



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 2008

FINANCIAL HIGHLIGHTS

1. Revenue increased by **27.14%** to **RMB5,518.2 million**
2. Gross profit increased by **26.84%** to **RMB2,268.2 million**
3. Net profit attributable to equity holders of the parent increased by **12.91%** to **RMB1,635.3 million**
4. Basic earnings per share was **RMB0.35**
5. Proposed final dividend of **RMB0.095** per share

(I) AUDITED FINANCIAL STATEMENTS

Consolidated Income Statement

Year ended 31 December 2008

		2008	2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	5,518,176	4,340,427
Cost of sales		<u>(3,250,002)</u>	<u>(2,552,162)</u>
GROSS PROFIT		2,268,174	1,788,265
Other income and gains	5	127,764	74,029
Selling and distribution costs		(82,537)	(70,185)
Administrative expenses		(280,756)	(223,840)
Other expenses		(28,666)	(51,218)
Finance income		25,507	29,245
Finance costs	6	(12,080)	(18,291)
Exchange gains, net		14,852	14,434
Share of profits of associates		<u>4,742</u>	<u>4,041</u>
PROFIT BEFORE TAX	7	2,037,000	1,546,480
Income tax expense	8	<u>(176,138)</u>	<u>(67,116)</u>
PROFIT FOR THE YEAR		<u>1,860,862</u>	<u>1,479,364</u>
Attributable to:			
Equity holders of the parent		1,635,281	1,448,334
Minority interests		<u>225,581</u>	<u>31,030</u>
		<u>1,860,862</u>	<u>1,479,364</u>
DIVIDENDS	9	<u>437,950</u>	<u>368,800</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic for the year (<i>RMB</i>)	10	<u>0.35</u>	<u>0.31</u>

Consolidated Balance Sheet*As at 31 December 2008*

	<i>Notes</i>	2008 RMB'000	2007 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		6,202,554	5,508,827
Prepaid land lease payments		395,388	404,821
Intangible assets		15,294	12,494
Investments in associates		12,839	11,937
Available-for-sale investments		600	600
Deferred tax assets		42,101	47,299
		<u>6,668,776</u>	<u>5,985,978</u>
CURRENT ASSETS			
Inventories		526,759	401,299
Trade receivables	11	48,305	21,426
Bills receivable		30,351	44,960
Available-for-sale investments		—	304,113
Prepayments, deposits and other receivables		233,854	153,213
Pledged bank deposits		14,246	5,774
Cash and cash equivalents		4,177,279	2,780,762
		<u>5,030,794</u>	<u>3,711,547</u>
TOTAL ASSETS		<u>11,699,570</u>	<u>9,697,525</u>

	<i>Notes</i>	2008 RMB'000	2007 <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		4,377,276	3,107,310
Proposed dividend		437,950	<u>368,800</u>
		9,425,226	8,086,110
MINORITY INTERESTS		901,595	<u>396,430</u>
TOTAL EQUITY		10,326,821	<u>8,482,540</u>
NON-CURRENT LIABILITIES			
Benefits liability		66,413	72,426
Interest-bearing bank and other borrowings		212,009	180,041
Other long-term liabilities		55,029	50,840
Deferred tax liabilities		76,564	<u>49,076</u>
		410,015	<u>352,383</u>
CURRENT LIABILITIES			
Trade payables	12	107,709	26,985
Other payables and accruals		757,576	683,369
Derivative financial instruments		—	6,136
Interest-bearing bank and other borrowings		77,775	101,015
Income tax payable		19,674	<u>45,097</u>
		962,734	<u>862,602</u>
TOTAL LIABILITIES		1,372,749	<u>1,214,985</u>
TOTAL EQUITY AND LIABILITIES		11,699,570	<u><u>9,697,525</u></u>

(II) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

China BlueChemical Ltd. (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, 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, which 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, 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 are presented in RMB and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and previously jointly-controlled entity for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated units until the date that such control ceases.

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

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

3. IMPACT OF NEW AND REVISED IFRS

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures — Reclassification of Financial Assets</i>
IFRIC 11	IFRS 2 — <i>Group and Treasury Share Transactions</i>
IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 14	IAS 19 — <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

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 assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

	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 2008:					
Segment revenue:					
Sales to external customers	3,647,134	1,646,711	224,331	—	5,518,176
Intersegment sales	—	25,116	101,058	(126,174)	—
Other income	7,874	251	332	—	8,457
Total	<u>3,655,008</u>	<u>1,672,078</u>	<u>325,721</u>	<u>(126,174)</u>	<u>5,526,633</u>
Segment results	<u>1,282,297</u>	<u>738,547</u>	<u>17,624</u>	<u>—</u>	<u>2,038,468</u>
Interest, dividend income and unallocated gains					144,814
Corporate and other unallocated expenses					(153,796)
Finance costs					(12,080)
Exchange gains, net					14,852
Share of profits of associates	4,650	—	92	—	4,742
Profit before tax					2,037,000
Income tax expense					(176,138)
Profit for the year					<u>1,860,862</u>
As at 31 December 2008:					
Segment assets	5,785,378	2,427,802	1,706,055	(31,575)	9,887,660
Investments in associates	11,915	—	924	—	12,839
Corporate and other unallocated assets					<u>1,799,071</u>
Total assets					<u>11,699,570</u>
Segment liabilities	440,437	482,899	678,635	(454,685)	1,147,286
Corporate and other unallocated liabilities					<u>225,463</u>
Total liabilities					<u>1,372,749</u>
Other segment information:					
Depreciation and amortisation	441,649	145,801	27,005	—	614,455
Other non-cash expenses	1,811	2,384	—	—	4,195
Capital expenditure	<u>120,570</u>	<u>182,559</u>	<u>474,302</u>	<u>—</u>	<u>777,431</u>

	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
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, dividend income and unallocated gains					96,094
Corporate and other unallocated expenses					(134,933)
Finance costs					(18,291)
Exchange gains, net					14,434
Share of profits of associates	4,041	—	—	—	4,041
Profit before tax					1,546,480
Income tax expense					(67,116)
					1,479,364
Profit for the year					
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					9,697,525
Segment liabilities	525,477	239,786	357,718	(361,337)	761,644
Corporate and other unallocated liabilities					453,341
Total liabilities					1,214,985
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

Geographical segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2008 and 2007:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Sales to external customers:		
— PRC	5,144,009	4,113,695
— Others	<u>374,167</u>	<u>226,732</u>
	<u><u>5,518,176</u></u>	<u><u>4,340,427</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:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Revenue		
Sale of goods	5,309,427	4,189,294
Rendering of services	<u>208,749</u>	<u>151,133</u>
	<u><u>5,518,176</u></u>	<u><u>4,340,427</u></u>
Other income and gains		
Gain on disposal of unlisted investments	105,740	18,540
Gain on disposal of listed investments	—	28,763
Fair value gains on derivative financial instruments	6,136	19,546
Income from the sale of other materials	5,901	3,262
Income from rendering of other services	1,428	1,304
Payables waived	3,611	—
Indemnities received	1,350	—
Others	<u>3,598</u>	<u>2,614</u>
	<u><u>127,764</u></u>	<u><u>74,029</u></u>

6. FINANCE COSTS

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Interest on bank loans and other loans wholly repayable within five years	12,080	5,130
Interest on other loans	<u>—</u>	<u>13,161</u>
	<u><u>12,080</u></u>	<u><u>18,291</u></u>

7. PROFIT BEFORE TAX

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Cost of inventories sold	3,060,024	2,416,933
Cost of services provided	189,978	135,228
Depreciation	600,292	573,578
Amortisation of a trademark	329	328
Amortisation of other intangible assets	4,404	3,603
Amortisation of prepaid land lease payments	9,430	9,409
Write-down of inventories to net realisable value	4,564	924
Auditors' remuneration	4,280	2,680
Employee benefits expense (including directors' and supervisors' remuneration):		
Wages and salaries	288,639	251,905
Defined contribution pension scheme (<i>note (i)</i>)	45,440	42,450
Early retirement benefits and post-employment allowances (<i>note (ii)</i>)	(1,735)	(4,622)
Medical benefit costs (<i>note (iii)</i>)	13,581	12,507
Cash-settled share option expense	884	—
Housing fund (<i>note (iv)</i>)	13,555	10,478
	<u>360,364</u>	<u>312,718</u>
Provision for bad and doubtful debts of trade receivables*	—	21
Provision for bad and doubtful debts of other receivables*	124	864
Write-back of provision for bad and doubtful debts of trade receivables*	(493)	(1,248)
Write-back of provision for bad and doubtful debts of other receivables*	—	(2,024)
Write-back of impairment of items of property, plant and equipment*	—	(13)
Loss on disposal of items of property, plant and equipment*	<u>3,470</u>	<u>10,230</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 2008 and 2007. 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 (“CNOOC Tianye”), the Group’s 90%-owned subsidiary, pays 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 2008 and 2007 are as follows:

	2008	2007
	<i>RMB’000</i>	<i>RMB’000</i>
Current — PRC		
Charge for the year	172,331	98,537
Deferred	<u>3,807</u>	<u>(31,421)</u>
Total tax charge for the year	<u><u>176,138</u></u>	<u><u>67,116</u></u>

(a) Corporate income tax (“CIT”)

During the 5th Session of the 10th National People’s Congress, which 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 transitional 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 of the applicable CIT rate.

Hainan CNOOC Complex Fertiliser Co., Ltd. is entitled to a transitional 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 third year for CNOOC Plastics to be entitled to the 50% reduction in applicable CIT rate.

CNOOC Fudao Limited (“CNOOC Fudao”) is entitled to a preferential tax rate of 15% for the three years ending 31 December 2010 after being assessed as a high new technology entity.

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. This is the fourth year for Hainan Basuo to be entitled to the exemption from CIT.

CNOOC Kingboard Chemical Limited (“CNOOC Kingboard” or “CNOOC Jiantao”) 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. This is the second year for CNOOC Kingboard to be entitled to the exemption from CIT.

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 years ended 31 December 2008 and 2007.

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>2,037,000</u>	<u>1,546,480</u>
Tax at the statutory tax rate of 25% (2007: 33%)	509,250	510,338
Lower tax rate for specific provinces/districts or concessions	(341,793)	(413,762)
Underprovision/(overprovision) of income tax expense in prior years	4,040	(4,478)
Profits attributable to associates	(698)	(640)
Income not subject to tax	(1,229)	(592)
Expenses not deductible for tax	3,844	5,583
Effect of changes in tax rates	—	(31,258)
Tax losses not recognised	(322)	374
Others	<u>3,046</u>	<u>1,551</u>
Income tax expense reported in the consolidated income statement	<u>176,138</u>	<u>67,116</u>
The Group's effective income tax rate	<u>8.6%</u>	<u>4.3%</u>

9. DIVIDENDS

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Proposed final — RMB0.095 (2007: RMB0.08) per ordinary share	<u>437,950</u>	<u>368,800</u>

The proposed 2007 final dividend was approved at the annual general meeting on 13 June 2008. The proposed 2008 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2008 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 Chinese Accounting Standards for Business Enterprises and IFRS.

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
<i>Earnings</i>		
Profit for the year attributable to equity holders of the parent	<u>1,635,281</u>	<u>1,448,334</u>
	Number of shares	
	<i>'000</i>	<i>'000</i>
<i>Shares</i>		
Number of shares in issue during the year	<u>4,610,000</u>	<u>4,610,000</u>

Diluted earnings per share amounts for the years ended 31 December 2008 and 2007 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. 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:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Within six months	46,136	13,624
Over six months but within one year	2,020	7,642
Over one year but within two years	<u>149</u>	<u>160</u>
	<u>48,305</u>	<u>21,426</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:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Within six months	101,153	26,070
Over six months but within one year	457	—
Over one year but within two years	5,289	690
Over two years but within three years	626	—
Over three years	<u>184</u>	<u>225</u>
	<u><u>107,709</u></u>	<u><u>26,985</u></u>

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

As at 31 December 2008, the amounts due to CNOOC group companies included in the above trade payable balances were RMB74,001,000 (2007: RMB2,047,000).

13. 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 had 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.

Other than the aforementioned acquisition of CNOOC Kingboard, the Group did not acquire or dispose any other subsidiaries during the year ended 31 December 2008.

(III) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

Production Management

In 2008, the Company further strengthened the refined production management, and the standard of production management was improved and enhanced on a continuing basis. The urea plant of Fudao Phase II accomplished a continuous operation cycle of 313 days, which is the longest operation record since the beginning of its operation and the best among all of the Group's plants; the methanol plant of CNOOC Jiantao also set a record of continuous operation of 245 days, the longest cycle since it was put into operation; the urea plant of Fudao Phase I achieved a continuous operation cycle of 197 days after a major overhaul completed earlier in the year. The overall production management of the Group attained satisfactory performance.

Production information of the Group's various plants in 2008 are set out below:

Name of plant	Year Ended 31 December			
	2008		2007	
	Production volume (tonnes)	Utilisation rate (%)	Production volume (tonnes)	Utilisation rate (%)
Fudao Phase I Urea plant	564,755	108.6	604,682	116.3
Fudao Phase II Urea plant	870,765	108.8	689,484	86.2
CNOOC Tianye Urea plant	<u>513,603</u>	<u>98.8</u>	<u>550,822</u>	<u>105.9</u>
Group total for urea	<u>1,949,123</u>	<u>105.9</u>	<u>1,844,988</u>	<u>100.3</u>
CNOOC Jiantao Methanol plant (<i>note</i>)	516,037	100.1	316,489	87.9
CNOOC Tianye Methanol plant	<u>170,647</u>	<u>85.3</u>	<u>187,341</u>	<u>93.7</u>
Group total for methanol	<u>686,684</u>	<u>96.4</u>	<u>503,830</u>	<u>90.0</u>

Note: CNOOC Jiantao's results in 2007 were consolidated into the Group's results on a 60% shareholding basis, its production volume in 2007 was 527,482 tonnes; the results from January to April 2008 were consolidated into the Group's results on a 60% shareholding basis, the results from May to December 2008 were consolidated on a 100% shareholding basis; the production volume in 2008 was 600,527 tonnes.

Sales Management

During the first three quarters of 2008 when the prices of urea and methanol were high, the Group took advantage of the favourable market opportunity to achieve a remarkable sales record. When the global and domestic market prices of urea and methanol decreased rapidly due to the financial crisis towards the end of the third quarter, the Group adjusted the sales strategies in a timely manner to effectively mitigate the impact on the sale of the Company's products brought by the market downturn.

Urea

The following table sets out the Group's urea sales volumes by final destinations of products during the previous two financial years:

Sales Region	Year ended 31 December			
	2008		2007	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
North-eastern China	303,595	16.1	92,620	5.0
Northern China	156,021	8.3	445,971	24.0
Eastern China	343,163	18.2	239,645	12.9
South-eastern China	82,336	4.4	39,532	2.1
Southern China	283,770	15.1	387,494	20.9
Hainan	512,709	27.3	187,343	10.1
International	200,036	10.6	464,076	25.0
Total	1,881,630	100.0	1,856,681	100.0

Methanol

The following table sets out the Group's methanol sales volumes by final destinations of products during the previous two financial years:

Sales Region	Year ended 31 December			
	2008		2007	
	Volume (tonnes)	Percentage (%)	Volume (tonnes)	Percentage (%)
North-eastern China	30,061	4.5	7,596	1.5
Northern China	107,403	15.9	136,950	26.9
Eastern China	55,459	8.2	112,979	22.2
South-eastern China	1,898	0.3	7,379	1.4
Southern China	380,367	56.3	116,554	22.9
Hainan	62,143	9.2	36,207	7.1
International	37,746	5.6	91,667	18.0
Total	675,077	100.0	509,332	100.0

Note: CNOOC Jiantao's results in 2007 were consolidated into the Group's results on a 60% shareholding basis, and its sales volume of methanol in 2007 was 546,990 tonnes; the results from January to April 2008 were consolidated into the Group's results on a 60% shareholding basis, the results from May to December 2008 were consolidated on a 100% shareholding basis; the sales volume of methanol in 2008 was 586,192 tonnes.

BB fertilisers

In 2008, the Group produced a total of 31,016 tonnes of BB fertilisers with sales volume of 30,611 tonnes.

Woven plastic bags

In 2008, the Group produced a total of 31.3 million woven plastic bags with sales volume of 32.4 million bags.

Sea-land logistics services

In 2008, the volume of freight handled by Hainan Basuo was 5.5 million tonnes.

2. Financial Review

Revenue

In 2008, the Group's revenue was RMB5,518.2 million, representing an increase of RMB1,177.8 million or 27.1%, from RMB4,340.4 million in 2007.

In 2008, the Group's revenue from the sales of urea and BB fertilisers was RMB3,647.1 million, representing an increase of RMB611.6 million or 20.1%, from RMB3,035.5 million in 2007. The increase was primarily attributable to: (1) the average selling price of urea increased by RMB277.6 per tonne and the sales volume increased by 24,949 tonnes, collectively contributing to an RMB562.3 million increase in revenue; and (2) the sales volume of BB fertilisers increased by 8,016 tonnes, contributing to an RMB49.3 million increase in revenue.

In 2008, the Group's revenue from the sale of methanol was RMB1,646.7 million, representing an increase of RMB501.1 million or 43.7%, from RMB1,145.6 million in 2007. The increase was primarily attributable to: (1) subsequent to the revision of the Memorandum and Articles of Association of CNOOC Jiantao, which came into effect on 29 April 2008, the Company obtained unilateral control of CNOOC Jiantao, and the revenue and sales volume of CNOOC Jiantao were fully consolidated into the Group's consolidated income statement from May to December 2008, while in 2007, only 60% of the respective revenue and sales volume were proportionately consolidated into the Group's consolidated income statement. Meanwhile, the sales volume of CNOOC Jiantao increased by 39,922 tonnes compared to 2007 and the average selling price of CNOOC Jiantao increased by RMB162.1 per tonne. These factors had collectively contributed to an RMB493.9 million increase in revenue from the sales of methanol; and (2) although the sales volume of CNOOC Tianye decreased by 12,123 tonnes compared to 2007, the average selling price of methanol of CNOOC Tianye increased by RMB186.9 per tonne compared to 2007, contributing to an RMB7.2 million increase in revenue.

In 2008, the revenue from the Group's other segments (mainly comprising port operations, provision of transportation services and the manufacture and sales of woven plastic bags) increased by RMB65.1 million. The increase was primarily attributable to an increase in the loading and transportation volume of 1.13 million tonnes in 2008 compared to 2007, which contributed to an RMB57.6 million increase in revenue.

Cost of sales

In 2008, the Group's cost of sales was RMB3,250.0 million, representing an increase of RMB697.8 million or 27.3%, from RMB2,552.2 million in 2007.

In 2008, the Group's cost of sales from the sale of urea and BB fertilisers was RMB2,210.6 million, representing an increase of RMB317.9 million or 16.8%, from RMB1,892.7 million in 2007. The increase was primarily attributable to: (1) an increase in sales tax of RMB170.0 million due to the direct export of urea by the Group in 2008; (2) an 69.7% increase of the average unit cost of coal used as fuel of CNOOC Tianye, an increase in the costs of phosphate and potash used for producing BB fertilisers, and an increase of maintenance costs which contributed to an overall increase of RMB108.2 million in cost of sales; and (3) an increase in the sales volume of BB fertilisers which totalled 8,016 tonnes, contributing to an RMB39.7 million increase in cost of sales.

In 2008, the Group's cost of sales from the sale of methanol was RMB835.1 million, representing an increase of RMB320.1 million or 62.2%, from RMB515.0 million in 2007. The increase was primarily attributable to: (1) the cost of sales of CNOOC Jiantao was fully consolidated into the Group's consolidated income statement from May to December 2008, while in 2007, only 60% of the respective cost of sales was proportionately consolidated into the Group's consolidated income statement. Meanwhile, the sales volume of CNOOC Jiantao increased by 39,922 tonnes relative to 2007. These had collectively contributed to an RMB239.9 million increase in cost of sales; and (2) an RMB0.4 per m³ increase in CNOOC Tianye's average unit cost of natural gas for the production of methanol and an increase in maintenance costs which collectively contributed an RMB80.2 million increase in cost of sales.

In 2008, the Group's other costs of sales (mainly comprising the costs of port operations, provision of transportation services and the manufacture and sales of woven plastic bags) increased by RMB59.8 million. The increase was primarily attributable to: (1) an increase in the costs of raw materials for the production of woven plastic bags such as polypropylene during the first three quarters of 2008; and (2) an increase in transportation and port operation volume compared to 2007.

Gross Profit

In 2008, the Group's gross profit was RMB2,268.2 million, representing an increase of RMB480.0 million or 26.8%, compared with RMB1,788.2 million in 2007.

The increase in gross profit in 2008 was primarily attributable to: (1) an increase in the selling prices of urea and methanol; and (2) the cost efficiency obtained through long cycles of operation of the three production plants located in Hainan. However, such increase was partially offset by an increase in the costs of raw materials such as natural gas used for the production of methanol and coal used as fuel by CNOOC Tianye, as well as a cost increase due to CNOOC Tianye's maintenance.

Other income and gains

In 2008, the Group's other income and gains were RMB127.8 million, representing an increase of RMB53.8 million or 72.7%, compared with RMB74.0 million in 2007. The increase was primarily attributable to: (1) an increase of RMB87.2 million in investment income received from entrusted investment products in 2008; and (2) investment income of RMB28.8 million was received by the Group in 2007 from the disposal of listed investments, while there was no such investment income in 2008.

Selling and distribution costs

In 2008, the Group's selling and distribution costs were RMB82.5 million, representing an increase of RMB12.3 million or 17.5%, compared with RMB70.2 million in 2007. The increase in selling and distribution costs was primarily attributable to: (1) an increase in the sales volume of methanol of CNOOC Jiantao, and the fact that CNOOC Jiantao's selling and distribution costs of methanol were fully consolidated into the Group's consolidated income statement from May to December 2008, which contributed to an RMB11.2 million increase in selling and distribution costs; and (2) soil testing and fertilizer prescription expenses incurred which amounted to RMB3.0 million.

Administrative expenses

In 2008, the Group's administrative expenses were RMB280.8 million, representing an increase of RMB57.0 million or 25.5%, from RMB223.8 million in 2007. The increase was primarily attributable to: (1) an increase in land-use tax rate with the implementation of the detailed rules regarding land-use tax in 2008, resulting in an increase of RMB20.3 million; (2) an increase in professional advisory expenses mainly related to the acquisition of fertilisers assets amounting to RMB11.0 million; and (3) the write-back of prior years' employee welfare payables which amounted to RMB17.0 million against administrative expenses pursuant to the implementation of China Accounting Standards in 2007.

Other expenses

In 2008, the Group's other expenses were RMB28.7 million, representing a decrease of RMB22.5 million or 43.9%, from RMB51.2 million in 2007. The decrease was primarily attributable to a loss of RMB2.0 million due to fair value changes of its derivative financial instruments in 2008, while the loss due to fair value changes of its derivative financial instruments in 2007 was RMB24.3 million.

Finance income and finance costs

In 2008, the Group's finance income was RMB25.5 million, representing a decrease of RMB3.7 million or 12.7%, from RMB29.2 million in 2007. The decrease was primarily attributable to the decrease of interest income which was in line with the decrease in the average balance of bank deposits.

In 2008, the Group's finance costs were RMB12.1 million, representing a decrease of RMB6.2 million or 33.9%, from RMB18.3 million in 2007. The decrease was primarily attributable to the Group's repayment of interest-bearing bank and other borrowings due within one year amounting to RMB101.0 million in 2008; relevant interest expenses decreased as a result of the decrease in the average balance of interest-bearing bank and other borrowings as compared to 2007.

Exchange gains, net

In 2008, the Group realised net exchange gains were RMB14.9 million, which was closely tied to those of 2007; the gains primarily consisted of exchange gains of RMB13.6 million derived from the US dollar loans of CNOOC Jiantao in 2008.

Income tax expense

In 2008, the Group's income tax expense was RMB176.1 million, representing an increase of RMB109.0 million or 162.4%, from RMB67.1 million in 2007. The increase was primarily attributable to: (1) the tax exemption period of CNOOC Tianye, ended in 2007, since which no other tax preferential policies applied. Therefore, with effect from 1 January 2008, a CIT rate of 25% was applied to CNOOC Tianye; (2) the Group's profit before tax increased in 2008, resulting in an increase in income tax expense; (3) the implementation of the New CIT Law with effect from 1 January 2008 increased the CIT rates for several subsidiaries of the Company, resulting in an increase in income tax expense; and (4) in 2007, the Group reversed its deferred tax liabilities amounting to RMB31.3 million due to the change in the statutory CIT rate, causing a decrease in income tax expense in 2007.

Net profit for the year

In 2008, the Group's net profit was RMB1,860.9 million, representing an increase of RMB381.5 million or 25.8%, from RMB1,479.4 million in 2007. The increase was primarily attributable to: (1) cost efficiency obtained through long cycles of operation of the Group's major production plants; and (2) an increase in the sales volume and average selling prices of urea and methanol.

Dividends

The board of directors of the Company recommended the payment of a final dividend of RMB0.095 per share for 2008, representing a total of RMB438.0 million. The recommendation will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Capital expenditure

The Group's capital expenditure in respect of property, plant and equipment and prepaid land lease payments in 2008 amounted to RMB777.4 million. The capital expenditure primarily consisted of the followings: (1) RMB370.4 million in relation to the Inner Mongolia Polyoxymethylene Project ("Inner Mongolia POM Project"), (2) RMB157.2 million in relation to the Hainan Methanol Project; and (3) RMB249.8 million in relation to renovation of facilities and procurement of equipments.

Pledge of assets

As at 31 December 2008, the Group had no pledge of assets.

Significant investments

As at 31 December 2008, the Group did not hold any significant investments.

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 for managing capital in 2008 and 2007. The gearing ratio of the Group as at 31 December 2008 (calculated as interest bearing liabilities divided by total capitalisation plus interest bearing liabilities) was 2.7%, representing a decrease of 0.5% as compared to 31 December 2007.

Cash and cash equivalents

The Group's cash and cash equivalents at the beginning of 2008 were RMB2,780.8 million. The net cash inflow from operating activities for the period was RMB2,399.7 million, net cash outflow from investing activities was RMB243.0 million, and net cash outflow from financing activities was RMB760.2 million. As at 31 December 2008, the Group's cash and cash equivalents were RMB4,177.3 million.

Market risk

The major market risk the Group is exposed to include changes in the sale prices of key products, changes in the costs of raw materials (mainly natural gas), fuel (mainly coal), and fluctuations in interest and exchange rates.

Commodity price risk

The Group is also exposed to commodity price risk arising from fluctuations in product sale prices and costs of raw materials and fuel.

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

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. In 2008, Renminbi appreciated by 6.9% against the US dollar. The appreciation of Renminbi against the US dollar may have produced a double effect. The Group's revenue from sales of products may have declined as a result of the depreciation of the US dollar against Renminbi, the cost of import for equipments and raw materials may also have been reduced. In addition, the appreciation of Renminbi may have reduced the Group's indebtedness denominated in foreign currencies. As at 31 December 2008, the Group had repaid all of its Japanese yen loan and was free of the foreign exchange risk resulting from the Japanese yen against Renminbi.

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 5.9% in 2008. Such inflation in the PRC did not have a significant effect on the Group's operating results.

Liquidity risk

The Group monitors its risk exposure to 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 2008, RMB77.8 million (2007: RMB101.0 million), or 27% (2007: 36%) 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.

Derivative financial instruments

In 2001, the Company entered into a cross currency interest rate swap contract with a financial institution to sell US dollars in exchange for Japanese yen in order to partially offset the potential fluctuation in future repayments of certain Japanese yen denominated loans and their related interest payments in US dollar equivalent.

Changes in the fair values of this non-hedging cross currency interest rate swap contract had been reported as other income and gains or other expenses in the consolidated income statement for the years ended 31 December 2008 and 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 2008 was nil as the outstanding Japanese Yen loan amounts were fully repaid during the year.

Post balance sheet events and contingent liabilities

As at 12 December 2008, the Company entered into an acquisition agreement with CNOOC ("the Acquisition Agreement") under which the Company had agreed to purchase, and CNOOC had agreed to sell the 83.17% equity interest of Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") at a cash consideration of RMB1,081.0 million and the 100% equity interest of ZHJ Mining Company Limited ("ZHJ Mining") at a cash consideration of RMB181.8 million.

DYK Chemical is a company established in the PRC with limited liability in August 2005. It is principally engaged in phosphate mining and processing, and the sale and production of MAP and DAP fertiliser.

ZHJ Mining is a limited liability company established in the PRC in July 2006. Its main business activity is phosphate mining.

On 24 March 2009, the Industrial and Commercial Administration Bureau of Hubei Province approved the acquisition of DYK Chemical and ZHJ Mining and issued the company change notification, whereby the Company obtained control over DYK Chemical and ZHJ Mining.

In addition, the Group fully repaid its US dollar loan amounting to RMB280.4 million on 20 January 2009, including RMB212.0 million and RMB68.4 million stated as non-current bank loan and current bank loan respectively.

As at 31 December 2008, the Group has no material contingent liabilities.

Material litigation and arbitration

As at 31 December 2008, the Group was not involved in any material litigation or arbitration.

3. Sector review and outlook

Urea Sector

In 2008, the PRC government continued to emphasise the importance of grain production and the safety of food supply, and strengthened its commitment to agricultural industry. The related annual expenditure amounted to RMB595.5 billion, representing an increase of 37.9% as compared to 2007, and the minimum purchase prices for food were substantially raised during the year. These measures played a significant role in promoting farmers' initiative to grow crops.

In 2008, the PRC government continued to grant preferential rates in areas such as natural gas, electricity, transportation, and taxation for fertiliser producing enterprises with a view to safeguard agricultural production.

In 2008, domestic urea production exceeded 56 million tonnes (in real terms), representing an increase of about 3.7% compared to 2007, which signified a much slower increase in fertiliser production.

During the first three quarters of 2008, due to a substantial increase in the export of urea due to globally high prices of urea, and increased costs of production of urea caused by an increase in domestic coal prices, the domestic price of urea persistently increased and remained high. In order to secure domestic urea supply, the PRC government raised the urea export tariff with effect on 20 April 2008 and 1 September 2008 respectively. However, starting from the end of the third quarter, the global urea prices slumped and the urea demand slowed in the low season, as a results, the urea prices dropped sharply in the domestic market. On 1 December, the PRC government adjusted the export tariff of fertiliser, and lowered the urea export tariff in the low season substantially.

In 2009, the PRC government will persistently reinforce and strengthen the fundamental status of agriculture and promote the steady development of agriculture. Based on its increased commitment to the agricultural industry in 2008, the PRC government will continue to substantially increase commitment to the agricultural industry and the related subsidies for this sector.

To ensure the steady and sound development of the domestic fertiliser industry, the PRC government has released a series of policies in early 2009, and has continued to grant fertiliser producers favourable pricing for natural gas, electricity and transportation services, as well as preferential tax treatment. From 25 January 2009, the urea ex-factory price caps was abolished with the view to gradually establishing a market-driven fertiliser pricing mechanism. This will provide a level playing field for medium and large urea producers in the PRC.

Given that more than 70% of domestic urea producers use coal, mainly anthracite, as a major raw material, it is expected that urea prices will maintain at a high level as anthracite production and supply are limited even if domestic coal supply will be sufficient. Urea producing enterprises which use anthracite as a raw material will face comparatively high cost pressures.

We expect that, considering the present domestic policies, urea supply and demand will reach a balance in the domestic market in 2009. Meanwhile, the relatively high production costs of coal-based urea producing enterprises will provide critical support to domestic urea price.

Methanol Sector

During the first three quarters of 2008, domestic methanol price remained high as demand increased significantly, caused by robust demand for alternative energy such as dimethyl ether as a result of soaring global fuel prices, and the expansion in downstream chemical sector. However, from the fourth quarter onwards, as global fuel prices slumped dramatically resulting from the global financial crisis affecting the real economy, the demand for alternative energy and downstream chemical products decreased rapidly and methanol prices fell sharply. At the same time, domestic coal-based methanol producers, adversely affected by the import of methanol, started to downsize or suspend production in order to cut losses. Domestic methanol capacity utilization rate fell below 50% by the end of the year.

Throughout 2008, the production of methanol in the PRC exceeded 11 million tonnes, representing an increase of approximately 6% as compared to 2007. Despite the influence of the financial crisis, domestic demand for methanol increased to over 12.5 million tonnes or more than 14% as compared to 2007.

From 1 July 2008, the value added tax rate for dimethyl ether in the PRC was reduced from 17% to 13%. This will assist in promoting the sound development of dimethyl ether industry in the PRC in a long run.

In 2009, the PRC government introduced a series of policies and plans to stimulate the economy and boost domestic demand, which will contribute prominently to maintain the steady growth of the domestic economy and help with the recovery of the chemical industry. As methanol is an important basic material for chemicals production and alternative energy, demand for methanol will recover gradually. Methanol prices have recovered from the trough and will vary with global and domestic energy prices.

Outlook

In 2009, the global financial crisis will not only bring challenges to the business operations of the Company, but will also present it with development opportunities. The Company will, after careful analysis and research on the current business environment, focus mainly on the following:

1. Carefully manage and ensure its existing principal production plants to operate safely and steadily for long continuing cycles, so as to successfully accomplish the annual business targets of the Group;
2. Advance the construction of the Hainan Methanol Project and the Inner Mongolia POM Project, and ensure that the constructions will progress as planned;
3. Complete the acquisition of the equity interest in Hubei Dayukou Chemical Ltd. and ZHJ Mining Company Limited, further promote the exploration of phosphorus resources of China Bluechem Yichang Mining Ltd. and conduct subsequent development planning and research, and based on such work, implement research and proposals in relation to the integration and the expansion of capacity of the above enterprises;
4. Advance the Shanxi coal-based urea project and the preliminary work in relation to other coal-based urea projects and its ancillary coal resources, and actively seek cooperation opportunities in areas such as coal, potash and phosphorus resources and further strengthen the resource base for the Group's business development;
5. Strictly implement cash, assets and liabilities management and satisfy the capital needs in line with the development of the Company; and
6. Consolidate the sales and distribution network of the Company and adopt unified sales management.

(IV) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The annual results for the year ended 31 December 2008 have been audited by Ernst and Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the financial statements for the year ended 31 December 2008.

Compliance with the Code on Corporate Governance Practices

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited for the year ended 31 December 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 (the “AGM”) of the Company held on 13 June 2008 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, that during the year ended 31 December 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.

Closure of register of members

The register of members will be closed from 13 May 2009 to 12 June 2009 (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 12 May 2009.

Purchase, Sales or Redemption of the Company’s Securities

During 2008, 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.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.
WU Mengfei
Chairman

Hong Kong, PRC, 26 March 2009

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. TSUI Yiu Wa, Alec, Mr. ZHANG Xinzhi and Mr. WANG Wenshan.

* *for identification only*