not include the role of the Competent Person.

An examination of the details of the Chinese code suggests that in terms of broad categorisation, the levels of geological confidence ascribed to Measured and Indicated resources are quite similar in both the codes. The ranges of bMinehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code.

The JORC Code uses the following definitions for Mineral Resources and Mine Reserves:

Measured Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **high** level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **reasonable** level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **low** level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

A **‘Proved Mine Reserve’** is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

A Proved Mine Reserve represents the highest confidence category of Mine Reserve estimates. This requires detailed exploration and quality data “points of observation” to provide high geological confidence.

A **‘Probable Mine Reserve’** is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistic ally assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Probable Mine Reserve has a lower level of confidence than a Proved Mine Reserve but has adequate reliability as the basis of mining studies.

The following is the text of the assets appraisal report on Hubei Dayukou Chemical Co., Ltd. prepared for the purpose of inclusion in this circular, received from Beijing Pan-China Assets Appraisal Co., Ltd., a certified PRC public valuer approved and regulated by China Securities Regulatory Commission and Ministry of Finance, in connection with its appraisal as at 30 June 2008 of the market value of the total shareholders' equity in Hubei Dayukou Chemical Co., Ltd.**

**ASSETS APPRAISAL REPORT IN RESPECT OF
THE PROPOSED ACQUISITION OF EQUITY INTEREST IN
HUBEI DAYUKOU CHEMICAL CO., LTD. BY CHINA BLUECHEMICAL LTD.**

Tian Xing Ping Bao Zi (2008) No. 112

Purpose of appraisal: Beijing Pan-China Assets Appraisal Co., Ltd. accepted the consignment of China National Offshore Oil Corp ("CNOOC") and China BlueChemical Ltd. ("CBL") to appraise the market value of the total shareholders' equity involved in the proposed acquisition of the equity interest in Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") by CBL on June 30, 2008 on the basis of going-concern assumption.

Base date of appraisal: June 30, 2008

I APPRAISAL ASSUMPTION:

(I) General assumption:

1. Transaction assumption: assuming that all the assets to be appraised are in transaction, the appraiser simulated the market for appraisal according to the conditions for transaction of the assets.
2. Assumption of open market: assumption of open market is an assumption of the conditions of the market to which assets are to enter and the influence on assets under the market conditions. The open market refers to fully developed and perfect market conditions, as well as a competitive market with voluntary buyers and sellers, in which buyers and sellers, equal in status, both have opportunities and time of acquiring enough market information; and all the transactions between them are made on a voluntary, reasonable, noncompulsory or unlimited basis.
3. Assumption of continuous use: assumption of continuous use is an assumption of the conditions of the market assets are to enter and the status of assets under the market conditions. The assets to be appraised are in use and assumed to be used in a continued way. Under the conditions of assumption of continuous use, without considering the conditions for transfer or optimal utilization of asset purposes, the results of their appraisal are restricted by their use scope.

4. Going-concern assumption: it is an appraisal assumption made with overall corporate assets as the appraisal object. Namely, as the business entity, an enterprise conducts going-concern operation on the basis of the business objective in its external environment. The corporate operator is responsible for and capable of assuming liability; the enterprise conducts legal operation, and is able to acquire appropriate profits to maintain its going-concern capability. The enterprise can continue using its various operational assets according to their current purposes, methods of use, scales, frequencies and environments, or use them on the basis of some changes.

(II) Appraisal assumption by the income approach:

i General assumptions for income approach

1. there are no major changes in the relevant state laws, regulations and policies observed by DYK Chemical;
2. there are no major changes in the social, political and economic environments in the place of DYK Chemical and its business places;
3. DYK Chemical will conduct going-concern operation in accordance with the laws and in line with the general trends in terms of business scope, mode and decision-making procedures;
4. the interest rate of financial credit, tax rate, foreign exchange rate and market conditions are changed within the normal or existing government guided scope;
5. there are no force majeure events or unforeseeable factors that result in major or significant negative impact on the production and operation of DYK Chemical;
6. DYK Chemical continues to maintain its current production and sales strategies to meet market supply; and
7. DYK Chemical is able to conduct operations under the current business conditions without additional capital expenditures.

ii. Special assumptions for income approach

DYK Chemical continues using the trademarks of “Xiangyan” and “SACF” for free.

II NOTES FOR LIMITATIONS ON THE USE OF THE APPRAISAL REPORT

1. The Report shall only be used for the client’s economic behavior corresponding to the purpose of appraisal and delivery to the competent administrative department for examination; and the client shall reserve the right to use the Report.

2. The Report shall only be used by the users as specified herein.
3. The client shall not publish all or part of the Report in any public media without our approval; and our company shall be exempt from any legal liability for any result incurred by improper use of the appraisal results for any other economic behavior.
4. The Report shall remain effective for one year from June 30, 2008 (base date of appraisal) to June 29, 2009.

III EVALUATION BASIS:

(I) Major laws and regulations

1. *Measures for the Administration of State-owned Assets Appraisal* (Order of the State Council No. 91,1991);
2. *Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal* (Guo Zi Ban Fa [1992] No. 36 of the former State Administration of State Property);
3. *Tentative Opinion on Operation Standards for Assets Appraisal* ([1996] No. 23 of the former State Administration of State Property);
4. *Company Law of the People's Republic of China*;
5. Circular of the Ministry of Finance on Printing and Issuing *the Interim Provisions on the Basic Content and Format of Assets Appraisal Reports* (Cai Ping Zi [1999] No. 91);
6. *Circular of the General Office of the State Council on the Approval and Transmission of the Suggestions Submitted by the Ministry of Finance Concerning the Reform of Methods of Administration of State-owned Assets Appraisal and Strengthening the Supervision and Administration of Assets Appraisal* (Guo Ban Fa [2001] No. 102);
7. *Circular of the Ministry of Finance on Printing and Issuing the Measures on the Administration of Record of State-owned Assets Appraisal Projects* (Guo Ban Fa [2001] No. 802);
8. *Interim Measures for the Administration of Transfer of Enterprise State-owned Property Rights* (Order of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance No. 3);
9. The Circular of the Chinese Institute of Certified Public Accountants on Printing and Issuing the *Guiding Opinion on Attention of Certified Public Assets Appraisers to Legal Ownership of Appraisal Objects* (Kuai Xie [2003] No. 18);

10. *Interim Measures for the Administration of Enterprise State-owned Assets Appraisal* (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12);
11. *Circular on Issues concerning Strengthening the Management of Enterprise State-owned Assets Appraisal* (Chan Quan [2006] No. 274 of the State-owned Assets Supervision and Administration Commission of the State Council);
12. *Circular of China Appraisal Society on Issuing and Printing Tentative Guiding Opinion on Enterprise Evaluation* (Kuai Xie [2004] No. 134 of the Chinese Institute of Certified Public Accountants);
13. *Assets Appraisal Rules* of China Appraisal Society;
14. *Land Administration Law of the People's Republic of China*;
15. *Detailed Rules for the Implementation of the Land Administration Law of the People's Republic of China*;
16. *Law of the People's Republic of China on the Administration of Urban Real Estate*;
17. *Regulations of the People's Republic of China on Granting and Transferring the Right to Use Urban State-Owned Land* (Order of the State Council No. 55);
18. *Interim Measures for the Administration of Enterprise State-owned Assets Appraisal* (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12);
19. *Mineral Resources Law of the People's Republic of China* promulgated upon revision on August 29, 1996;
20. *Measures for the Administration of Registration of Exploitation of Mineral Resources* (Order of the State Council No. 241 of 1998);
21. *Regulations for Transferring Exploration Rights and Mining Rights* (Order of the State Council No. 242 of 1998);
22. *Interim Measures for the Administration of Granting and Transferring Mining Rights* (Guo Tu Zi [2000] No. 309 Document) printed and issued by the Ministry of Land and Resources;
23. *Interim Measures for the Administration of Appraising Mineral Exploration and Mining Rights* (Guo Tu Zi [1999] No. 75 Document) printed and issued by the Ministry of Land and Resources;
24. *Guide on the Appraisal of Mining Rights* issued by the Ministry of Land and Resources (2004 edition);

25. 1999 edition of the *Classification of Solid Mineral Resources Reserves* (GB/T17766-1999) issued by the State Bureau of Quality and Technical Supervision;
26. Announcement of Chinese Association of Mining Right Assessors 2007 No. 1, on Issuing the *Mining Right Assessment Rules and Guiding Opinion of Chinese Association of Mining Right Assessors-CMV13051-2007 Determination of Types of Solid Mineral Resources Reserves*;
27. Announcement of the Ministry of Land and Resources on the *Implementation of the Plan for Amending Methods of Assessing Income Approach Appraisal of Mining Right* No. 18 of 2006;
28. Other data as verified, investigated and collected by appraiser on the site; and
29. Other relevant legal documents.

(II) Economic behavior documents

The agreement on assets appraisal signed between CNOOC and CBL and Beijing Pan-China Assets Appraisal Co., Ltd.

(III) Major contracts, agreements and property right documents

1. *Circular on the Transfer of Equity Interest* (Hai You Zong Zi Chan [2008] No. 414) issued by CNOOC on July 14, 2008;
2. *Circular on the Reorganization of China National Offshore Oil Corp and China National Chemical Construction Corp.* (Guo Zi Gai Ge [2006] No. 1188) issued by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) on October 13, 2006;
3. Dayukou Phosphorite Mining License of DYK Chemical;
4. Letter of the Department of Land and Resources of Hubei Province on Printing and Issuing the Opinion on the Verification of the *Geological Report on Detection of Reserves of Dayukou Section, Huji Area, Jingxiang Phosphorite, Zhongxiang, Hubei Province in 2006* (E Tu Zi Chu He Han [2006] No. 36);
5. Opinion on the Verification of the *Geological Report on Detection of Reserves of Dayukou Section, Huji Area, Jingxiang Phosphorite, Zhongxiang, Hubei Province in 2006*;
6. *Geological Report on Detection of Reserves of Dayukou Section, Huji Area, Jingxiang Phosphorite, Zhongxiang, Hubei Province in 2006*;

7. *Plan for the Development and Utilization of Dayukou Phosphorite of Hubei Dayukou Chemical Ltd.* of Ma'anshan Steel Group Design and Research Institute Co., Ltd.;
8. Property ownership certificate, land use certificate, planning license, construction certificate, etc.;
9. "The mine reserve report of DYK mine, Hu Ji Mining area, Jing Xiang Phosphate Mine, Zhong Xiang City, Hu Bei Province" prepared by Northwest Geology and Mine Inspection Institute of Hu Bei province;
10. Driving license;
11. Contracts and invoices for purchase of major equipment, as well as financial documents including relevant agreements, contracts, budget statements and final reports for construction.

(IV) Pricing basis

1. *Latest Manual of Common Data and Parameters for Assets Appraisal* (China Financial & Economic Publishing House, 2005);
2. Current loan interest rate published by the People's Bank of China;
3. *Conditions and Evaluation Standards of House Damages* promulgated by the Ministry of Urban and Rural Construction and Environmental Protection;
4. Circular of the Municipal People's Government on Implementing the Standards for Levels and Base Prices of Land in Downtown Wuhan in 2007;
5. *List of Levels and Base Prices of Commercial, Residential and Industrial Land in Downtown Wuhan* in 2007;
6. *Hubei Engineering Cost Management* in March 2008;
7. Quota and Unified Base Price List of Hubei Province for Consumption of Construction Projects;
8. Guiding Opinion on Attention of Certified Public Assets Appraisers to Legal Ownership of Appraisal Objects;
9. Circular of the Ministry of Finance and the Ministry of Land and Resources on Printing and Issuing the *Measures for the Administration of Land Use Fee for Development of Agricultural Land* (Cai Zong [2004] No. 49);
10. *Measures of Hubei Province for the Implementation of Granting and Transferring the Right to Use Urban State-Owned Land* (Order of the Hubei Provincial People's Government No. 45);

11. *Measures of Hubei Province for Implementation of Land Administration* (revised in 1999);
12. *Circular of the Provincial People's Government on Further Strengthening Land Expropriation Administration and Practically Safeguarding the Lawful Rights and Interests of Farmers Involved in Land Expropriation* (E Zheng Fa [2005] No. 11);
13. *Circular on Promulgating Part of Charging Items and Standards of Land Administration System* ([1992] Jia Fei Zi No. 597 of the State Price Control Bureau and the Ministry of Finance);
14. *Interim Regulations of the People's Republic of China on Farmland Occupation Tax* (Order of the State Council of the People's Republic of China No. 511);
15. *Circular of Hubei Local Taxation Bureau on Transmitting the Regulations of the State Administration of Taxation on the Administration of Collection of Farmland Occupation Tax* (E Di Shui Fa [2008] No. 64);
16. *Decision of the State Council on Deepening the Reform and Tightening Land Administration* (Guo Fa [2004] No. 28);
17. Charging Standards of Jingmen City for Land Expropriation;
18. Circular on Issuing and Implementing the *National Standards for the Minimum Transfer Prices of Land for Industrial Purposes* (Guo Tu Zi Fa [2006] No. 307);
19. *Regulations on the Evaluation of Urban Land* GB/T18508-2001;
20. *Circular on Adjusting the Policies for the Compensation Fees for New Construction Land* (Cai Zong [2006] No. 48);
21. *Certificate for Use of State-owned Land* provided by the assets owner;
22. *Regulations on the Administration of Charges for Engineering Survey and Design* (Ji Jia Ge [2002] No.10);
23. *Estimate Indices for Petrochemical Installation Projects* (Sinopec [2000] Jian Zi No. 476);
24. *Measures for Making Budget Estimates of Engineering Design of Petrochemical Projects* (Sinopec [2000] Jian Zi No. 476);
25. *Quota of Costs for Construction of Petrochemical Projects* (Sinopec [2000] Jian Zi No. 476);
26. Adjusted coefficients of the *Major Materials for Petrochemical Installation Projects* (2003 Edition) in May 2008;

27. The manufacturing prices of non-standard equipment are based on the price information of common non-standard equipment released by the Center of Design Estimate Technology, Sinopec in March 2008;
28. Quota of other expenses for metallurgical construction (2007);
29. Budgetary quota of metallurgical, mining and electromechanical equipment installation projects (Chapter I) (VIII);
30. Balance sheets and income statements of Hubei Dayukou Chemical Ltd. as of December 31, 2005, December 31, 2006 and December 31, 2007;
31. Balance sheets and income statements of DYK Chemical as of June 30, 2008;
32. Statements of Mining and Milling Costs of DYK Chemical from 2006 to 2008;
33. Statements of Mining Cost and Manufacturing Expenses of DYK Chemical from 2006 to 2008;
34. Statements of Milling Cost and Manufacturing Expenses of DYK Chemical from 2006 to 2008;
35. Production Statistics of DYK Chemical Co. Ltd., 2005–2008;
36. Reserve Usage Statistics of DYK Chemical Co. Ltd, 2006–2008.

(V) References and Others

1. Data on the local real estate market;
2. Market conditions and relevant price information of the phosphate industry;
3. Data on composition of corporate income and cost, overall assets, business actualities as well as reconstruction and extension plans from on-site surveys;
4. Such documents as equipment invoices provided by the assets owner;
5. *Search System of Price Information of Electromechanical Products in 2008*;
6. Market price information on www.it168.com;
7. Summary of discussion with the relevant staff of the corporate financial department and relevant business department;
8. The price information of the auto market across the country on the June 2008 issue of *Online Auto Market*;
9. Price inquiries by manufacturers and other price information;

10. Relevant equipment contracts and invoices, as well as the relevant technical documents provided by the assets owner;
11. Information acquired by the appraiser through price inquiry in the market; and
12. Other relevant information collected by the appraiser.

IV APPRAISAL METHOD:

The method for the assets appraisal is the income approach (model of discounted free cash flow to company) and asset-based approach. Appraising fixed assets according to the replacement cost approach only reflects corporate replacement cost, the mining right also only reflects the development value of mineral resources, and the results of appraisal of all single assets under the asset-based approach do not fully reflect the synergy of assets.

In view of the purpose of the appraisal, the investor mainly considers the profits that DYK Chemical may bring to them in the future; thus we use the results of appraisal by the income approach as the final conclusion of the appraisal.

The basic idea of appraisal by the income approach is that the value of any asset (including enterprise and equity interest) is the present value of the future cash flow generated by it.

The appraisal uses the model of discounted free cash flow to company (FCFC) to appraise the equity value of DYK Chemical, namely, deducts its debt value from its assets value. The assets value and debt value are equivalent to their corresponding discounted cash flow, and the discount rate shall reflect the risks of the cash flow.

1. Introduction of formula

According to the model selected for the appraisal, the computing formula is determined as follows:

$$\text{Value of operational assets} = \sum_{t=1}^n \frac{\text{Corporate cash flow}_t}{(1 + \text{weighted average cost of capital})^t}$$

$$\begin{aligned} \text{Value of equity} &= \text{value of corporate operational assets} + \text{value of surplus assets} \\ &+ \text{value of non-operational assets} - \text{debt value} \end{aligned}$$

Corporate cash flow is the amount after deduction of cost and necessary investments from all corporate cash flows, and the after-tax cash flow an enterprise can provide for all investors (shareholders and creditors) within a certain period of time.

2. Estimated cash flow

According to the model selected for the appraisal, free cash flow shall be the after-tax cash flow generated in business activities.

Corporate free cash flow = earning before interest and tax x (1 – rate of income tax) + depreciation and amortization – capital expenditures – changes in net working capital

3. Forecast period

Because of the uncertain life of an enterprise, the going-concern assumption is generally adopted, namely, the enterprise is assumed to sustain indefinitely, and the time of forecast is divided into two stages, namely, detailed forecast stage and later stage (perpetual stage).

According to the business conditions of the enterprise and the purpose of the appraisal, detailed forecast is adopted, for the period between July 2008 and 2013, and the business conditions after 2013 are assumed to be basically stable. The aforesaid assumption is mainly based on the following considerations:

Formally established and starting operation in October 2005, DYK Chemical is still in the period of extended reproduction, and will be able to basically accomplish recent and medium-term capacity expansion and product restructuring by 2013.

Therefore, the forecast period selected for the appraisal is between July 2008 and 2013, with production operations in the coming years are assumed to remain at the level of 2013.

4. Selection of discount rate

The formula of weighted-average cost of capital (WACC) is as follows:

$$WACC = K_b(1 - T_c)(B/V) + K_s(S/V)$$

In which:

K_b — Before-tax fund raising cost of liability

T_c — income tax rate

B — value of liability

V — value of appraised enterprise

K_s — cost of equity capital

S — value of equity

(1). Before-tax fund raising cost of liability

The fund raising cost is determined on the basis of the interest rate of the liability with interest of DYK Chemical after being audited on the base date of appraisal, and the average fund raising cost of DYK Chemical is determined on the basis of the benchmark one-year loan interest rate.

(2). Equity capital cost

Equity capital cost = risk-free interest rate + equity risk premium + special risk premium

i. Determination of risk-free interest rate

Risk-free interest rate is generally determined on the basis of the coupon rate of the long-term bonds (interest paid at least once per year) issued on state credit or the effective yield of long-term treasury bonds transacted on the base date of appraisal.

ii. Equity risk premium

Equity risk premium = $\beta \times (\text{Return of Market} - \text{risk-free interest rate})$

(i). Return of Market

According to Wind's statistics, on the basis of averaging the weights of the value of stocks on June 30, 2008, the total average annual yields of all A shares on the Shenzhen and Shanghai stock markets from June 30, 2003 to June 30 2008 is the market risk return of the appraisal.

(ii). Beta

We have selected the arithmetic average of the beta value of comparable listed companies in chemical industry for 60 months prior the base date as the beta value.

iii. Special risk premium

Because of the wide structure of the products of the listed chemical companies selected for estimation of the risk coefficient, and the few varieties of the products of DYK Chemical, its equity risk-adjusted coefficient is determined according to the relevant data.

(3). Capital structure – Debt/(Debt + Equity)

According to Wind's statistics, the average ratio of capital structure of phosphate fertilizer producers between 2005 and 2007 is 0.59.

V APPRAISAL RESULT:

According to the results of appraisal by the income approach, the market value of the total shareholders' equity interest in DYK Chemical is RMB1.29978 billion yuan.

The “market value” as mentioned in the Report refers to the estimated amount of the value of the normal fair transactions made by the appraisal object on the base date of appraisal under the circumstances that the voluntary seller and buyer conduct reasonably without being forced to.

The purpose of assets appraisal by CPV (Certified Public Valuer) is to estimate the market value of the appraisal object and offer his professional opinion. Appraisal results refer to the results of estimation of market value for the purpose of appraisal under the circumstances of no major changes in the external economic environment and market conditions of the going-concern operation of the appraisal object on the base date of appraisal as well as other appraisal premises and assumption conditions the appraiser bases his appraisal on, and may not be construed as the market transaction price guarantee.

In case of any discrepancy between the English version and Chinese version of the Appraisal Report, the latter shall prevail.

Appraised by Beijing Pan-China Assets Appraisal Co., Ltd.

Legal representative:

Jian Min, SUN

Certified Public Valuer:

Qiu Xiang, NIE

Certified Public Valuer:

Jie, SU

September 5, 2008

The following is the text of the assets appraisal report on ZHJ Mining Co., Ltd. prepared for the purpose of inclusion in this circular, received from Beijing Pan-China Assets Appraisal Co., Ltd., a certified PRC public valuer approved and regulated by China Securities Regulatory Commission and Ministry of Finance, in connection with its appraisal as at 30 June 2008 of the market value of the total shareholders' equity in ZHJ Mining Co., Ltd.**

**ASSETS APPRAISAL REPORT ON
THE PROPOSED ACQUISITION OF EQUITY INTEREST IN
ZHJ MINING BY CHINA BLUECHEMICAL LTD.**

Tian Xing Ping Bao Zi (2008) No. 111

Purpose of appraisal: Beijing Pan-China Assets Appraisal Co., Ltd. accepted the consignment of China National Offshore Oil Corp ("CNOOC") and China BlueChemical Ltd. ("CBL") to appraise the market value of the total shareholders' equity involved in the proposed acquisition of the equity interest in ZHJ Mining Co., Ltd. ("ZHJ Mining") by CBL on June 30, 2008 on the basis of going-concern assumption.

Base date of appraisal: June 30, 2008

I APPRAISAL ASSUMPTION

(I) General assumption:

1. Transaction assumption: assuming that all the assets to be appraised are in transaction, the appraiser simulated the market for appraisal according to the conditions for transaction of the assets.
2. Assumption of open market: assumption of open market is an assumption of the conditions of the market which assets are to enter and the influence on assets under the market conditions. The open market refers to fully developed and perfect market conditions, as well as a competitive market with voluntary buyers and sellers, in which buyers and sellers, equal in status, both have opportunities and time of acquiring enough market information; and all the transactions between them are made on a voluntary, reasonable, noncompulsory or unlimited basis.
3. Assumption of continuous use: assumption of continuous use is an assumption of the conditions of the market assets are to enter and the status of assets under the market conditions. The assets to be appraised are in use and assumed to be used in a continued way. Under the conditions of assumption of continuous use, without considering the conditions for transfer or optimal utilization of asset purposes, the results of their appraisal are restricted by their use scope.

4. Going-concern assumption: it is an appraisal assumption made with overall corporate assets as the appraisal object. Namely, as the business entity, an enterprise conducts going-concern operation on the basis of the business objective in its external environment. The corporate operator is responsible for and capable of assuming liability; the enterprise conducts legal operation, and is able to acquire appropriate profits to maintain its going-concern capability. The enterprise can continue using its various operational assets according to their current purposes, methods of use, scales, frequencies and environments, or use them on the basis of some changes.

(II) Appraisal assumptions for income approach:

i General assumptions for income approach

1. there are no major changes in the relevant state laws, regulations and policies observed by ZHJ Mining;
2. there are no major changes in the social, political and economic environment in the place of ZHJ Mining and its business places;
3. ZHJ Mining will conduct going-concern operation in accordance with the laws and in line with the general trends in terms of business scope, mode and decision-making procedures;
4. the interest rate of financial credit, tax rate, foreign exchange rate and market conditions are changed within the normal or existing government guided scope; and
5. there are no force majeure events or unforeseeable factors that result in major or significant negative impact on the production and operation of ZHJ Mining.

ii. Special assumptions for income approach

1. ZHJ Mining will continue to use the land through lease arrangement with CNOOC Investment Co., Ltd. and the rent will be maintained at the current level for future operation period; and
2. due to technical limitations, ZHJ Mining will no longer develop unprofitable phosphate processing business.

II NOTES FOR LIMITATIONS ON THE USE OF THE APPRAISAL REPORT:

1. The Report shall only be used for the client's economic behavior corresponding to the purpose of appraisal and delivery to the competent administrative department for examination; and the client shall reserve the right to use the Report.
2. The Report shall only be used by the users as specified therein.

3. The client shall not publish all or part of the Report in any public media without our approval; and our company shall be exempt from any legal liability for any result incurred by improper use of the appraisal results for any other economic behavior.
4. The Report shall remain effective for one year from June 30, 2008 (base date of appraisal) to June 29, 2009.

III EVALUATION BASIS:

(I) Legal and technical regulations

1. *Measures for the Administration of State-owned Assets Appraisal* (Order of the State Council No. 91 of 1991);
2. *Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal* (Guo Zi Ban Fa [1992] No. 36 of the former State Administration of State Property);
3. *Tentative Opinion on Operation Standards for Assets Appraisal* ([1996] No. 23 of the former State Administration of State Property);
4. *Company Law of the People's Republic of China*;
5. Circular of the Ministry of Finance on Printing and Issuing the *Interim Provisions on the Basic Content and Format of Assets Appraisal Reports* (Cai Ping Zi [1999] No. 91);
6. *Circular of the General Office of the State Council on the Approval and Transmission of the Suggestions Submitted by the Ministry of Finance Concerning the Reform of Methods of Administration of State-owned Assets Appraisal and Strengthening of the Supervision and Administration of Assets Appraisal* (Guo Ban Fa [2001] No. 102);
7. *Circular of the Ministry of Finance on Printing and Issuing the Measures on the Administration of Record of State-owned Assets Appraisal Projects* (Guo Ban Fa [2001] No. 802);
8. *Interim Measures for the Administration of Transfer of Enterprise State-owned Property Rights* (Order of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance No. 3);
9. The Circular of the Chinese Institute of Certified Public Accountants on Printing and Issuing the *Guiding Opinion on Attention of Certified Public Assets Appraisers to Legal Ownership of Appraisal Objects* (Kuai Xie [2003] No. 18);

10. *Interim Measures for the Administration of Enterprise State-owned Assets Appraisal* (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12);
11. *Circular on Issues concerning Strengthening the Management of Enterprise State-owned Assets Appraisal* (Chan Quan [2006] No. 274 of the State-owned Assets Supervision and Administration Commission of the State Council);
12. *Circular of China Appraisal Society on Issuing and Printing Tentative Guiding Opinion on Enterprise Evaluation* (Kuai Xie [2004] No. 134 of the Chinese Institute of Certified Public Accountants);
13. *Assets Appraisal Rules*;
14. *Interim Measures for Administration of Enterprise State-owned Assets Appraisal* (Order of the State-owned Assets Supervision and Administration Commission of the State Council No. 12);
15. *Mineral Resources Law of the People's Republic of China* promulgated upon revision on August 29, 1996;
16. *Measures for the Administration of Registration of Exploitation of Mineral Resources* (Order of the State Council No. 241 of 1998);
17. *Regulations for Transferring Exploration Rights and Mining Rights* (Order of the State Council No. 242 of 1998);
18. *Interim Measures for the Administration of Granting and Transferring Mining Right* (Guo Tu Zi [2000] No. 309 Document) printed and issued by the Ministry of Land and Resources;
19. *Interim Measures for the Administration of Appraising Mineral Exploration and Mining Rights* (Guo Tu Zi [1999] No. 75 Document) printed and issued by the Ministry of Land and Resources;
20. *Guide on the Appraisal of Mining Right* issued by the Ministry of Land and Resources (edition of 2004);
21. 1999 edition of the *Classification of Solid Mineral Resources Reserves* (GB/T17766-1999) issued by the State Bureau of Quality and Technical Supervision;
22. Announcement of Chinese Association of Mining Right Assessors 2007 No. 1, on Issuing the *Mining Right Assessment Rules and Guiding Opinion of Chinese Association of Mining Right Assessors-CMV13051-2007 Determination of Types of Solid Mineral Resources Reserves*;

23. Announcement of the Ministry of Land and Resources on the *Implementation of the Plan for Amending Method of Assessing Income Approach Appraisal of Mining Right* No. 18 of 2006;
24. Other relevant legal documents.

(II) Economic behavior documents

The agreement on assets appraisal signed between CNOOC and CBL and Beijing Pan-China Assets Appraisal Co., Ltd.

(III) Major contracts, agreements and property right documents

1. *Circular on the Transfer of Equity Interest* (Hai You Zong Zi Chan [2008] No. 414) issued by CNOOC on July 14, 2008;
2. *Circular on the Reorganization of China National Offshore Oil Corp and China National Chemical Construction Corp.* (Guo Zi Gai Ge [2006] No. 1188) issued by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) on October 13, 2006;
3. Wangji Phosphorite Mining License of ZHJ Mining;
4. Letter of the Department of Land and Resources of Hubei Province on Printing and Issuing the Certificate of the Review and Record of the *Geological Report on Settlement of Reserves of South of Line W232.5 of Wangji Section, Huji Area, Jingxiang Phosphorite, Hubei Province* (E Tu Zi Chu Bei Han [2004] No. 2);
5. Opinion on the Review of the *Geological Report on Settlement of Reserves of South of Line W232.5 of Wangji Section, Huji Area, Jingxiang Phosphorite, Hubei Province*;
6. *Geological Report on Settlement of Reserves of South of Line W232.5 of Wangji Section, Huji Area, Jingxiang Phosphorite, Hubei Province* and attached tables;
7. *Specification for Extension Design of Mining of Middle Section of Layer I +75m ~ +10m of Wangji Phosphorite of Wangji Minerals Co., Ltd., Hubei Jingxiang Chemical Group* compiled by Hubei Jingxiang Phosphorous Chemistry Industry Co., Ltd. Design and Research Institute (September 2005);
8. *Specification for Extension Design of Mining of Middle Section of Layer III +135m ~ +10m of ZHJ Mining* compiled by Hubei Jingxiang Phosphorous Chemistry Industry Co., Ltd. Design and Research Institute (December 2006);

9. *Volume I Specification for Preliminary Design of Phase II Mining of Wangji Phosphorite of Wangji Minerals Co., Ltd., Hubei Jingxiang Chemical Group* compiled by Lianyungang Design and Research Institute, Ministry of Chemical Industry (May 1999);
10. *Volume II Estimates for Preliminary Design of Phase II Mining of Wangji Phosphorite of Wangji Minerals Co., Ltd., Hubei Jingxiang Chemical Group* compiled by Lianyungang Design and Research Institute, Ministry of Chemical Industry (May 1999). Property ownership certificate, land use certificate, planning license, construction certificate, etc.;
11. Real Estate Certificate, Land Use Right Certificate, Planning Certificate, Construction Commencement Certificate, etc.
12. “Mine Reserve Calculation Geology Report (till June, 2008) of South of W232.5 Line, Wang Ji Mine district, Hu Ji Mine area, Jing Xiang Phosphate Mine, Hu Bei Province” prepared by Northwest Geology and Mine Inspection Institute of Hu Bei Province;
13. Driving license;
14. Contracts and invoices for purchase of major equipment, as well as financial documents including relevant agreements, contracts, budget statements and final reports for construction;
15. Other data verified, investigated and collected by appraiser on the site.

(IV) Pricing basis

1. *Latest Manual of Common Data and Parameters for Assets Appraisal* (China Financial & Economic Publishing House, 2005);
2. Current loan interest rate published by the People’s Bank of China;
3. Schedule of declaration of appraisal of buildings provided by the assets owner;
4. House ownership certificate provided by the assets owner;
5. Building drawings, structural construction drawings and construction completion drawings provided by the assets owner;
6. Other relevant documents provided by the assets owner;
7. *Quota of Estimate and Budget of Metallurgical Mines* (May 1, 2007);
8. *Technical and Economic Indicators of Common Building Projects* (2005);
9. *Building Cost Information of Jingmen City* (March 2008);

10. Edition 2 of *Manual of Common Data and Parameters for Assets Appraisal, Manual of Investment Estimation of Construction Projects and Manual of Estimation of Construction Coefficients*;
11. The information collected by the appraiser through on-site survey and market survey of buildings;
12. *Regulations on Administration of Charges for Engineering Survey and Design* (Ji Jia Ge [2002] No.10);
13. *Estimate Indices for Petrochemical Installation Projects* (Sinopec [2000] Jian Zi No. 476);
14. *Measures for Making Budget Estimates of Engineering Design of Petrochemical Projects* (Sinopec [2000] Jian Zi No. 476);
15. *Quota of Costs for Construction of Petrochemical Projects* (Sinopec [2000] Jian Zi No. 476);
16. Adjusted coefficients of the *Major Materials for Petrochemical Installation Projects* (2003 Edition) in May 2008;
17. The manufacturing prices of nonstandard equipment are based on the price information of common non-standard equipment released by the Center of Design Estimate Technology, Sinopec in March 2008;
18. Quota of other expenses for metallurgical construction (2007);
19. Budgetary quota of metallurgical, mining and electromechanical equipment installation projects (Chapter I) (VIII).

(V) References and Others

1. Data on the local real estate market;
2. Market conditions and relevant price information of the phosphate industry;
3. Statement of Changes in Reserves of Wangji Section, Huji Area, Jingxiang Phosphorite, Hubei Province submitted by ZHJ Mining;
4. Statistical Statement of Production from 2005 to June 2008 submitted by ZHJ Mining;
5. Statement of Mining Cost from September 2006 to June 2008 submitted by ZHJ Mining;
6. Statement of Manufacturing Expense from September 2006 to June 2008 submitted by ZHJ Mining;

7. Statistical Statement of Output of Finished Products from September 2006 to June 2008 submitted by ZHJ Mining;
8. Statement of Products Sales from 2006 to June 2008 submitted by ZHJ Mining;
9. Such documents as equipment invoices provided by the assets owner;
10. *Search System of Price Information of Electromechanical Products in 2008*;
11. Market price information on www.it168.com;
12. Summary of discussion with the relevant staff of the corporate financial department and relevant business department;
13. The price information of the auto market across the country on the June 2008 issue of *Online Auto Market*;
14. Price inquiries by manufacturers and other price information;
15. Relevant equipment contracts and invoices, as well as the relevant technical documents provided by the assets owner;
16. Information acquired by the appraiser through price inquiry in the market; and
17. Other relevant information collected by the appraiser.

IV APPRAISAL METHOD:

The method for the assets appraisal is the income approach (model of discounted free cash flow to company) and asset-based approach.

In view of the purpose of the appraisal, the investor mainly considers the profits that ZHJ Mining may bring to them in the future, thus we use the results of appraisal by the income approach as the final conclusion of the appraisal.

The basic idea of appraisal by the income approach is that the value of any assets (including enterprise and equity interest) is the present value of the future cash flow generated by it.

The appraisal uses the model of free cash flow to equity (FCFE) to appraise the equity value of ZHJ Mining. The corporate value is equivalent to its corresponding discounted cash flow, and the discount rate shall reflect the risks of the cash flows.

1. Introduction of formula

According to the model selected for the appraisal, the computing formula is determined to be as follows:

$$\text{Value of net operational assets} = \sum_{t=1}^n \frac{\text{Cash flow to equity}_t}{(1 + \text{capital cost to equity})^t}$$

Value of equity = value of net operational assets + value of surplus assets + value of non-operational assets

Produced from the business activities of the enterprise using operational assets in future years, the approach of discounted free cash flow to equity discounts the cash flow distributable among shareholders left after deduction of the debts payable from the cash flow freely used by the management authority of the enterprise at an appropriate rate of capital cost till the base date of appraisal, to work out the value of net operational assets of the enterprise.

2. Estimated cash flow

According to the model selected for the appraisal, free cash flow to equity is produced from the business activities of the enterprise using operational assets in future years, and the cash flow distributable among shareholders left after deduction of the debts payable from the cash flow freely used by the management authority of the enterprise.

Free cash flow to equity = operating profit – income tax – capital expenditures – changes in net working capital – interest expense – principal of borrowing

3. Forecast period

Because of the uncertain life of an enterprise, the going-concern assumption is generally adopted, unless the useful life of an asset that can sufficiently influence the going-concern operation of the enterprise is limited, or the limit cannot be used perpetually by dissolution and extension.

The appraisal object is a mining enterprise, and because of the limit in resources reserves, the forecast period of the appraisal is determined to be from the expiration of the Mining License to 2036.

4. Selection of discount rate

Equity capital cost = risk-free interest rate + equity risk premium

(1) *Risk-free interest rate*

Risk-free interest rate is generally determined on the basis of the coupon rate of the long-term bonds (interest paid at least once per year) issued on state credit or the effective yield of long-term treasury bonds transacted on the base date of appraisal.

(2) *Equity risk premium*

Equity risk premium = beta x (Return of Market – risk-free interest rate)

(i). Return of Market

According to Wind's statistics, on the basis of averaging the weights of the value of stocks on June 30, 2008, the total average annual yields of all A shares on the Shenzhen and Shanghai stock markets from June 30, 2003 to June 30 2008 is the market risk return of the appraisal.

(ii). Beta coefficient

We have selected the arithmetic average of the beta value of comparable listed companies in chemical industry for 60 months prior the base date as the beta value.

V APPRAISAL RESULT:

According to the results of appraisal by the income approach, the market value of the total shareholders' equity interest in ZHJ Mining is RMB181.82 million yuan on June 30, 2008.

The "market value" as mentioned in the Report refers to the estimated amount of the value of the normal fair transactions made by the appraisal object on the base date of appraisal under the circumstances that the voluntary seller and buyer conduct reasonably without being forced to.

The purpose of assets appraisal by CPV (Certified Public Valuer) is to estimate the market value of the appraisal object and offer his professional opinion. Appraisal results refer to the results of estimation of market value for the purpose of appraisal under the circumstances of no major changes in the external economic environment and market conditions of the going-concern operation of the appraisal object and the base date of appraisal as well as other appraisal premises and assumption conditions the appraiser bases his appraisal on, and may not be construed as the market transaction price guarantee.

In case of any discrepancy between the English version and Chinese version of the Appraisal Report, the latter shall prevail.

Appraised by Beijing Pan-China Assets Appraisal Co., Ltd.

Legal representative:

Jian Min, SUN

Certified Public Valuer:

Qiu Xiang, NIE

Certified Public Valuer:

Jie, SU

September 5, 2008

(A). LETTERS FROM THE REPORTING ACCOUNTANTS

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

31 December 2008

The Board of Directors
China BlueChemical Ltd.

Dear Sirs,

We have performed the work described below, in respect of the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the business valuation on Hubei Dayukou Chemical Co., Ltd. as of 30 June 2008 (hereinafter referred to as the “Underlying Forecast”), which is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Underlying Forecast is set out in Appendix VI(A) “Assets Appraisal Report on DYK Chemical” to the circular of China Bluechemical Limited (the “Company”) dated 31 December 2008.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the Underlying Forecast. The Underlying Forecast has been prepared using a set of assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. Since the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation.

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to present our conclusion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. The Assumptions used in the preparation of the Underlying Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than for a reasonable assurance engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations, of the Underlying Forecast prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of Hubei Dayukou Chemical Co., Ltd.

CONCLUSION

Based on our work described above, so far as the arithmetical accuracy of the calculations of the Underlying Forecast are concerned, nothing has come to our attention that causes us to believe that the Underlying Forecast has not been properly compiled on the basis of the Assumptions made by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong



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

31 December 2008

The Board of Directors
China BlueChemical Ltd.

Dear Sirs,

We have performed the work described below, in respect of the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the business valuation on ZHJ Mining Company Limited as of 30 June 2008 (hereinafter referred to as the “Underlying Forecast”), which is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Underlying Forecast is set out in Appendix VI(B) “Assets Appraisal Report on ZHJ Mining” to the circular of China Bluechemical Limited (the “Company”) dated 31 December 2008.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the Underlying Forecast. The Underlying Forecast has been prepared using a set of assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. Since the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation.

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to present our conclusion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. The Assumptions used in the preparation of the Underlying Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than for a reasonable assurance engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations, of the Underlying Forecast prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of ZHJ Mining Co., Ltd.

CONCLUSION

Based on our work described above, so far as the arithmetical accuracy of the calculations of the Underlying Forecast are concerned, nothing has come to our attention that causes us to believe that the Underlying Forecast has not been properly compiled on the basis of the Assumptions made by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(B). LETTER FROM THE FINANCIAL ADVISERS

UBS AG
Hong Kong Branch
2 International Finance Centre
52/F, 8 Finance Street
Central, Hong Kong
Tel: + 852-2971-8888



**CITIC Securities Corporate
Finance (HK) Ltd.**
26/F, CITIC Tower,
1 Tim Mei Avenue
Central, Hong Kong
Tel: + 852-2237-6899

31 December 2008

The Directors
China BlueChemical Ltd.
No.1 Zhu Jiang South Street
Dongfang City
Haikou, Hainan Province, The PRC

Dear Sirs

We refer to the respective valuations prepared by Beijing Pan-China Assets Appraisal Co. Ltd. ("Tianjian") in relation to the valuation of 83.17% equity stake in 湖北大峪口化工有限責任公司 (Hubei Dayukou Chemical Co. Ltd.*) ("DYK Chemical") and 100% equity stake in 中化建礦業有限公司 (ZHJ Mining Co. Ltd.*) ("ZHJ Mining") (collectively the "Valuations"), reports of which are included in the circular of China BlueChemical Limited (the "Company") dated 31 December (the "Circular").

We have reviewed the forecasts upon which the Valuations have been made, for which you as the directors of the Company (the "Directors") are responsible, and discussed with management of the Company and Tianjian regarding the bases and assumptions of the forecasts and attended the meeting dated 25 August 2008 attended by all the Directors where the forecasts and the underlying bases and assumptions were discussed. We have also reviewed the letter issued by Ernst & Young dated 31 December as set out in Appendix VII (A). Letters from the Reporting Accountants to the Circular regarding whether the forecasts, so far as the arithmetical accuracy of the calculations are concerned, have been properly compiled in accordance with the assumptions made by the Directors.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by Tianjian and the Company for which the Company and Tianjian are responsible, we are satisfied that the forecasts upon which the Valuations have been made, for which you as the Directors are responsible, have been made after due and careful enquiry by you.

* *For identification purpose only*

Yours faithfully,

For and on behalf of
UBS AG

Henry Cai
Vice Chairman, Asia
Head of Investment Banking, China

Philip Ho
Associate Director

For and on behalf of
CITIC Securities
Corporate Finance (HK) Ltd.

Janet Yee
Director

Guangchao Li
Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

		Par value per share (RMB)	RMB
<i>Authorised:</i>			
<u>4,610,000,000</u>	Shares authorised as at the Latest Practicable Date	1.00	<u>4,610,000,000</u>
<i>Issued and fully paid:</i>			
2,738,999,512	Domestic Shares: State- owned shares	1.00	2,738,999,512
75,000,366	Domestic Shares: Other legal person shares	1.00	75,000,366
25,000,122	Unlisted Foreign Shares	1.00	25,000,122
<u>1,771,000,000</u>	H Shares	1.00	<u>1,771,000,000</u>
<u>4,610,000,000</u>	Shares issued as at the Latest Practicable Date	1.00	<u>4,610,000,000</u>

DISCLOSURE OF INTERESTS

(a) Directors and chief executive

As at the Latest Practicable Date, the interests or short positions of the Directors, supervisors or the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

Name of Director	Capacity	Number of share appreciation rights granted	Class of shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of the Company's total issued shares (%)
Wu Mengfei	Beneficial owner	1,053,000(L) (note 1)	H shares	0.06(L)	0.02(L)
Yang Yexin	Beneficial owner	891,000(L) (note 2)	H shares	0.05(L)	0.02(L)
Fang Yong	Beneficial owner	681,000(L) (note 3)	H shares	0.04(L)	0.01(L)
Chen Kai	Beneficial owner	681,000(L) (note 4)	H shares	0.04(L)	0.01(L)

Notes:

(L) denotes long position.

- (1) These shares represent interests in share appreciation rights of the Company, of which 263,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.
- (2) These shares represent interests in share appreciation rights of the Company, of which 222,750 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.
- (3) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

- (4) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(b) Substantial shareholders

(i) Substantial shareholders' interests in shares or underlying shares of the Company:

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as was known to the Directors, supervisors and the chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had an interest or short position in the shares of the Company and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 & 3 of Part XV of the SFO:

Name of Substantial Shareholder	Capacity	Number of shares and nature of interests	Class of shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of the Company's total issued shares (%)
CNOOC (<i>note 1</i>)	Beneficial owner; security interests in shares through a controlled corporation	2,813,999,878(L) (<i>note 2</i>)	Domestic shares	100(L)	61.04(L)
Commonwealth Bank of Australia	Interests of controlled corporations	213,580,000(L) (<i>note 3</i>)	H shares	12.06(L)	4.63(L)
Merrill Lynch & Co., Inc.	Interests of controlled corporations	123,022,103(L) (<i>note 4</i>)	H shares	6.95(L)	2.67(L)
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	123,808,000(L) (<i>note 5</i>)	H shares	6.99(L)	2.69(L)
Mondrian Investment Partners Ltd.	Investment manager	89,964,000(L)	H shares	5.08(L)	1.95(L)

Notes:

(L) denotes long position.

- (1) The non-executive Director, Mr. Wu Mengfei, is the chief financial officer of CNOOC. One of the supervisors of the Company, Mr. Yin Jihong, is also the chairman of the supervisory committee of CNOOC.
- (2) Out of the 2,813,999,878 Domestic shares, 2,738,999,512 shares are held as beneficial owner and 75,000,366 shares are held as having security interests in shares through a controlled corporation, CNOOC Finance Corporation Limited.

- (3) These shares are held by a series of controlled corporations of Commonwealth Bank of Australia. The controlled corporations that directly hold shares of the Company are First State Investments (Hong Kong) Ltd, First State Investment Management (UK) Limited, First State Investments International Ltd and First State Investments (Singapore).
- (4) These shares are held by a series of controlled corporations of Merrill Lynch & Co, Ltd. The controlled corporations that directly hold shares of the Company are Merrill Lynch International, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Blackrock Inc. (on behalf of discretionary clients).
- (5) These shares are held by Hang Seng Bank Trustee International Limited, which are also deemed to be interested by each of Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Mr. Cheah Cheng Hye and Ms. To Hau Yin.

Save as disclosed above and so far as the Directors are aware, as at the Latest Practicable Date, no other person had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 & 3 of Part XV of the SFO.

(ii) Substantial shareholders' interests in shares/underlying shares of other members of the Enlarged Group

As at the Latest Practicable Date, so far as the Directors, the supervisors or the chief executive of the Company are aware, each of the following persons, directly or indirectly, was interested in 10% or more of the nominal value of any class of share capital (including any option in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other members of the Enlarged Group:

Name of subsidiary	Name of shareholder	Percentage of shareholding
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	Kingboard Investment Limited*	40%
CNOOC Jincheng Coal Chemical Industry Co., Ltd. (中海石油晉城煤化工產業有限公司)	State-owned Assets Supervision and Administration Commission of Jincheng City*	25%
Hainan Basuo Port Limited (海南八所港務有限責任公司)	Hainan Development Holding Co., Ltd.* (海南省發展控股有限公司)	27.5%
Shanghai Qionghua Trading Co., Ltd. (上海瓊化經貿有限公司)	Shanghai Shenxin Property Co., Ltd.* (上海申信房地產有限公司)	49%
CNOOC Tianye Chemical Limited (中海石油天野化工股份有限公司)	Huhhot Jinchuang Investment Holdings Limited* (呼和浩特金創投資控股有限公司)	10%
Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司)	Baotou Huafa Plastic Products Factory* (包頭華髮塑料製品廠)	29.4%

Name of subsidiary	Name of shareholder	Percentage of shareholding
China Basuo Ocean Shipping Tally Co., Ltd. (八所中理外輪理貨有限公司)	China Ocean Shipping Tally Co.* (中國外輪理貨總公司)	16%

* For identification purpose only

Save as disclosed above and so far as the Directors, the supervisors or the chief executive of the Company are aware, as at the Latest Practicable Date, no other person was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SERVICE CONTRACTS OF THE DIRECTORS

Each of the Directors and the supervisors of the Company has entered into a service contract with the Company. No Director or supervisor of the Company had entered into any service contract with the Company, which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in other business which competes or is likely to compete with the business of the Group.

EXPERT STATEMENTS

This circular includes statement(s), opinion(s) or advice(s) made by the following experts:

Name	Qualification
Beijing Pan-China Assets Appraisal Co., Ltd.	Certified PRC public valuer approved and regulated by China Securities Regulatory Commission and Ministry of Finance
CIMB-GK Securities (HK) Limited	Licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
CITIC Securities Corporate Finance (HK) Limited	Licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants

Name	Qualification
Jones Lang LaSalle Sallmanns Limited	Professional property valuer
Jun He Law Offices	Practising lawyers in the PRC
Minarco-MineConsult Pty Ltd	Independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries
UBS AG	Licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

The above experts have given and have not withdrawn their written consent to the issue of this circular with their statements and references to their names included in the form and context in which they respectively included.

NO MATERIAL INTERESTS

As at the Latest Practicable Date, save and except that UBS AG, one of the joint financial advisers of the Company, interested in 20,639,815 shares of the Company, representing 1.17% of the total issued H shares of the Company, none of the Directors, the supervisors of the Company and the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the Directors, the supervisors of the Company and the above experts had any interest in any assets which have been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company was materially interested in any contract or arrangement subsisting at the date of this circular which was significant in relation to the business of the Enlarged Group.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published consolidated audited accounts of the Group had been made up.

MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any members of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened against any members of the Enlarged Group.

MATERIAL CONTRACTS

The particulars of all material contracts (not being contracts entered into in the ordinary course of business) entered into by any members of the Enlarged Group within the two years immediately preceding the issue of this circular are set out as follows:

- (i) the Acquisition Agreement;
- (ii) Co-operation agreement dated 15 May 2008 entered into among the Company, 湖北省宜昌地質勘探大隊 (Yichang Geological Exploration League of Hubei Province*) and 宜昌宏和礦業開發有限公司 (Yichang Honghe Mineral Development Company Limited*) in relation to the establishment of China BlueChem Yichang Mining Ltd, the total investment for which is RMB418,000,000 (with a registered capital of RMB50,000,000) which shall be contributed as 51%, 34% and 15% in cash by the Company, Yichang Geological Exploration League of Hubei Province* and Yichang Honghe Mineral Development Company Limited* respectively; and
- (iii) Jincheng agreement dated 18 September 2007 entered into between the Company and 晉城市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Committee of the municipal government of Jincheng City*) in relation to the establishment of CNOOC Jincheng Coal Chemical Industry Co., Ltd, the registered capital of which will be RMB1,600,000,000 which shall be contributed as to 75% by the Company and 25% by State-owned Assets Supervision and Administration Committee of the municipal government of Jincheng City*.

MISCELLANEOUS

- (i) The joint company secretaries of the Company are Mr. Quan Changsheng and Mr. Lee Tze Leung, Raymond. Mr. Quan is a Vice President and Chief Financial Officer of the Company. He is a PRC qualified accountant. Mr. Lee is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA) of the United Kingdom.
- (ii) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Lee Tze Leung, Raymond.

* For identification purpose only

- (iii) The registered office, head office and the principal place of business of the Company is No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC. The Hong Kong H Share Registrar and H Share transfer office of the Company is Computershare Hong Kong Investor Services Limited situated at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The English language text of this document shall prevail over the Chinese language text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's representative office in Hong Kong at 65/F., Bank of China Tower, No. 1 Garden Road, Central, Hong Kong for a period of 14 days (excluding Saturdays) from the date of the circular:

- (i) the memorandum and articles of association of the Company;
- (ii) each of the contracts set out under the paragraph headed "Material Contracts" in this Appendix;
- (iii) the letter from the Independent Board Committee dated 31 December 2008, the text of which is set out on pages 43 to 44 of this circular;
- (iv) the letter from the Independent Financial Adviser dated 31 December 2008, the text of which is set out on pages 45 to 65 of this circular;
- (v) the annual reports of the Group for the three financial years ended 31 December 2005, 2006 and 2007;
- (vi) the accountants' report of DYK Chemical as signed by Ernst & Young, the text of which is set out in Appendix II(A) to this circular;
- (vii) the accountants' report of ZHJ Mining as signed by Ernst & Young, the text of which is set out in Appendix II(B) to this circular;
- (viii) the letter form Ernst & Young regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;
- (ix) the property valuation report as signed by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix IV to this circular;
- (x) the Independent Technical Report as signed by Minarco-MineConsult, the text of which is set out in Appendix V to this circular;
- (xi) the assets appraisal reports as signed by Beijing Pan-China Assets Appraisal Co., Ltd., the text of which is set out in Appendices VI(A) and VI(B) to this circular;
- (xii) the legal opinion as signed by Jun He Law Offices;

- (xiii) letter from Ernst & Young and joint letter from CITIC Securities Corporate Finance (HK) Limited and UBS AG, the text of which is set out in Appendix VII to this circular;
- (xiv) the written consents from Beijing Pan-China Assets Appraisal Co., Ltd., CIMB, CITIC Securities Corporate Finance (HK) Limited, Ernst & Young, Jones Lang LaSalle Sallmanns Limited, Minarco-MineConsult, and UBS AG respectively referred to under the section headed “Expert Statements” in this Appendix;
- (xv) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts of the Company;
- (xvi) Properties Leasing Agreement dated 1 September 2006 between the Company and CNOOC and the supplemental agreement dated 5 November 2008 to extend the term of the Properties Leasing Agreement;
- (xvii) Land Use Rights Lease Agreement dated 22 September 2008 between CNOOC Investment and ZHJ Mining; and
- (xviii) Comprehensive Services and Product Sales Agreement dated 1 September 2006 between the Company and CNOOC and the supplemental agreement dated 5 November 2008 to extend the term of the Comprehensive Services and Product Sales Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



中海石油化学股份有限公司 China BlueChemical Ltd.*

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

(Stock Code: 3983)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of China BlueChemical Ltd. (the “**Company**”) will be held at Conference Room, 3rd Floor, CNOOC Office Building B, No. 98 Guanhai road, Longhua District, Haikou, Hainan Province, the People's Republic of China on Monday, 16 February 2009 at 10:00 a.m., for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 31 December 2008 relating to, among other things, the proposed acquisition of 83.17% equity interest in Hubei Dayukou Chemical Co., Ltd. (“**DYK Chemical**”) and 100% equity interest in ZHJ Mining Co., Ltd. (“**ZHJ Mining**”) and proposed continuing connected transactions (the “**Acquisition Circular**”):

ORDINARY RESOLUTIONS

(1) “**THAT:**

- (a) the entering into of the Acquisition Agreement between the Company as purchaser and CNOOC as vendor in relation to the proposed acquisition of 83.17% equity interest in DYK Chemical and 100% equity interest in ZHJ Mining at a cash consideration of RMB1,262,847,026 (equivalent to approximately HK\$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK\$1,224,266,168) constitutes the consideration for the acquisition of 83.17% equity interest in DYK Chemical and RMB181,820,000 (equivalent to approximately HK\$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining (the “**Acquisition**”) and the transactions contemplated thereunder, details of which are more particularly described in the Acquisition Circular, be and are hereby approved, ratified and confirmed. A copy of the Acquisition Agreement will be produced in the EGM and initialled by the chairman of the EGM for identification purpose;
- (b) to ensure the Acquisition to be carried out smoothly, in accordance with the relevant laws and regulations of the PRC and the constitutional documents of the Company, the Board be and is hereby authorised, or such authorisation granted to the Board can be further delegated by the Board to any one executive director of the Company, to do such things, matters and take such actions in respect of the Acquisition and the transactions contemplated therein, including but not limited to:
 - (i) to set down and implement the acquisition plan, including but not limited to: (1) confirming the basis for consideration, consideration and the timetable for the Acquisition, the payment of consideration and the Completion; and (2) confirming all material terms and relevant matters

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

in relation to the Acquisition in accordance with the relevant laws and regulations, rules in regulatory documents and the acquisition plan which is to be approved by the Independent Shareholders at the EGM;

- (ii) to amend, supplement, sign, deliver, report and implement all contracts, agreements and documents relating to the Acquisition;
- (iii) to represent the Company to communicate with, negotiate with and deliver all relevant applications, filings or other documents to the relevant responsible governmental departments and regulatory bodies (both domestic and outside the PRC) in respect of the Acquisition in order to obtain all the relevant approvals and registrations;
- (iv) to make necessary amendments, modifications and adjustments to the Acquisition Agreement, the Acquisition plan and all other related documents in accordance with (1) the comments given by the relevant governmental departments and regulatory bodies on the Acquisition plan and other documents in relation to the Acquisition; and (2) the new policies promulgated by the relevant governmental departments and regulatory bodies which may have effect on the Acquisition and the documents relating to the Acquisition; and
- (v) to do all such other things, matters and take all such actions in relation to the Acquisition and the transactions contemplated therein.

The aforesaid authorisation is valid for twelve (12) months from the date when the relevant resolution is approved by the Independent Shareholders at the EGM.”

- 2. “**THAT** the Proposed Caps for the continuing connected transactions under Category 2(a) for the three financial years commencing on 1 January 2009 and ending on 31 December 2011 as set out in the Acquisition Circular, be and are hereby approved, ratified and confirmed and the Board be and is hereby authorised to take such actions as are necessary to implement the Proposed Caps.”
- 3. “**THAT** the Proposed Caps for the continuing connected transactions under Category 2(b) for the three financial years commencing on 1 January 2009 and ending on 31 December 2011 as set out in the Acquisition Circular, be and are hereby approved, ratified and confirmed and the Board be and is hereby authorised to take such actions as are necessary to implement the Proposed Caps.”

By Order of the Board
China BlueChemical Ltd.*
Wu Mengfei
Chairman

Hong Kong, 31 December 2008

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (A) The Company's registers of members will be closed from Saturday, 17 January 2009 to Monday, 16 February 2009, both days inclusive, during which period no transfer of shares will be effected. Shareholders of the Company whose names appear on the registers of members of the Company before the close of business hours on Friday, 16 January 2009 are entitled to attend the EGM and to vote in the meeting.

In order to qualify to attend and vote in the meeting, holders of H shares of the Company whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H Share Registrar of the Company, Computershare Hong Kong Investor Services Limited at or before 4:00 p.m. on Friday, 16 January 2009.

The address of the H Share Registrar of the Company is:

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

- (B) Shareholders who intend to attend the meeting in person or by proxy should return the reply slip in person, by post or by fax to the Office of the Secretary to the Board of Directors of the Company (for holders of domestic shares or unlisted foreign shares) or Computershare Hong Kong Investor Services Limited (for holders of H Shares) at least 20 days before the EGM, being Monday, 26 January 2009. The Company's Office of the Secretary to the Board of Directors of the Company is No. 98 Guanhai Road, Longhua District, Haikou, Hainan Province, the People's Republic of China (Tel: 0086-898-6852-3256, Fax: 0086-898-6852-3259, Post code: 570105). The address of Computershare Hong Kong Investor Services Limited is 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (C) A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company. Where a shareholder has appointed more than one proxy to attend the meeting, such proxies may only vote on a poll.
- (D) The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its attorney or duly authorised attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorising that attorney to sign or other authorisation document must be notarized.
- (E) To be valid, the proxy form together with the power of attorney or other authorisation document (if any) must be deposited at the Office of the Secretary to the Board of Directors of the Company (Address: No. 98 Guanhai Road, Longhua District, Haikou, Hainan Province, the People's Republic of China) (in respect of holders of domestic shares or unlisted foreign shares) not later than 24 hours before the time fixed for holding the meeting. In order to be valid, the said documents together must be lodged with the Company's H Share Registrar within the abovementioned period by holders of H shares. Completion and return of the proxy form will not preclude a shareholder from attending and voting in person at the meeting if she/he so wishes. The H Share Registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (F) Shareholders or their proxies must present proof of their identities upon attending the EGM. Should a proxy be appointed, the proxy must also present copies of his/her Proxy Form, or copies of appointing instrument and power of attorney, if applicable.
- (G) The EGM is expected to last not more than one day. Shareholders or proxies attending the EGM are responsible for their own transportation and accommodation expenses.

As at the date of this notice, the executive directors of the Company are Mr. Yang Yexin, Mr. Fang Yong and Mr. Chen Kai, the non-executive director is Mr. Wu Mengfei, and the independent non-executive directors are Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Wang Wenshan.