



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: 03983)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

1. Revenue increased by **25.24%** to **RMB4,340.4 million**
2. Gross profit increased by **37.39%** to **RMB1,788.3 million**
3. Net profit attributable to equity holders of the parent increased by **35.58%** from **RMB1,068.2 million** in 2006 (excluding the one-off gain of excess over the cost of a business combination relating to the acquisition of Tianye Chemical in 2006 of approximately **RMB577.62 million**) to **RMB1,448.3 million**
4. Basic earnings per share was **RMB0.31**
5. Proposed final dividend of **RMB0.08** per share

(I) AUDITED FINANCIAL STATEMENTS

Consolidated Income Statement

Year ended 31 December 2007

	<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		—	577,619
Selling and distribution costs		(70,185)	(33,870)
Administrative expenses		(223,840)	(199,582)
Other expenses		(51,218)	(34,520)
Finance revenue		29,245	119,817
Finance costs	6	(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	7	1,546,480	1,795,324
Income tax expense	8	<u>(67,116)</u>	<u>(120,102)</u>
PROFIT FOR THE YEAR		<u>1,479,364</u>	<u>1,675,222</u>
Attributable to:			
Equity holders of the parent		1,448,334	1,645,819
Minority interests		<u>31,030</u>	<u>29,403</u>
		<u>1,479,364</u>	<u>1,675,222</u>
DIVIDENDS	9	<u>368,800</u>	<u>635,830</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic for the year (RMB)	10	<u>0.31</u>	<u>0.48</u>

Consolidated Balance Sheet
31 December 2007

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

	<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital		4,610,000	4,610,000
Reserves		3,107,310	2,029,717
Proposed dividend		368,800	69,150
		8,086,110	6,708,867
Minority interests		396,430	340,045
TOTAL EQUITY		8,482,540	7,048,912
NON-CURRENT LIABILITIES			
Benefits liability		72,426	79,958
Interest-bearing bank and other borrowings		180,041	384,793
Other long-term liabilities		50,840	38,057
Deferred tax liabilities		49,076	61,017
		352,383	563,825
CURRENT LIABILITIES			
Trade payables	12	26,985	94,686
Other payables and accruals		683,369	849,963
Derivative financial instruments		6,136	25,641
Interest-bearing bank and other borrowings		101,015	476,579
Income tax payable		45,097	51,276
		862,602	1,498,145
TOTAL LIABILITIES		1,214,985	2,061,970
TOTAL EQUITY AND LIABILITIES		9,697,525	9,110,882

(II) NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 (中海石油化学有限公司). The Company's name was changed to China BlueChemical Ltd. (中海石油化学股份有限公司) 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.

2. 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 inter-company transactions and balances, including any unrealised profits arising from inter-company 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.

3. IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 new 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.

(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.

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.

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	4,975	1,492	713	—	7,180
	<u>3,040,430</u>	<u>1,147,065</u>	<u>394,940</u>	<u>(234,828)</u>	<u>4,347,607</u>
Total	3,040,430	1,147,065	394,940	(234,828)	4,347,607
Segment results	868,688	680,358	36,089	—	1,585,135
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					4,041
Profit before tax					1,546,480
Income tax expense					(67,116)
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					2,679,640
Total assets					<u>9,697,525</u>
Segment liabilities	(525,477)	(239,786)	(357,718)	361,337	(761,644)
Corporate and other unallocated liabilities					(453,341)
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	105,179	40,874	101,044	—	247,097

	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	3,088,384	308,700	252,301	(83,897)	3,565,488
Segment results	1,082,254	123,775	21,944	—	1,227,973
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					577,619
Profit before tax					1,795,324
Income tax expense					(120,102)
Profit for the year					1,675,222
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					1,220,629
Total assets					9,110,882
Segment liabilities	(592,448)	(196,869)	(374,654)	21,737	(1,142,234)
Corporate and other unallocated liabilities					(919,736)
Total liabilities					(2,061,970)
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	124,454	301,983	163,241	—	589,678

Geographical segments

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Sales to external customers:		
— PRC	4,113,695	3,393,877
— Others	<u>226,732</u>	<u>71,904</u>
	<u><u>4,340,427</u></u>	<u><u>3,465,781</u></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 <i>RMB'000</i>	2006 <i>RMB'000</i>
Revenue		
Sale of goods	4,189,294	3,303,539
Rendering of services	<u>151,133</u>	<u>162,242</u>
	<u><u>4,340,427</u></u>	<u><u>3,465,781</u></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	<u>3,918</u>	<u>3,796</u>
	<u><u>74,029</u></u>	<u><u>125,645</u></u>

6. FINANCE COSTS

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
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	<u>—</u>	<u>(14,727)</u>
	<u><u>18,291</u></u>	<u><u>61,738</u></u>

7. 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:		
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.

Note:

(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

CNOOC Tianye Chemical Limited (formerly known as Inner Mongolia Tianye Chemical Industry Limited) (“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.

(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.

8. INCOME TAX EXPENSE

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

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

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	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>1,546,480</u>	<u>1,795,324</u>
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	<u>1,551</u>	<u>1,582</u>
Income tax expense reported in the consolidated income statement	<u>67,116</u>	<u>120,102</u>
The Group’s effective income tax rate	<u>4.3%</u>	<u>6.7%</u>

9. DIVIDENDS

	<i>Notes</i>	2007 RMB'000	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>368,800</u>	<u>635,830</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.

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
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 <i>'000</i>	<i>'000</i>
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.

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.

11. 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 is as follows:

	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	160	6,179
	<u>21,426</u>	<u>133,557</u>

12. 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 is as follows:

	2007 <i>RMB'000</i>	2006 <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	225	786
	<hr/> 26,985 <hr/>	<hr/> 94,686 <hr/>

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.

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

Urea

In 2007, the Company, via strengthened production management, established safe, stable, continuous, optimal and effective operations for the urea production facilities.

During the year, Fudao Phase I has achieved continuous production for 114 days, while Fudao Phase II has achieved a long cycle of continuous production for 179 days. Tianye Chemical urea plant has also maintained a high level of operational efficiency.

Production results of the various urea plants in 2007 are set out below:

Urea plant	2007		2006	
	Production volume (tonnes)	Utilisation rate (%)	Production volume (tonnes)	Utilisation rate (%)
Fudao Phase I	604,682	116.3	606,179	116.6
Fudao Phase II	689,484	86.2	775,146	96.9
Tianye Chemical (<i>note 1</i>)	550,822	105.9	546,133	105.0
Group total	<u>1,844,988</u>	<u>100.3</u>	<u>1,927,458</u>	<u>104.8</u>

Note 1: Production volume of Tianye Chemical in 2006 has been incorporated into the consolidated financial statements of the Group since 19 January 2006.

Methanol

In 2007, under the unified production organization, co-ordination and management of the Company, CNOOC Jiantao's methanol plant achieved a continuous operation cycle of 157 days during the year. The quality of products has so far maintained a leading international standard.

In view of a number of down times experienced by the Tianye Chemical's methanol plant in 2006, Tianye Chemical has enhanced and refined the operations and facilities management, resulting in stable running of the facilities in 2007 and a continuous operations cycle of 88 days.

Production of the various methanol plants in 2007 are set out below:

Methanol plant	2007		2006	
	Production volume (tonnes)	Utilisation rate (%)	Production volume (tonnes)	Utilisation rate (%)
CNOOC Jiantao (<i>note 2</i>)	316,489	87.9	54,167	90.3
Tianye Chemical (<i>note 3</i>)	187,341	93.7	89,695	49.8
Group total	<u>503,830</u>	<u>90.0</u>	<u>143,862</u>	<u>60.0</u>

Note 2: CNOOC Jiantao's results are consolidated in the Group's results based on a 60% shareholding basis; the plant commenced operations on 1 December 2006 and the production volume has been accounted for commencing therefrom. In 2007, the total production volume of methanol was 527,482 tonnes.

Note 3: Methanol plant of Tianye Chemical commenced operations on 1 April 2006. The production volume has been accounted for commencing that date.

Sales

To respond to the cyclical fluctuations of the urea market, the Company pro-actively undertook exploration and trials in the area of sales operations via, in-depth and detailed market surveys, adjustment of product sales strategy and consolidation of existing sales and marketing channels.

In view of the price fluctuations of methanol in both the domestic and overseas markets, the Company conducted detailed and in-depth market surveys and researches, and continued to develop and strengthen the sales network. Despite policy changes in respect of reduction of export tax refunds for methanol from 13% to 5% as decreed by the Ministry of Finance effective 1 July 2007, the Company has pro-actively adjusted the sales strategy and communicated with the customers, mitigating the impact on the Company brought about by such policy changes.

The following table sets out the Group's urea sales volumes by geographical locations of customers during the past two financial years:

Sales Region	Year Ended 31 December			
	2007		2006	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
North-eastern China	92,620	5.0	43,688	2.2
Northern China	445,971	24.0	553,969	28.5
Eastern China	239,645	12.9	272,716	14.0
South-eastern China	39,532	2.1	125,492	6.4
Southern China	387,494	20.9	478,483	24.6
Hainan	187,343	10.1	182,201	9.4
International	464,076	25.0	290,712	14.9
Total	<u>1,856,681</u>	<u>100.0</u>	<u>1,947,261</u>	<u>100.0</u>

The following table sets out the Group's methanol sales volumes by geographical locations of customers during the past two financial years:

Sales Region	Year Ended 31 December			
	2007		2006	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
North-eastern China	7,596	1.5	5,839	3.9
Northern China	136,950	26.9	58,925	39.1
Eastern China	112,979	22.2	32,422	21.5
South-eastern China	7,379	1.4	—	—
Southern China	116,554	22.9	16,601	11.0
Hainan	36,207	7.1	1,524	1.0
International	91,667	18.0	35,322	23.5
Total	<u>509,332</u>	<u>100.0</u>	<u>150,633</u>	<u>100.0</u>

Sea-land logistics services

In 2007, the throughput completed by Hainan Basuo was 5.47 million tonnes.

Compound fertilizers

In 2007, a total of 31,400 tonnes of BB fertilizers were produced with a sales volume of 28,500 tonnes.

Woven plastic bags

In 2007, the Group produced 28.21 million woven plastic bags with a sales volume of 27.68 million bags.

2. Financial Review

Revenue

In 2007, the Group recorded RMB4,340.4 million of revenue, an increase of RMB874.6 million from RMB3,465.8 million in 2006, representing an increase of 25.24%.

In 2007, the Group's revenue from urea was RMB2,975.7 million, which remained at the same level as that of 2006 of RMB2,975.7 million. In 2007, sales volume of urea decreased by 90,580 tonnes relative to 2006, but selling prices of urea increased by RMB75/tonne over 2006. The decrease in sales volume of urea was primarily due to the temporary suspension of natural gas supply to the urea plant of Fudao Phase II on 6 November 2007, which resumed its production on 29 December 2007. This has resulted in reduction of urea production volume by approximately 135,000 tonnes to the Group in 2007.

In 2007, methanol became the new growth driver for the Group. The urea plant of CNOOC Jiantao remained in steady production until early November 2007. On 6 November 2007, due to suspension in the supply of natural gas, CNOOC Jiantao's methanol plant ceased production, which was resumed on 30 December 2007. This resulted in decrease in production of methanol by approximately 55,600 tonnes for the Group. On the other hand, the methanol plant of Tianye Chemical has maintained steady production throughout the year. In 2007, total sales volume of methanol has increased by 358,699 tonnes over 2006 with an increase in revenue of RMB836.9 million.

In 2007, revenue from the Group's other segments (mainly comprising port operations, provision of transportation services and the manufacture and sales of fertilizers and woven plastic bags) increased by RMB37.7 million. The increase was mainly due to the increase in sales of compound fertilizers amounting to RMB46.3 million. The increase was partially offset by the decrease in port operations income.

Cost of sales

In 2007, the Group's cost of sales was RMB2,552.1 million, an increase of RMB387.9 million from RMB2,164.2 million in 2006, representing an increase of 17.92%.

Increase in the Group's cost of sales in 2007 was primarily attributed to the growth in sales of methanol amounting to 358,699 tonnes over year 2006, which resulted in an increase of RMB324.6 million in total cost of sales.

In 2007, cost of sales of urea increased by RMB17.1 million. However, considering the effect arising from the merger of Tianye Chemical's results commencing 19 January 2006 (from 1 January 2006 to 18 January 2006. Tianye Chemical's cost of sales of urea totalled RMB49.3 million), the Group's 2007 actual cost of sales decreased by RMB32.2 million. The primary reason for decrease in the cost of sales of urea was the suspension of operation in the urea plant of Fudao Phase II resulting from interruption of natural gas transmission and supply, which gave rise to a reduction of sales volume of urea in amount of 135,000 tonnes.

In 2007, the Group's other costs of sales (mainly comprising the costs of port operations, provision of transportation services and the manufacture and sales of compound fertilizers and woven plastic bags) increased by RMB46.2 million over last year. The main reason for the increase was the increased cost of sales of compound fertilizers.

Gross profit

In 2007, the Group's gross profit was RMB1,788.3 million, an increase of RMB486.7 million from RMB1,301.6 million of last year, representing an increase of 37.39%.

The increase in gross profit in 2007 was mainly due to: (1) increase in sales volume of methanol of 358,699 tonnes which resulted in an additional RMB512.3 million of gross profit; (2) gross profit for urea decreased by RMB17.1 million; (3) gross profit for other sales segments reduced by RMB8.5 million.

Other income and gains

In 2007, the Group's other income and gains were RMB74.0 million, a decrease of RMB51.6 million, as compared to RMB125.6 million in 2006.

The Group entered into a cross-currency interest rate swap contract (the "swap") with the Bank of China, Hainan Branch in order to mitigate part of the risks arising from foreign exchange fluctuations between US Dollars and Japanese Yen. The swap will expire on 20 June 2008. In 2007, a fair value gain of RMB19.5 million was recorded, representing, a decrease of RMB5.5 million as compared to RMB25.0 million in 2006.

In 2006, the Group received value-added tax ("VAT") refunds of RMB89.3 million from the government in respect to the VAT paid during the period from 2004 to the first half of 2005 while there were no relevant VAT refunds received for 2007. In 2007, the Group received gains on disposals of available-for-sale investments amounting to RMB47.3 million.

Excess over the cost of a business combination

In 2007, there was no excess over the cost of a business combination.

Selling and distribution costs

In 2007, the Group's selling and distribution costs amounted to RMB70.2 million, an increase of RMB36.3 million, representing an increase of 107.08%, as compared to RMB33.9 million in 2006. The increase was mainly due to increase in sales of methanol.

Administrative expenses

In 2007, the Group's administrative expenses amounted to RMB223.8 million, an increase of RMB24.2 million, or 12.12%, over that of 2006 of RMB199.6 million. The increase was primarily attributed to: (1) increase in administrative expenses of CNOOC Jiantao by RMB13.9 million; (2) increase in relevant tax expenses of Tianye Chemical by RMB10.3 million due to increase in the land-use tax rates; (3) increase in consultancy expenses, intangibles amortisation expenses, leasing expenses and travelling and lodging expenses amounting to RMB10.3; and (4) the write-back of prior years staff welfare payable in the amount of RMB17.0 million against administrative expenses pursuant to the implementation of the new PRC Accounting Standards in 2007.

Other expenses

In 2007, the Group's other expenses amounted to RMB51.2 million, an increase of RMB16.7 million, or 48.41%, over that of 2006 of RMB34.5 million, which was mainly attributed to: (1) Tianye Chemical's write-back of an asset impairment provision amounting to RMB7.6 million in 2006, while there was no such write-back in 2007; and (2) disposal of the fixed assets in Hainan Basuo of RMB10.1 million.

Finance revenue and finance costs

In 2007, the Group's finance revenue was RMB29.2 million, a decrease of RMB90.6 million, or 75.63%, relative to RMB119.8 million in 2006. The decrease was primarily attributed to the interest income of RMB88.9 million derived from the subscription monies of the Company's listing of H Shares in 2006. There was no such revenue in 2007.

In 2007, the Group's finance costs amounted to RMB18.3 million, representing a decrease of RMB43.4 million, or 70.34%, relative to RMB61.7 million in 2006, which was primarily attributed to the interest savings derived from the early repayment of loans in the amount of RMB520.1 million in early 2007.

Exchange gain/(loss), net

In 2007, the Group received exchange gain of RMB14.4 million, which was primarily attributed to an increase in exchange gain of RMB10.7 million derived from the US dollar debts of CNOOC Jiantao. In 2006, net exchange loss of RMB1.5 million was recorded. The loss was primarily due to the exchange loss arising from the purchase of Japanese Yen to repay part of the Japanese Yen loan.

Income tax expenses

In 2007, the Group recorded income tax expenses amounting to RMB67.1 million, a decrease of RMB53.0 million, or 44.13%, relative to that of 2006 of RMB120.1 million in 2006, which was primarily due to: (1) according to the new PRC income tax law, there are changes in the statutory income tax rate and scope of deductible expenditures from 2008, which resulted in the movement of deferred tax, which resulted in a decrease of income tax expense amounting to RMB31.4 million; (2) impact of the seafloor pipelines incident of interruption of natural gas supply to the urea plant of Fudao Phase II which led to a decrease of income tax expenses for the current year of RMB6.4 million; and (3) taxes on interest income arising from subscription monies deposited by public investors of RMB6.7 million in 2006.

Net profit for the year

In 2007, the Group's net profit was RMB1,479.4 million, representing an increase of RMB464.0 million, or 45.70%, over RMB1,015.4 million in 2006 (excluding the excess over the cost of a business combination relating to the acquisition of Tianye Chemical in January 2006 of RMB577.6 million and the interest income after tax of RMB82.2 million from the subscription monies of the listing of H Shares). The increase is mainly due to the increase in sales and production volume of methanol in CNOOC Jiantao and Tianye Chemical methanol projects.

Dividends

The board of directors of the Company recommended the payment of a final dividend of RMB0.08 per share for 2007, aggregating to RMB368.8 million, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

In view of the issue of H Shares by the Company in September and October 2006, the total number of shares of the Company increased from 3.0 billion shares before issuance of H shares to 4.61 billion shares after the issuance of H shares. The significant increase in the number of shares has a large effect on the earnings per share of the Company.

Capital expenditure

In 2007, the Group's capital expenditure in respect of property, plant and equipment and prepaid land rentals was RMB247.1 million, which was mainly: (1) capital expenditure in respect of the liquid chemical berth project of Port of Hainan Basuo of RMB99.0 million; (2) capital expenditure in respect of Fudao Phase I, Fudao Phase II and Tianye Chemical of RMB90.7 million; and (3) other capital expenditure of RMB57.4 million.

The polyoxymethylene project in Inner-mongolia, which was originally scheduled to commence construction in 2007, has received the environmental assessment approval in December 2007 and is now in the stage of preliminary design and equipment procurement. The Hainan methanol project which scheduled the construction in 2007 is now in the approval stage.

Market risk

The major market risk the Group is exposed to include the risk of interest rate, fluctuations in exchange rate and of changes in selling prices of the Group's key products and changes in prices of raw materials of major products, and fluctuations in interest rates and exchange rates.

Commodity price risk

The Group is also exposed to commodity price risk as a result of changes in the selling prices and the costs of raw materials (primarily natural gas).

Interest rate risk

In 2007, the PRC Government has increased the bank lending rate for six times, in which the bank lending rate for 6 to 12 months (inclusive) has cumulatively increased 1.35%. This will increase the finance cost of the Company in the future.

Foreign exchange risk

The Group's sales revenues are denominated in Renminbi and US dollars. In 2007, Renminbi appreciated by 6.46% against the US dollars. Appreciation of Renminbi against US dollars may have a double effect. The Group's revenue from products may decline as a result of the depreciation of US dollars against Renminbi, and cost of import for the purchase of equipments and raw materials will also be reduced. In addition, appreciation of Renminbi may reduce the Group's burden of indebtedness denominated in foreign currencies.

As at 31 December 2007, the balance of the Group's indebtedness in Japanese Yen amounted to JPY1,112.7 million against which the Group has entered into a swap contract to avoid the exchange rate risk of Japanese Yen.

Inflation and currency risk

According to the statistics of the National Bureau of Statistics of China, the consumer price index of the PRC has increased by 4.8% in 2007. Such inflation in the PRC had no material impact on the operating results of the Group.

Post balance sheet events and contingent liabilities

On 25 February 2008, the proposed H share appreciation rights scheme for the Company's management was approved by the shareholders at the extraordinary general meeting and the scheme took effect thereafter.

As at 31 December 2007, the Group had no material contingent liabilities.

Material litigation and arbitration

As at 31 December 2007, the Group had no material litigation or arbitration.

3. Outlook for 2008

Urea industry

In 2008, the PRC Government continues to augment its support towards the agriculture industry through provision of more substantial financial assistance relative to last year. The government budget for the agriculture industry reaches RMB562.5 billion, representing an increase of RMB130.7 billion over last year. At the same time, the PRC Government also reinforces and enhances the agriculture support policy, insisting on the most stringent preservation policy on arable land and to increase the minimum prices for agricultural produce.

In 2008, the mineral fertilizers enterprises continue to enjoy government-sanctioned concessionary schemes, such as VAT exemptions for urea producers, rate freeze for natural gas consumption for urea production purposes and concessionary rates offered in the areas of electricity supply and transportation. On the other hand, to safeguard the interests of farmers, urea ex-factory prices are still subject to the price cap policy. Aside from these, to ensure adequate domestic supply, the PRC Government has made adjustments to the urea export tariff rates; the proposed tariff rates being 30% for the first quarter, 35% for the second and third quarters and 25% for the fourth quarter.

After years of development of the urea production capacity, the domestic urea market has reached a state where supply exceeds demand. However, in view of both domestic and international factors, the 2008 domestic urea prices are foreseen to remain at a high level and the average annual price for 2008 will potentially be considerably higher than that of 2007. Domestically speaking, in view of coal being used as raw material by 70% of domestic urea producers and the significant price inflation on coal, the domestic production costs will increase. As regards international urea prices, they will stay at a high level given supply shortage foreseen arising from high international oil and natural gas prices and increased demand for international urea driven by the international biofuel industry boosting the demand for agricultural produce and thereby demand for international urea. Both domestic and international factors is expected to drive up the 2008 urea price relative to that of 2007.

Methanol industry

It is estimated that the growth trend of the domestic production capacity of methanol in 2008 will be steady though moderate relative to the vigorous growth experienced in 2007. Considering such factors as high international oil and natural gas prices, insufficient natural gas supply, as well as the rapid rise in demand for dimethyl, and effects of gradual growth in consumption of ether fuel and surges in production costs thereof, it is expected that international methanol prices will remain at a high level.

In 2008, the Company will continue to develop the mineral fertilizer industry, contribute to the PRC agriculture industry, and endeavour to reap optimal returns for the shareholders. The Company will focus on the below tasks:

1. Enhance the production and operations management of the five existing plants, accomplish the annual production plan and achieve the set targets on the HSE control objectives;
2. Implement the polyoxymethylene project in accordance with schedule, aiming to have all prescribed approvals of the methanoal project obtained in the first half of the year and to commence facilities construction in the second half of the year;
3. Continue advancing the preparation work in relation to the Jincheng urea project;
4. Effect the acquisition of Hubei Daiyukou phosphate/compound fertilizers business and assets, and continue to advance other merger and acquisition opportunities; and
5. Further improve the Company's operational and managerial competency, and stringently control cost of sales and administrative expenses in order to achieve better operational efficiency and results.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed the accounting principles and standards adopted by the Group, and discussed the internal control and reporting matters. The results for the year ended 31 December 2007 have been audited by Ernst and Young. The Audit Committee has reviewed the financial statements for the year ended 31 December 2007.

Compliance with the Code on Corporate Governance Practices

The Board considers, upon examination, that the Board is not aware of any information that will reasonably show that for the year ended 31 December 2007, the Company has had any departures from the provisions of the Code of Corporate Governance Practices (the "Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year ended 31 December 2007, the Company has strictly complied with the provisions of the Code.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuer

The Board confirms, having made specific enquiries with all Directors and supervisors, that during the year ended 31 December 2007, all members of the Board and all supervisors have complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuer.

Closure of register of members

The register of members will be closed from 14 May 2008 to 13 June 2008 (both days inclusive), during which no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at 1712–1716, 17th Floor, Hopewell Centre, 183 Queensway Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 13 May 2008.

Purchase, Sales or Redemption of the Company's Securities

During 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the securities of the Company.

Disclosure on the Website of the Stock Exchange

Paragraphs 45 to 45(A) of Appendix 16 of the Listing Rules provide that all data shall be published on the website of the Stock Exchange (<http://www.hkex.hk>) and on the website of the Company (<http://www.chinabluechem.com.cn>) in due course.

By order of the Board
China BlueChemical Ltd.
WU Mengfei
Chairman

Haikou, Hainan, PRC, 30 March 2008

As at the date of this announcement, the executive directors of China BlueChemical Ltd. are Mr. YANG Yexin, Mr. FANG Yong and Mr. CHEN Kai; non-executive director is Mr. WU Mengfei; independent non-executive directors are Mr. WANG Wenshan, Mr. ZHANG Xinzhi, Mr. WU Xiaohua and Mr. TSUI Yiu Wa, Alec.

* *for identification only*