



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

(Stock code: 3983)

**INTERIM RESULTS ANNOUNCEMENT FOR
THE SIX MONTHS ENDED 30 JUNE 2008**

FINANCIAL HIGHLIGHTS

1. Revenue increased 22.5% to RMB2,832.7 million
2. Gross profit increased 31.8% to RMB1,313.1 million
3. Net profit attributable to equity holders of the parent increased 16.9% to RMB966.2 million
4. Basic earnings per share was RMB20.96 fen

(I) UNAUDITED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

The six months ended 30 June 2008

(All amounts expressed in thousands of Renminbi, except for per share data)

	Notes	Six months ended 30 June	
		2008 (Unaudited)	2007 (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		1,210,326	895,393
Income tax expense	5	<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)	6	<u>20.96</u>	<u>17.93</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

(All amounts expressed in thousands of Renminbi)

	<i>Note</i>	30 June 2008 (Unaudited)	31 December 2007 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		5,862,677	5,508,827
Prepaid land lease payments		400,146	404,821
Intangible assets		10,481	12,494
Investments in associates		14,440	11,937
Available-for-sale investments		600	600
Deferred tax assets		49,254	47,299
		<u>6,337,598</u>	<u>5,985,978</u>
CURRENT ASSETS			
Inventories		400,684	401,299
Trade receivables		114,922	21,426
Bills receivable		21,350	44,960
Prepayments, deposits and other receivables		131,276	153,213
Available-for-sale investments		3,045,003	304,113
Pledged bank deposits		5,657	5,774
Cash and cash equivalents		957,985	2,780,762
		<u>4,676,877</u>	<u>3,711,547</u>
TOTAL ASSETS		<u>11,014,475</u>	<u>9,697,525</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital		4,610,000	4,610,000
Reserves		4,090,626	3,107,310
Proposed dividend	7	—	368,800
		<u>8,700,626</u>	<u>8,086,110</u>
Minority interests		<u>889,713</u>	<u>396,430</u>
Total Equity		<u>9,590,339</u>	<u>8,482,540</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)*As at 30 June 2008**(All amounts expressed in thousands of Renminbi)*

	<i>Note</i>	30 June 2008 (Unaudited)	31 December 2007 (Audited)
NON-CURRENT LIABILITIES			
Benefits liability		70,513	72,426
Interest-bearing bank and other borrowings		247,118	180,041
Other long-term liabilities		48,948	50,840
Deferred tax liabilities		48,298	49,076
		<u>414,877</u>	<u>352,383</u>
CURRENT LIABILITIES			
Trade payables		97,069	26,985
Other payables and accruals		776,005	683,369
Derivative financial instruments		—	6,136
Interest-bearing bank and other borrowings		71,663	101,015
Income tax payable		64,522	45,097
		<u>1,009,259</u>	<u>862,602</u>
TOTAL LIABILITIES		<u>1,424,136</u>	<u>1,214,985</u>
TOTAL EQUITY AND LIABILITIES		<u>11,014,475</u>	<u>9,697,525</u>

(II) NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

(All amounts expressed in Renminbi unless otherwise stated)

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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 HK\$1.90 per share to the public and its 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 of the Company are as follows:

Name	Place and date of establishment	Registered capital RMB'000	Percentage of ownership interest attributable to the Company		Principal activities
<u>Subsidiaries:</u>					
CNOOC Fudao Limited	PRC 31 December 2001	463,000	Direct	100.00	Manufacture and sale of fertiliser
			Indirect	—	
CNOOC Kingboard Chemical Limited	PRC 31 October 2003	500,000	Direct	60.00	Manufacture and sale of methanol
			Indirect	—	
Hainan CNOOC Plastic Company Limited	PRC 28 April 2002	12,716	Direct	100.00	Manufacture and sale of woven plastic bags
			Indirect	—	
Hainan CNOOC Transportation Co., Ltd.	PRC 22 October 2001	6,250	Direct	—	Provision of transportation services
			Indirect	66.70	
CNOOC (Hainan) E&P Gas Limited	PRC 8 November 2004	6,900	Direct	100.00	Manufacture and sale of liquid carbon dioxide
			Indirect	—	

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Name	Place and date of establishment	Registered capital RMB'000	Percentage of ownership interest attributable to the Company		Principal activities
<u>Subsidiaries: (continued)</u>					
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
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 Oversea Shipping Tally Co., Ltd	PRC 9 May 2008	300	Direct Indirect	— 60.90	Tally and cargo management services
<u>Associates:</u>					
Guangxi Fudao Agricultural Means of Production Limited	PRC 11 January 2003	11,800	Direct Indirect	— 30.00	Sale 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 period ended 30 June 2008 have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting”.

The interim condensed 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 for the year ended 31 December 2007.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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 Interpretations mandatory for annual periods beginning on or after 1 January 2008, as follows:

IFRIC-Int 11 IFRS 2 — Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity 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-Int 14 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.

3. SEGMENT INFORMATION (CONTINUED)

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.

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

(Unaudited)	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>
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><u>1,824,723</u></u>	<u><u>917,879</u></u>	<u><u>157,462</u></u>	<u><u>(64,221)</u></u>	<u><u>2,835,843</u></u>
Segment results	<u><u>676,187</u></u>	<u><u>517,381</u></u>	<u><u>14,534</u></u>	<u><u>—</u></u>	1,208,102
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>
Net profit for the period					<u><u>1,094,759</u></u>

3. SEGMENT INFORMATION (CONTINUED)

(Unaudited)	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>
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>	903,415
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>
Net 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>	<i>RMB'000</i>
	(Unaudited)	(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 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. 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 Corporate Income Tax ("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 period ended 30 June 2008.

5. INCOME TAX EXPENSE (CONTINUED)

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	<u>(2,733)</u>	<u>(12,274)</u>
Total tax charge for the period	<u>115,567</u>	<u>43,250</u>

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

The calculation of basic earnings per share amount 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 amounts for the six months ended 30 June 2008 and 2007 have not been calculated because no diluting events existed during those periods.

7. 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 the 2007 final 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).

8. 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 management preliminary estimated that there is no significant differences between the provisional amounts of the fair value for the identifiable assets and liabilities of CNOOC Kingboard as at the date of acquisition and the carrying amounts in the book.

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

During the reporting period, the Group continued to strengthen the production and operation management of its five existing urea and methanol facilities, and in particular, achieved continuous operation of the Fudao Phase II urea facility and the CNOOC Kingboard methanol facility. Due to a strong domestic and international demand for both urea and methanol, and high selling prices during the first half of the year, the Company achieved outstanding economic benefits through its urea and methanol products which are known for their excellent quality and reputation whereby demand was constantly outstripping supply.

Urea	Six months ended 30 June					
	2008			2007		
	Production volume (tonnes)	Sales volume (tonnes)	Utilisation Rate (%)	Production volume (tonnes)	Sales volume (tonnes)	Utilisation Rate (%)
Fudao Phase I	267,517	265,068	102.9	287,064	288,960	110.4
Fudao Phase II	443,308	438,464	110.8	387,109	395,385	96.8
CNOOC Tianye	<u>280,244</u>	<u>279,991</u>	<u>107.8</u>	<u>294,436</u>	<u>288,540</u>	<u>113.2</u>
Group total	<u>991,069</u>	<u>983,523</u>	<u>107.7</u>	<u>968,609</u>	<u>972,885</u>	<u>105.3</u>

Methanol	Six months ended 30 June					
	2008			2007		
	Production volume (tonnes)	Sales volume (tonnes)	Utilisation Rate (%)	Production volume (tonnes)	Sales volume (tonnes)	Utilisation Rate (%)
CNOOC Kingboard (note)	228,285	223,563	103.8	186,329	191,813	103.5
CNOOC Tianye	<u>89,065</u>	<u>89,621</u>	<u>89.1</u>	<u>93,767</u>	<u>92,705</u>	<u>93.8</u>
Group total	<u>317,350</u>	<u>313,184</u>	<u>99.2</u>	<u>280,096</u>	<u>284,518</u>	<u>100.0</u>

Note: CNOOC Kingboard's data for 2007 were based on consolidation of 60% interest, total output and sales of methanol were 310,549 tonnes and 319,688 tonnes respectively in the first half of 2007; data for January to April 2008 were based on consolidation of 60% interest; for May to June were based on consolidation of 100% interest, total output and sales of methanol were 312,776 tonnes and 304,557 tonnes respectively in the first half of 2008 for CNOOC Kingboard.

2. Financial Review

Revenue and gross profit

The Group recorded revenue of RMB2,832.7 million for the first half of 2008, an increase of RMB520.7 million or 22.5% from RMB2,312.0 million for the corresponding period of 2007. Gross profit in the first half of 2008 amounted to RMB1,313.1 million, an increase of RMB317.2 million or 31.8%, from RMB995.9 million for the corresponding period of 2007.

In the first half of 2008, the Group's sales revenue from urea and compound fertiliser was RMB1,821.5 million, representing an increase of RMB206.4 million from RMB1,615.1 million for the corresponding period of 2007, primarily due to an increase in the average selling price and a period-on-period increase in sales volume of 10,638 tonnes.

In the first half of 2008, the Group's sales revenue from methanol was RMB905.1 million, an increase of RMB300.2 million from RMB604.9 million for the corresponding period of 2007, primarily due to an increase in the selling price of methanol.

Revenue from other businesses increased by RMB14.1 million for the reporting period.

The increase in gross profit of the Group for the first half of the year was mainly due to the increase in selling price of urea and methanol. Despite good control of urea and methanol production costs, the rising cost of natural gas used by the CNOOC Tianye methanol facility and the overhaul cost of Fudao Phase I during the first half of the year had substantially offset the increase in gross profit.

Other income and gains

Other income and gains for the first half of 2008 were RMB35.2 million, which is roughly the same as that of the corresponding period last year of RMB37.7 million.

Selling and distribution costs

The Group's selling and distribution costs for the first half of 2008 were RMB40.1 million, which is roughly the same as that of the corresponding period last year of RMB42.1 million.

Administrative expenses

The Group's administrative expenses for the first half of 2008 were RMB120.2 million, an increase of RMB31.6 million or 35.7% from RMB88.6 million of the corresponding period of 2007. Such increase was mainly attributable to: (1) the write-back of staff welfare expenses of prior years in the amount of RMB17.0 million pursuant to the implementation of the new PRC Accounting Standards by the Group in 2007; and (2) the increase in land use tax rate with the introduction of the detailed rules regarding land use tax in 2008, resulted in an increase in expense of RMB16.6 million.

2. Financial Review (Continued)

Finance costs

The Group's finance costs for the first half of 2008 was RMB4.7 million, a decrease of RMB6.9 million or 59.5% from RMB11.6 million in the corresponding period of 2007. The decrease is mainly due to the decrease in interest expenses as the balance of bank borrowings was lower in the first half of 2008 as compared to the corresponding period of 2007.

Exchange gain, net

The Group recorded an exchange gain of RMB14.4 million in the first half of 2008, which is roughly the same as that of the corresponding period last year of RMB13.2 million.

Income tax expense

In the first half of 2008, the Group recorded income tax expense of RMB115.6 million, an increase of RMB72.3 million or 167% from RMB43.3 million of the corresponding period of 2007. The increase was primarily due to: (1) CNOOC Tianye, one of the subsidiary of the Group, has finished its last tax exemption year in 2007 and therefore with effect from 1 January 2008, CNOOC Tianye was no longer entitled to any other tax benefits and a CIT rate of 25% applied; (2) the Group's profit before tax increased during the first half of 2008, resulting in an increase in income tax expense; (3) the implementation of the new CIT law with effect from 1 January 2008 has increased the CIT rates for certain subsidiaries of the Group, resulting in an increase of income tax expense; and (4) the corresponding period in 2007 recorded a reversal of deferred tax liabilities of RMB13.2 million due to the change of the statutory CIT rate.

Profit for the period

For the first half of 2008, the Group's net profit was RMB966.2 million, an increase of RMB139.7 million or 16.9% over the same period in 2007 of RMB826.5 million. Such increase in profit was primarily attributable to the increase in selling price of urea and methanol. However, the increase in net profit was partially offset by the increase in income tax expense.

Dividend

The board of directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2008.

As at 30 June 2008, the Company distributed final cash dividend of RMB368.8 million for year 2007.

Capital expenditure

The Group's capital expenditure in respect of property, plant and equipment and prepaid land lease payments in the first half of 2008 amounted to RMB248.9 million, which are mainly related to the methanol project in Hainan and the polyoxymethylene project in Inner Mongolia whose approvals have been obtained and construction had commenced.

2. Financial Review (Continued)

Market risk

The major market risks that the Group is exposed to include changes in the selling prices of key products, changes in the cost of raw materials and fluctuations in interest and exchange rates.

Commodity price risk

The Group is also exposed to commodity price risk arising from the fluctuations in product selling prices and costs of raw materials (primarily natural gas).

Interest rate risk

The major market interest rate risk that the Group is exposed to includes the Group's long term debt obligations which are subject to floating interest rates.

Foreign exchange risk

As at 30 June 2008, the Group had already repaid all its yen-denominated debts, leaving an outstanding balance of US dollar-denominated debts which amounted to USD46.2 million. The Group has entered into forward currency contracts with respect to the USD debts that are maturing within one year.

Inflation and currency risk

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC increased by 7.9% for the first half of 2008. During the reporting period, such inflation in the PRC did not have a significant effect on the Group's operating results.

Post balance sheet events and contingent liabilities

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 (the "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.

As at 24 July 2008, the Company, Yichang Geological League and Yichang Honghe jointly contributed RMB50.0 million to establish Yichang Mining, of which RMB25.5 million 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.

3. Sector Review and Outlook

The Urea Sector

In 2008, the PRC government continued to attach vital importance to the production of grains and grain supply security, and increase its commitment to agriculture with significant higher government expenditure on the agricultural industry as compared to last year. Agricultural subsidies were also substantially increased as well as the protective prices for acquisition of wheat and paddy. These measures increased the incentive for rural residents to grow crops.

In 2008, the government continuously offered favourable price treatments to fertiliser producers for natural gas, electricity and transportation. It also increased the export duties of fertilisers to secure a stable supply for the domestic market. With effect from 20 April onwards, the export tariff for urea was increased to 135%.

In the first half of 2008, the total production volume of urea in the PRC amounted to over 28 million tonnes (in actual amount), an increase of 5.9% as compared to the corresponding period last year but the growth rate was lower than that in the preceding period. When a shortage of urea supply in the domestic market occurred when export amounts increased in the first half of the year, prices remained at a high level as a result.

Looking forward, as the domestic supply of coal remains tight, it is anticipated that domestic urea producers for which coal is a main production raw material will face significant cost pressure. As more than 70% of the domestic urea producers use coal as a main production raw material, the substantial increase in the production cost of urea will support a high market price of urea.

With respect to the international market, as supply is tight, coupled with the PRC government's high export duty policy for urea, it is anticipated that the price of urea in the international market will stay and fluctuate at a high level. Accordingly, the price of the urea in the domestic market will be positively supported.

In the second half of 2008, it is expected that the price of urea in the domestic market will maintain at a relatively high level as the country will activate its measures for winter stocking scheme, although demand for urea will be seasonally lower during that period.

The Methanol Sector

During the first half of 2008, the growth in demand for methanol in the PRC market was driven by the sharp rise in oil price in the international market which promoted the use of gasoline made dimethyl ether (DME) and methanol as substitute fuels in the PRC. Despite that domestic production of methanol had increased by over 20% during the first half of this year compared to the last, the net amount of methanol imported still reached 180,000 tonnes. Due to the tightness of supply, prices of methanol reached record-high levels during this period.

3. Sector Review and Outlook (Continued)

In the second half of 2008, it is anticipated that the price of methanol on the international market will decrease with the significant fall in international oil prices. However, as coal is used by the majority of domestic methanol producers as a primary raw material for production, the sustained high level of coal price will increase the production cost of methanol. A correlated balance will be maintained among the factors of domestic methanol production capacity, methanol prices and the cost of production of methanol. At the same time, considering the price correlation of the use of dimethyl ether and methanol-based gasoline as substitute fuels, it is expected that the price of methanol will have considerable support at its current price range.

Outlook

Having assessed the external business environment and opportunities for development, the Group will focus mainly on the following work: (1) continue to strengthen its production safety management to ensure the stable operation of the five existing facilities and accomplish its annual production and sales targets for 2008; (2) implement the construction plans of the polyoxymethylene project in Inner Mongolia and the methanol project in Hainan; (3) advance the exploration and construction planning of Yichang Mining; (4) strive for completing the acquisition of the phosphorite and the phosphate fertiliser assets of Hubei Dayukou Chemical Ltd. from CNOOC within the year as scheduled; (5) proceed the preliminary research project of the Jincheng urea project; and (6) endeavour to identify any acquisition opportunities that are in line with the development strategy of the Company.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee, has reviewed the accounting principles and standards adopted by the Group, and has discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2008 have not been audited but have been reviewed by Ernst and Young 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 Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2008. Neither the Audit Committee nor the Company’s Independent Auditor Ernst and Young has any disagreement with the accounting policy adopted in receiving the interim results for the reporting period.

Compliance with the Code on Corporate Governance Practices

The Company continues to achieve high standards of corporate governance so as to ensure better transparency and protection of shareholders’ interest in general. The Company has, save as disclosed below, complied with the code provisions of the Code on Corporate Governance Practices (the “Corporate Governance Code”) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 June 2008:

The code provision E.1.2 of the Corporate Governance Code provides that the Chairman shall attend the annual general meeting of the Company. Due to other business commitments, Mr. Wu Mengfei, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 13 June 2008 (the “AGM”) and entrusted Mr. Yang Yexin, an executive director, the CEO and President of the Company, to preside over the meeting. Mr. Wu Mengfei was also contactable at all times during the AGM to answer questions if necessary.

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 by the Company, that during the six months ended 30 June 2008, all members of the Board and all supervisors have complied with the required standards of the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 of the Listing Rules.

Purchase, Sales or Redemption of the Listed Securities of the Company

For the six months ended 30 June 2008, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Material Litigation and Arbitration

The Group was not involved in any material litigation and arbitration during the six months ended 30 June 2008.

Disclosure on the Website of Hong Kong Stock Exchange

Information required to be disclosed under paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and on the website of the Company (<http://www.chinabluechem.com.cn>) in due course.

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

Haikou, Hainan, the PRC, 26 August 2008

As at the date of this announcement, the executive directors of the Company are Mr. YANG Yexin, Mr. FANG Yong, 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 purpose only*