中海石油化学股份有限公司
China BlueChemical Ltd.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 3983.HK)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

FINANCIAL HIGHLIGHTS

1. **Revenue increased 46.17% to RMB3,465.8 million**
2. **Gross profit increased 20.75% to RMB1,301.6 million**
3. **Net profit attributable to equity holders of the parent surged 74.38% to RMB1,645.8 million**
4. **Basic earnings per share was RMB48.40 fen**
5. **Proposed final dividend of RMB1.5 fen per share**

AUDITED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	5	**3,465,781**	2,370,999
Cost of sales		**(2,164,164)**	(1,293,095)
Gross profit		**1,301,617**	1,077,904
Other income and gains	5	**125,645**	1,645
Excess over the cost of a business combination		**577,619**	–
Selling and distribution costs		**(33,870)**	(15,440)
Administrative expenses		**(199,582)**	(130,672)
Other expenses		**(34,520)**	(103,124)
Finance revenue		**119,817**	24,441
Finance costs	6	**(61,738)**	(15,532)
Exchange gain/(loss), net		**(1,500)**	189,536
Share of profits of associates		**1,836**	1,913
PROFIT BEFORE TAX	7	**1,795,324**	1,030,671
Income tax expense	8	**(120,102)**	47,516
PROFIT FOR THE YEAR		**1,675,222**	983,155
Attributable to:			
Equity holders of the parent		**1,645,819**	943,830
Minority interests		**29,403**	39,325
		1,675,222	983,155
DIVIDENDS	9	**635,830**	1,211,813
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic for the year (RMB cents)	10	**48.40**	31.46

CONSOLIDATED BALANCE SHEET
31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**5,854,898**	3,479,133
Prepaid land lease payments		**413,862**	118,857
Intangible assets		**16,425**	398
Investments in associates		**8,646**	6,810
Available-for-sale equity investments		**9,465**	6,788
Other long-term assets		**–**	881
Deferred tax assets		**27,819**	4,672
		6,331,115	3,617,539
CURRENT ASSETS			
Inventories		**332,684**	162,059
Trade receivables	11	**133,557**	171,652
Bills receivable		**20,850**	69,515
Prepayments, deposits and other receivables		**86,153**	168,523
Tax recoverable		**–**	13,984
Pledged bank deposits		**10,904**	–
Cash and cash equivalents		**2,195,619**	1,949,752
		2,779,767	2,535,485
TOTAL ASSETS		**9,110,882**	6,153,024
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital		**4,610,000**	2,394,044
Reserves		**2,029,717**	181,288
Proposed dividend		**69,150**	1,210,801
		6,708,867	3,786,133
Minority interests		**340,045**	291,460
Total equity		**7,048,912**	4,077,593
NON-CURRENT LIABILITIES			
Benefits liability		**79,958**	–
Interest-bearing bank and other borrowings		**384,793**	1,030,402
Other long-term liabilities		**38,057**	22,430
Deferred tax liabilities		**61,017**	–
		563,825	1,052,832
CURRENT LIABILITIES			
Trade payables	12	**94,686**	48,049
Other payables and accruals		**849,963**	588,536
Derivative financial instruments		**25,641**	50,634
Interest-bearing bank and other borrowings		**476,579**	335,380
Income tax payable		**51,276**	–
		1,498,145	1,022,599
TOTAL LIABILITIES		**2,061,970**	2,075,431
TOTAL EQUITY AND LIABILITIES		**9,110,882**	6,153,024

NOTES:

1. CORPORATE INFORMATION

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

In September and October 2006, the Company issued an aggregate 1,610,000,000 new H shares at a price of HK$1.90 per share to the public and such H shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in the manufacture and sale of fertilisers and methanol.

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

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and jointly-controlled entity for the year ended 31 December 2006.

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

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

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

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 subsidiaries of the Company. Acquisitions of minority interests are accounted for using the entity concept method.

3. IMPACT OF NEW AND AMENDED IFRS

The principal accounting policies and basis of preparation used in the preparation of these financial statements are consistent with those adopted by the Group in preparing its financial statements for the year ended 31 December 2005, except that the Group has adopted the following new and amended IFRS and International Financial Reporting Interpretation ("IFRIC") during the year. Adoption of these revised standards and interpretations did not have any material effect on these financial statements of the Group.

IAS 1 and IAS 19 Amendments	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 and IFRS 4 Amendments	Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration, and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The principal changes in accounting policies are as follows:

(a) **IAS 1 and IAS 19 Amendments** ***Actuarial Gains and Losses, Group Plans and Disclosures***

The amendment has allowed a new option to recognise actuarial gains and losses outside of the profit or loss (i.e. through equity), in addition to the previous options of recognising such gains and losses directly in profit or loss or using the corridor approach. This change has had no effect on these financial statements.

(b) **IAS 21 Amendment** ***The Effects of Changes in Foreign Exchange Rates***

Upon the adoption of IAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) **IAS 39** ***Financial Instruments: Recognition and Measurement*** **and IFRS4** ***Insurance Contracts***

(i) *Amendment for Cash Flow Hedge Accounting of Forecast Intra-group Transactions*

This amendment has revised IAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(ii) *Amendment for The Fair Value Option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(iii) *Amendment for Financial Guarantee Contracts*

This amendment has revised the scope of IAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(d) **IFRS 6** ***Exploration for and Evaluation of Mineral Resources***

IFRS 6 has provided interim guidance for accounting for expenditures incurred in the exploration for and evaluation of mineral resources, while the IASB continues its project on extractive industries. IFRS 6 is limited to considering the nature of such costs that may be capitalised as assets and the facts and circumstances which indicate when such assets may be impaired and the level at which impairment is assessed. As the Group currently has no such transactions, IFRS 6 has had no effect on these financial statements.

(e) **IFRIC 4** ***Determining whether an Arrangement Contains a Lease***

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

(f) **IFRIC 5** ***Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds***

IFRIC 5 has set out the accounting treatment for interests in funds established to finance the decommissioning or restoration of assets or environmental rehabilitation (decommissioning costs). As the Group currently has no such transactions, this interpretation has had no effect on these financial statements.

(g) **IFRIC 6** ***Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment***

This interpretation has required that liabilities relating to waste management in respect of sales of historical household equipment as defined in the European Union Directive on Waste Electrical and Electronic Equipment to be recognised when the entity participates in the market during the relevant measurement period. As the Group currently has no such transactions, this interpretation has had no 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 asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Business segments

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

	Fertilisers *RMB'000*	Methanol *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Year ended 31 December 2005					
Segment revenue:					
Sales to external customers	2,259,876	–	111,123	–	2,370,999
Intersegment sales	–	–	55,532	(55,532)	–
Other income	543	–	370	–	913
Total	2,260,419	–	167,025	(55,532)	2,371,912
Segment results	960,476	–	2,368	–	962,844
Interest and dividend income and unallocated gains					25,173
Corporate and other unallocated expenses					(133,263)
Finance costs					(15,532)
Exchange gain, net					189,536
Share of profits of associates	1,892	–	21	–	1,913
Profit before tax					1,030,671
Income tax expense					(47,516)
Profit for the year					983,155
As at 31 December 2005					
Segment assets	4,362,105	454,336	883,099	(3,661)	5,695,879
Investments in associates	5,811	–	999	–	6,810
Corporate and other unallocated assets					450,335
Total assets					6,153,024
Segment liabilities	(167,125)	(54,947)	(398,495)	3,661	(616,906)
Corporate and other unallocated liabilities					(1,458,525)
Total liabilities					(2,075,431)
Other segment information:					
Depreciation and amortisation	253,489	–	12,785	–	266,274
Impairment losses recognised in the consolidated income statement	–	–	1,605	–	1,605
Other non-cash expenses	(1,221)	–	(1,028)	–	(2,249)
Capital expenditure	79,615	324,206	57,949	–	461,770

Geographical segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2006 and 2005:

	2006 *RMB'000*	2005 *RMB'000*
Sales to external customers:		
– PRC	**3,393,877**	2,020,564
– United States of America	**–**	350,435
– Others	**71,904**	–
	3,465,781	2,370,999

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:

	2006 *RMB'000*	2005 *RMB'000*
Revenue		
Sale of goods	**3,303,539**	2,264,210
Rendering of services	**162,242**	106,789
	3,465,781	2,370,999
Other income and gains		
Dividend income from unlisted investments	**–**	223
Dividend income from listed investments	**360**	–
Subsidy income *(Note)*	**89,259**	–
Fair value gains on derivative financial instruments	**24,992**	–
Gain on dissolution of a subsidiary	**586**	–
Income from the sale of other materials	**6,652**	1,117
Others	**3,796**	305
	125,645	1,645

Note:

Pursuant to documents Cai Shui (2004) No. 33 and Cai Shui (2005) No. 9 issued by the Ministry of Finance and the State Administration of Taxation (the "SAT") on 17 January 2004 and 26 January 2005, respectively, manufacturers of urea products in Mainland China were entitled to a refund of 50% of the net VAT paid on the sale of urea products during the period from 1 January 2004 to 31 December 2005. In October 2005, the Group received approval documents from the local finance authority of Hainan Province, the PRC for the refund of 50% of the net VAT paid by the Group on the sale of urea products, amounting to RMB65,768,000, for the year ended 31 December 2004. In addition, in January 2006, the Group also received approval documents from the local finance authority of Hainan Province, the PRC for the refund of 50% of the net VAT paid by the Group on the sale of urea products, amounting to RMB53,243,000, for the six-month period ended 30 June 2005. Pursuant to the payment notifications issued by the Hainan provincial government on 22 May 2006, the Group received cash refund of RMB89,259,000 in May 2006. The remaining VAT refund of RMB29,752,000 has yet to be received by the Group and will be recognised as subsidy income when there is reasonable assurance that the VAT refund will be received by the Group.

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

6. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank loans and other loans wholly repayable within five years	**76,465**	15,801
Less: Interest capitalised in construction in progress	**(14,727)**	(269)
	61,738	15,532

7. PROFIT BEFORE TAX

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

	2006 RMB'000	2005 RMB'000
Cost of inventories sold	**2,036,846**	1,212,716
Cost of services provided	**127,318**	80,379
Depreciation	**506,650**	264,362
Amortisation of a trademark	**311**	–
Amortisation of patents and licences	**26**	25
Amortisation of other intangible assets	**114**	114
Amortisation of prepaid land lease payments	**8,041**	1,773
Fair value losses on derivative financial instruments	**–**	67,937
Write-down/(write-back) of inventories to net realisable value	**467**	(1,426)
Employee benefits expense (including directors' and supervisors' remuneration):		
Wages and salaries	**202,939**	122,566
Defined contribution pension scheme	**26,359**	12,885
Early retirement benefits and post-employment allowances	**2,918**	–
Medical benefit costs	**12,117**	8,008
Housing fund	**8,242**	3,594
Cash housing subsidies costs	**–**	46
	252,575	147,099
Foreign exchange differences, net	**1,500**	(189,536)
Provision/(write-back of provision) for bad and doubtful receivables	**2,350**	(823)
Impairment/(write-back of impairment) of items of property, plant and equipment	**(7,962)**	1,605
Dividend income from unlisted investments	**–**	(223)
Dividend income from listed investments	**(360)**	–
Loss on disposal of items of property, plant and equipment	**2,865**	156

8. INCOME TAX EXPENSE

Major components of income tax expense for the years ended 31 December 2006 and 2005 are as follows:

	2006 RMB'000	2005 RMB'000
Current – PRC		
Charge for the year	**115,399**	49,309
Deferred	**4,703**	(1,793)
Total tax charge for the year	**120,102**	47,516

(a) Corporate income tax

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

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

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

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

CNOOC Kingboard Chemical Limited ("CNOOC Jiantao"), the Company's jointly-controlled entity, is a foreign investment enterprise and is entitled to exemption from CIT for its first two profitable years and a 50% reduction in the applicable tax rate for CIT for the subsequent three years. According to the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, enterprises with foreign investment which commence operations in the middle of a year and earn profits may, where the actual period of operations is less than six months, elect to use the following year as the first period to be entitled to the tax exemptions. However, in such circumstances, income tax shall be paid in accordance with the tax law on the assessable profits earned in the first profitable year. CNOOC Jiantao has elected to enjoy the tax holiday starting from the year ending 31 December 2007 and this has been approved by the local tax bureau of Dongfang city of Hainan Province, the PRC.

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

(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 2006 and 2005, respectively.

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

	2006 RMB'000	2005 RMB'000
Profit before tax	**1,795,324**	1,030,671
Tax at the statutory tax rate of 33%	**592,457**	340,121
Lower tax rate for specific provinces/districts or concessions	**(431,359)**	(291,695)
Effect on opening deferred tax of increase in tax rates	**–**	(70)
Profits attributable to associates	**(267)**	(287)
Income not subject to tax *(Note)*	**(43,322)**	–
Expenses not deductible for tax	**919**	114
Tax losses not recognised	**92**	489
Others	**1,582**	(1,156)
Income tax expense reported in the consolidated income statement	**120,102**	47,516
The Group's effective income tax rate	**6.7%**	4.6%

Note:

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

The share of tax attributable to associates amounting to RMB10,000 (2005: RMB8,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

9. DIVIDENDS

	Notes	2006 RMB'000	2005 RMB'000
Special Dividend to CNOOC	*(i)*	**–**	1,210,801
Pre-establishment Distribution	*(ii)*	**264,538**	–
Pre-IPO Profit	*(iii)*	**302,142**	–
Proposed final – RMB1.5 cent (2005: Nil) per ordinary share	*(iv)*	**69,150**	0
Dividend to other equity holders of the Relevant Companies	*(v)*	**–**	1,012
		635,830	1,211,813

Notes:

(i) On 6 March 2006, the directors proposed to declare a dividend of RMB1,210,801,000 (the "Special Dividend") to CNOOC, which was approved in the shareholders' meeting on the same date.

(ii) In accordance with the Provisional Regulations Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment notice (財政部關於印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知) issued by the Ministry of Finance (English title is a direct translation of Chinese title of the notice), which became effective from 27 August 2002, the Company is required to make a distribution (the "Pre-establishment Distribution") to CNOOC in an amount equal to its net profit, as determined in accordance with PRC GAAP, of the Company, generated from 1 January 2006 to 24 April 2006, the date immediately prior to the date on which the Company was reorganised into a joint stock limited company. Pursuant to a supplementary agreement to the Promotion Agreement dated 10 July 2006, the Company's promoters (i.e. CNOOC and the other four promoters) agreed to distribute a Pre-establishment Distribution of RMB264,538,000 to CNOOC, which was paid in full during the year.

(iii) On 25 April 2006, the promoters of the Company unanimously resolved that they will be entitled to, in the same proportion as their respective shareholdings in the Company, all of the undistributed profit (the "Pre-IPO Profit"), as determined in accordance with PRC GAAP, of the Company for the period from 25 April 2006, the date of the Company's reorganisation into a joint stock limited company, to the last day of the month immediately preceding the listing of the Company's H shares on the Stock Exchange (i.e. 31 August 2006). On 30 December 2006, the directors resolved to distribute an aggregate amount of RMB302,142,000 to the promoters as the Pre-IPO Profit which was paid in full during the year.

(iv) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

(v) An aggregate amount of RMB1,012,000 was declared and paid by the Relevant Companies to their respective equity holders, other than the Company, for the year ended 31 December 2005. Hainan CNOOC Plastic Company Limited, Hainan CNOOC Transportation Co., Ltd. and CNOOC (Hainan) E & P Gas Limited are collectively referred to as the "Relevant Companies".

Upon listing of the Company's shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the profit after tax as determined under PRC GAAP and IFRS.

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

	2006 RMB'000	2005 RMB'000
Earnings		
Net profit for the year attributable to equity holders of the parent	**1,645,819**	943,830
	Number of shares	
	'000	'000
Shares		
Weighted average number of shares in issue during the year	**3,400,438**	3,000,000

The Company's weighted average number of shares in issue during the years ended 31 December 2006 and 2005 used in the basic earnings per share calculation is determined on the assumption that 3,000,000,000 domestic shares of RMB1 each issued as a result of the reorganisation had been in issue throughout the years ended 31 December 2006 and 2005 and as adjusted to add the 1,610,000,000 H shares of RMB1 each issued to the public upon the listing of the Company's H shares on the Stock Exchange.

Diluted earnings per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as no diluting events existed during these years.

11. TRADE RECEIVABLES

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

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

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

	2006 RMB'000	2005 RMB'000
Within six months	**127,212**	168,830
Over six months but within one year	**166**	2,135
Over one year but within two years	**6,179**	18
Over two years but within three years	**–**	600
Over three years	**–**	69
	133,557	171,652

12. TRADE PAYABLES

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

	2006 RMB'000	2005 RMB'000
Within six months	**89,021**	39,270
Over six months but within one year	**348**	2,924
Over one year but within two years	**2,753**	615
Over two years but within three years	**1,778**	354
Over three years	**786**	4,886
	94,686	48,049

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business review

Urea

On 19 January 2006, the Company acquired Tianye Chemical and has increased the annual designed production capacity of urea to 1,840,000 tonnes.

In 2006, the Group insisted on the production stability and persistency of its production facilities. Safe and stable production was achieved through proper administration of safety and environmental protection, quality, production, facilities and technical control as well as enhancement of technological operation and careful maintenance of production facilities. Fudao Phase I achieved a record of 214 days and 121 days of continuous production, breaking the previous record of 212 days of continuous production, while setting the best record ever of "high efficiency, low energy consumption, safety and stability" with total production beyond target. Fudao Phase II and Tianye Chemical both lived up to the operation standard with the greatest possible efforts, achieving a satisfactory performance in production.

Production of various facilities during 2006 is as follows:

Urea facility	2005		2006	
	Output (tonnes)	Utilization rate (%)	**Output (tonnes)**	**Utilization rate (%)**
Fudao Phase I	535,881	103.1	**606,179**	**116.6**
Fudao Phase II	825,132	103.1	**775,146**	**96.9**
Tianye Chemical	–	–	**546,133**	**105.0**

Methanol

On 19 January 2006, the Company acquired Tianye Chemical resulting in an increase of 200,000 tonnes in the annual designed production capacities of methanol. Methanol facility of Tianye Chemical commenced commercial production on 1 April 2006 with an annual output of 121,502 tonnes in 2006. Because the facilities adjustment period was relatively longer, the utilization rate of Tianye Chemical's methanol was unable to meet the expected targets.

Leveraging on CNOOC's superior experiences in project management, on 12 September 2006, the 600,000-tonne per annum methanol production facility of CNOOC Jiantao succeeded on its trial production in one occasion and 34 days in advance, boosting the annual methanol designed production capacity of the Company to 800,000 tonnes. On 1 December 2006, CNOOC Jiantao's commercial production commenced with the production load exceeding 90% and the quality of products satisfied and exceeded the U.S. Federal "AA" Specifications (O-M-232K) and national standard GB338-2004, sustaining the international advanced standards.

Sales

To meet seasonal and cyclical fluctuations of the domestic and overseas urea markets, in-depth and detailed market surveys conducted done in the Company's two production sales region in Hainan and Inner Mongolia. Profit optimization of product sales was ensured through enhancing information and resource management, integration of sales channels, strengthening of sales network and adopting market-driven pricing strategy.

The following table lists the Company's urea sales breakdown by regions during Track Record Period:

Sales Region	Year ended 31 December					
	2004		2005		**2006**	
	Quantity (tonnes)	Percentage (%)	Quantity (tonnes)	Percentage (%)	**Quantity (tonnes)**	**Percentage (%)**
Northeastern China	–	–	–	–	**43,688**	**2.2**
Northern China	154,576	11.2	219,604	16.1	**553,969**	**28.5**
Eastern China	176,033	12.8	279,790	20.5	**272,716**	**14.0**
Southeastern China	128,379	9.3	151,923	11.1	**125,492**	**6.4**
Southern China	226,747	16.4	358,716	26.3	**478,483**	**24.6**
Hainan Region	153,028	11.1	176,195	12.9	**182,201**	**9.4**
Overseas	541,144	39.2	178,380	13.1	**290,712**	**14.9**
Total	1,379,907	100.0	1,364,608	100.0	**1,947,261**	**100.0**

As methanol products of CNOOC Jiantao are of good quality, which are suitable for the production of high-end products such as PVA and organic silicon, most products are exported to Southeast Asia, with the remaining sales to regions in Southern China. Methanol products of Tianye Chemical were mainly sold to Eastern and Northeastern China.

Sea-land logistics services

In 2006, the Port of Basuo has completed a 4,790,000-tonnes throughput of which 4,080,000 tonnes were for domestic trade and 710,000 tonnes were for export. It also completed land freightage of 1,528,000 tonnes.

Compound fertilizers

On 8 August 2006, the Group started production of compound fertilizer ("BB fertilizer") suitable for the territories formula. A total of 5,063.90 tonnes of various types of BB fertilizers were produced during the year, reaching a sales volume of 4,103.05 tonnes.

Woven plastic bags

In 2006, the Group produced 28.89 million woven plastic bags. The sales volume was 29.54 million bags in which 26.34 million woven plastic bags were consumed by the Group.

2. Financial Review

Revenue

The Group's revenue in 2006 was RMB3,465.8 million, representing an increase of RMB1,094.8 million from RMB2,371.0 million compared with 2005, or an increase of 46.17%. The increase in revenue of the Group was primarily attributable to (1) the consolidation of Tianye Chemical since 19 January 2006; (2) the commencement of the commercial production of CNOOC Jiantao 6000,000-tonne methanol plant in December 2006; and (3) the Group's continuous entitlement to the VAT exemption in 2006.

The consolidation of Tianye Chemical has contributed to an increase of RMB1,009.0 million in the Group's revenue in 2006 and the commencement of the commercial production of the CNOOC Jiantao 600,000-tonne methanol plant in December 2006 has further contributed RMB106.6 million to the Group's revenue for 2006.

Since 1 July 2005, the PRC government has implemented a VAT exemption policy towards the sales of urea products in Mainland China and output VAT otherwise payable has been accounted for as revenue by the Group thereafter. The Group, excluding Tianye Chemical, has recorded an increase of RMB116.4 million in respect of the output VAT otherwise payable as revenue in 2006.

As a result of the foregoing, the Group has overcome the adverse effect of the fall in the domestic selling price of urea caused by the macroeconomic controls over the nitrogenous fertilizer market which has resulted in a decrease in the current sales of urea of RMB136.5 million.

In 2006, the Group's revenue generated from the sales of urea amounted to RMB2,975.7 million, representing an increase of RMB751.0 million from RMB2,224.7 million of last year, or an increase of 33.76%. The rise was for (1) an increase in revenue of RMB801.2 million contributed by Tianye Chemical which was acquired on 19 January 2006; and (2) an increase in revenue of RMB116.4 million arising from the VAT exemption effect as discussed aforesaid; which was partly offset by the decrease in the current year sales of urea of RMB136.5 million caused by a decrease in the average domestic selling price of urea of RMB100 per tonne in 2006.

In 2006, the Group recorded revenue from the sales of methanol, a new product of the Group, of RMB308.7 million, which was contributed by the 200,000-tonne methanol facility of Tianye Chemical and the 600,000-tonne methanol facility of CNOOC Jiantao. The methanol segment is the Group's new growth driver.

In 2006, revenue from the Group's others segment (mainly comprises of segments engaged in port operation, the provision of transportation services and the manufacture and sales of woven plastic bags) amounted to RMB181.4 million, representing an increase of RMB35.1 million from RMB146.1 million of last year, or an increase of 23.99%. The main reason for the rise was attributable to the increased revenue generated from the port operation and the provision of transportation services of RMB48.9 million which was offset by the slight decrease in revenue generated from the external sales of woven plastic bags.

Cost of sales

The Group's cost of sales in 2006 was RMB2,164.2 million, representing an increase of RMB871.1 million from RMB1,293.1 million of last year, or an increase of 67.37%. The main reasons for the rise were (1) a corresponding increase in cost of of RMB758.5 million contributed by Tianye Chemical which was acquired on 19 January 2006; (2) the Group, excluding Tianye chemical, has recorded an increase in cost of sales of RMB37.9 million in 2006 in respect of the input VAT already paid for raw materials under the VAT exemption; (3) the increased cost of RMB27.1 million from the commercial production of the CNOOC Jiantao 600,000-tonne methanol plant; and (4) an additional cost of RMB25.8 million caused by an increase in the urea's sales volume of 29,300 tonnes.

The Group's cost of sale for urea products in 2006 was RMB1,830.6 million, representing an increase of RMB649.9 million from RMB1,180.7 million of last year, or an increase of 55.04%. The main reasons for the increase were (1) an increase of RMB602.3 million from Tianye Chemical; (2) an additional cost of RMB54.4 million by equipment maintenance fees and increased natural gas price; (3) an increase of RMB37.9 million input VAT recorded as cost of sales due to VAT exemption; and (4) an additional cost of RMB25.8 million arising from the increased sale of urea of 29,300 tonnes.

The Group's cost of sale of methanol in 2006 was RMB190.4 million, of which RMB27.1 million was caused by the CNOOC Jiantao 600,000-tonne methanol plant and RMB163.3 million by the 200,000-tonne methanol facility of Tianye Chemical.

In 2006, the Group's remaining costs of sales amounted to RMB143.2 million (mainly comprises of the costs of port operation, the provision of transportation services and the manufacture and sales of woven plastic bags), representing an increase of RMB30.8 million from RMB112.4 million of last year, or an increase of 27.4%. The main reason for the increase was the increased cost of RMB36.1 million for port operation and the provision of transportation services, albeit such operations as compound fertilizer processing and sales of woven plastic bags decreased the cost by RMB5.3 million.

Gross profit

The Group's gross profit in 2006 was RMB1,301.6 million, representing an increase of RMB223.7 million from RMB1,077.9 million of last year, or an increase of 20.75%. Such increase was mainly attributable to the acquisition of Tianye Chemical and the commencement of commercial production of the CNOOC Jiantao 600,000-tonne methanol plant.

In 2006, the gross profit of the Group's urea segment was RMB1,145.1 million, representing an increase of RMB101.1 million from RMB1,044 million of last year, or an increase of 9.68%. The increase was mainly due to (1) an increase in the gross profit from Tianye Chemical of RMB198.9 million; (2) an increase of RMB26.7 million in the gross profit from the current year increase in the sales volume of urea of 29,300 tones.

In 2006, the gross profit of the Group's methanol segment amounted to RMB118.3 million, containing the gross profit generated by Tianye Chemical's 200,000-tonne methanol plant and the CNOOC Jiantao's 600,000-tonne methanol plant; both were put into commercial productions in 2006.

In 2006, the Group's gross profit from others segment (mainly comprises of segments engaged in port operation, the provision of transportation services and the manufacture and sales of woven plastic bags) amounted to RMB38.2 million, representing a slight increase of RMB4.5 million from RMB33.7 million compared with 2005.

Other income and gains

The Group entered into a cross-currency interest rate swap contract (the "swap") with the Bank of China Hainan Branch to sell US dollars ("USD") in exchange for Japanese Yen ("JPY") in order to partially offset the potential fluctuation in the future repayments of certain Japanese Yen denominated loans (the "Japanese Yen loan") and their interest payments in USD equivalent. The swap contract will expire by 20 June 2008. The Group recorded a fair value gain of RMB25.0 million on the swap in 2006.

Other income and gains greatly increased from RMB1.7 million in 2005 to RMB125.6 million in 2006, which was mainly due to the recognition of cash VAT refunds of RMB89. 3 million in 2006. The refunds were made by the PRC government in respect of part of the VAT paid by the Group on the sale of its urea products in year 2004 and the first half of 2005.

Excess over the cost of a business combination

Due to the acquisition of Tianye Chemical, the Group recorded an excess over the cost of a business combination of RMB577.6 million in 2006, which represented the excess of the Company's interests in the net fair value of Tianye Chemical's identifiable assets, liabilities and contingent liabilities over the cost of its acquisition. In 2005, the excess over the cost of a business combination was nil.

Selling and distribution costs

The Group's selling and distribution costs amounted to RMB33.9 million for the year ended 31 December 2006, representing an increase of RMB18.5 million from RMB15.4 million compared with 2005, or an increase of 120.13%. The increase was mainly due to the addition of the selling and distribution costs of Tianye Chemical and CNOOC Jiantao for the year ended 31 December 2006. Without considering the selling and distribution costs of Tianye Chemical and CNOOC Jiantao of RMB15.3 million and RMB5.2 million for the year ended 31 December 2006 respectively, the Group's selling and distribution costs for the year ended 31 December 2006 would remain comparable with that of 2005.

Administrative expenses

The Group's administrative expenses amounted to RMB199.6 million for the year ended 31 December 2006, representing an increase of RMB68.9 million from RMB130.7 million compared with 2005, or an increase of 52.72%. The increase was mainly due to (1) the consolidation of Tianye Chemical which contributed RMB62.8 million to the Group's administrative expenses for the year ended 31 December 2006; and (2) the establishment of new departments designated for business development, procurement, treasury and internal audit.

Other expenses

The Group's other expenses amounted to RMB34.5 million for the year ended 31 December 2006, representing a decrease of RMB68.6 million from RMB103.1 million of last year, or a decrease of 66.54%. The decrease was mainly because the Group recorded a fair value loss on the swap of RMB67.9 million in 2005 but recorded a fair value gain on the swap of RMB25.0 million in 2006, which was recorded as other income and gains.

Finance revenue

In 2006, the Group's finance revenue amounted to RMB119.8 million, representing an increase of RMB95.4 million from RMB24.4 million compared with 2005, or an increase of 390.98%. The surge was mainly due to the receipt of the bank interest income of RMB88.9 million from the subscription monies of the Company's H Shares and the increase in the contribution of finance revenue of RMB3.7 million from Tianye Chemical.

Finance costs

In 2006, the Group's finance costs amounted to RMB61.7 million, representing an increase of RMB46.2 million from RMB15.5 million compared with 2005, or an increase of 298.06%. The increase was mainly due to the interest costs incurred on the short-term entrusted loan from CNOOC of RMB1,410 million and the short-term commercial bank loans of RMB2,570 million obtained during the year.

Exchange gain/(loss), net

In 2006, the Group recorded an exchange loss of RMB1.5 million, primarily due to the exchange loss arising from the purchase of Japanese Yen to repay part of the Japanese Yen loan. In 2005, the Group recorded an exchange gain of RMB189.5 million, which was mainly due to the 13.8% depreciation of Japanese Yen against RMB from 31 December 2004 to 31 December 2005.

Share of profits of associates

In 2006, the Group's share of profits of associates amounted to RMB1.8 million, representing a slight decrease compared with the share of profits of associates of RMB1.9 million in 2005.

Profit before tax

In 2006, the Group's profit before tax amounted to RMB1,795.3 million, representing an increase of RMB764.6 million from RMB1,030.7 million of last year, or an increase of 74.18%. The increase arose from the recognition of an one-off excess over the cost of a business combination of RMB577.6 million arising from the acquisition of Tianye Chemical; the consolidation of the profit before tax of Tianye Chemical in 2006 of RMB143.1 million, the receipt of cash VAT refunds of RMB89.3 million, the contribution of profit before tax from CNOOC Jiantao of RMB73.4 million and the receipt of the bank interest income of RMB88.9 million from the subscription monies of the Company's H Shares.

Income tax expenses

In 2006, the Group recorded an income tax expense of RMB120.1 million, an increase of RMB72.6 million from RMB47.5 million of last year, or an increase of 152.84%. In 2005, the Group's effective income tax rate was 4.6% and was 6.7% in 2006. The increase was mainly due to the expiration of the exempted corporate income tax period of Fudao Phase II. Since Fudao Phase II was subject to corporate income tax at the rate of 7.5% in 2006 (0.0% in 2005), the income tax expenses of the Group therefore increased by RMB38.1 million in 2006. Furthermore, the addition of the current year income tax expenses of CNOOC Jiantao of RMB9.7 million also contributed to the increase in the current year income tax expenses.

Profit after tax

The Group's profit after tax for 2006 amounted to RMB1,675.2 million, representing an increase of RMB692.0 million from RMB983.2 million of last year, or an increase of 70.38%. This represented an excess of RMB214.7 million or 14.70% over the forecast profit of RMB1,460.5 million stated in the prospectus. The increase was mainly due to the contribution of profit after tax of RMB63.8 million from CNOOC Jiantao and the bank interest income, net of tax, of RMB82.2 million arising from the subscription monies of the Company's H Shares.

Dividend

In 2006, the Company paid a special dividend of RMB264.5 million to CNOOC, representing the net profit generated from 1 January 2006 to 24 April 2006 (being the day before the establishment of the Company as a joint stock limited company), and a special dividend of RMB302.1 million to the Company's promoters, representing the net profit generated from 25 April 2006 to 31 August 2006 (being the last day of the month immediately before the listing of the Company's H shares). The total dividend payment for the aforementioned period amounted to RMB566.6 million.

In addition, the board of directors of the Company (the "Board") recommended the payment of a final dividend of RMB1.5 fen per Share, equivalent to RMB69.2 million for 2006. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Solvency and capital resources

At 1 January 2006, the Group had cash and cash equivalents of RMB1,719.8 million, and the net cash inflow from operating activities for the year 2006 amounted to RMB1,764.8 million, net cash outflow from investing activities amounted to RMB1,274.6 million, net cash outflow from financing activities amounted to RMB160.5 million. As at 31 December 2006, the Group's cash and cash equivalents amounted to RMB2,049.5 million.

Cash flows from operating activities

In 2006, net cash generated from operating activities amounted to RMB1,764.8 million, an increase of RMB847.7 million from RMB917.1 million of the previous year, or an increase of 92.43%. The increase was mainly due to (1) the operating profit before changes in working capital amounted to RMB1,163.8 million in 2005, and in 2006 increased to RMB1,649.1 million; (2) trade receivables, bills receivable, prepayments, deposits and other receivables reduced by RMB33.1 million following the significant decrease in export sales during the year; and (3) trade payables, other payables, accruals and other long-term liabilities reduced by RMB232.0 million in 2006, all of the above increased the cash from operating activities by RMB898.7 million in total, and offset the increase in operating profit of RMB764.7 million and depreciation expenses of RMB242.3 million.

Capital expenditure

The Group's capital expenditure for 2006 was RMB1,559.4 million, of which, the capital expenditure for the acquisition of Tianye Chemical amounted to RMB964.6 million, and the capital expenditure for the acquisition of minority interests in Hainan Complex Fertilizers Company Limited amounted to RMB5.1 million. The current year capital expenditure for the 600,000-tonne methanol project amounted to RMB278.0 million. The current year capital expenditure for the construction of the liquid chemical berth for the 600,000-tonne methanol plant amounted to RMB115.0 million. The current year capital expenditure for the Tianye Chemical's 200,000-tonne methanol facility was RMB24.0 million. The capital expenditure for Fudao Phase I, Fudao Phase II and Tianye Chemical was RMB127.1 million, and other capital expenditure for the year was RMB45.6 million.

The completion of the construction of the liquid chemical berth for the 600,000-tonne methanol plant at the Port of Basuo was slightly delayed. Environmental assessment is required on the 60,000-tonne polyoxymethylene project and it was delayed than initially expected.

Cash flows from investing activities

In 2006, the Group's net cash used in investing activities amounted to RMB1,274.6 million, an increase of RMB913.2 million from RMB361.4 million compared with 2005, or an increase of 252.68%. It was mainly due to the payment of a cash consideration of RMB892.2 million for the acquisition of Tianye Chemical (net of cash proceeds and cash equivalents acquired), and the addition of intangible assets of RMB15.6 million and rental prepayment of newly acquired leasehold land in the amount of RMB59.1 million.

Cash flows from financing activities

In 2006, the Group's net cash outflow from financing activities amounted to RMB160.5 million, representing a decrease of RMB212.7 million from an inflow of RMB52.2 million compared with 2005. It was mainly due to (1) the receipt of the net proceeds of RMB2,932.3 million from the issue of the Company's H shares; (2) the obtaining of bank and other borrowings amounting to RMB4,283.4 million; (3) the repayment of bank and other borrowings of RMB4,698.3 million (including the partial repayment of the Japanese Yen loan in order to minimize the risk of exchange rate fluctuations of Japanese Yen faced by the Group); and (4) the payment of dividends of RMB1,777.5 million in 2006.

Market risk

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

Risk of interest rate

As at the end of 2006, approximately 60% of the outstanding indebtedness of the Group bear interest at fixed interest rates, in which is favourable in the circumstances of hikes in interest rates.

Risk in foreign exchange

The Group's sales revenues are denominated in Renminbi and US dollars. Since 21 July 2005, the PRC government has been maintaining a stable exchange rate for Renminbi which will be adjusted by the supply and demand of the market, adjusted with reference to a basket of currencies and the floating rate. Renminbi is no longer linked solely to the US dollars. Since that date until the end of 2006, Renminbi appreciated against the US dollars by 3.35%.

Appreciation of Renminbi against the US dollars may have a double effect. The sales revenues of the Group's products may be reduced as a result of the conversion into Renminbi from prices denominated in US dollars, but the cost of import for the purchase of equipment and raw materials will also be reduced. Moreover, the appreciation of Renminbi may reduce the Group's burden of indebtedness denominated in US dollars.

As at the end of 2006, the balance of the Group's indebtedness in Japanese Yen amounted to JPY3,338.1 million, and the Group has already entered into swap contracts to partially offset the potential fluctuation in the future repayments of the Japanese Yen loan.

Risk of inflation and currencies

The inflation in previous years in China had no significant impact on the Group's operating results. According to the information of the National Statistics Bureau of China, from 2003 to 2006, changes in the consumer price index of China were 1.2%, 3.9%, 1.8% and 1.5% respectively.

Risk in commodity prices

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

Post balance sheet events and contingent liabilities

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Enterprise Income Tax Law ("the New Enterprise Income Tax Law") was approved and will become effective on 1 January 2008. The New Enterprise Income Tax Law introduced changes which include, but not limited to, the unification of the enterprise income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Enterprise Income Tax Law to the Group cannot be reasonably estimated at this stage.

As at 31 December 2006, the Group had no contingent liabilities.

Use of proceeds

In 2006, the proceeds were used according to the uses set out in the prospectus.

3. Outlook

In 2007, the economy of China will see consistent rapid growth. The PRC government will continue to emphasize most on the three agricultural issues (agriculture, rural areas and farmers), with policies to protect farmlands, to increase the minimum prices for agricultural produce and the overall subsidies for farmers, thus creating a very favourable environment for agriculture. Mineral fertilizers enterprises continue to enjoy the exemption from VAT and the export duty for urea will remain at the same level of last year. As an overview of the urea market in 2007, it is estimated that in 2007 the speed of increase in the supply of urea in China will be slightly higher than the speed of increase in demand, but overall there still remains in an equilibrium of supply and demand. Since the prices of coal, electricity, natural gas, railway transportation and sea-land transportation are rising, the prices of urea in overseas will remain at higher levels, thus supporting the prices of urea in China. It is estimated that the price of urea will be maintained at similar levels as in 2006, but there will still be seasonal fluctuations.

In spite of the fact that, since December 2006, China has opened the wholesale and retail markets for the mineral fertilizers industry to foreign investors, for the years to come, competition of China's mineral fertilizers will mainly be confined within domestic companies. At present, there are approximately over 200 urea facilities in China, with low concentration of industry and the operation scale of these enterprises are relatively small. In the wake of the change in the supply and demand relationship, the government's construction of "energy-saving and environmentally friendly" enterprises and market driven reforms of the mineral fertilizer industry, the mineral fertilizer industry will see a change where only the fittest will survive, with structural adjustment and increase in activities in merger and acquisition towards the direction of industry concentration of production capacity. Certain enterprises with competitive strength will be able to capture such opportunities for rapid development.

In 2007, increase in the demand for methanol mainly lies in acetic acid and methanol fuel. It is estimated that supply and demand will remain balanced. However, the uneven geographical distribution causes a shortage in eastern China and southern China regions which will require supply from import. However, newly added production capacity put into operation globally may have certain impact on the methanol market.

Looking into 2007, the Company will continue to adhere to its corporate culture of "honesty, harmony, innovation and contribution" to achieve the following objectives:

1. Enhance management of production, quality, health, safety and environmental to control production costs;
2. Commence large-scaled methanol and POM projects as scheduled;
3. Continue research and development for new projects;
4. Push forward the merger and acquisition of other chemical fertilizer enterprises;
5. Accomplish trial of soil testing projects and distribution work on mineral fertilizers;
6. Improve internal control system.

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 reporting matters. The results for the 12 months ended 31 December 2006 have been audited by Ernst and Young in accordance with Auditing Standard 700 (Engagement for the auditing of financial statements) issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the financial statements for the year ended 31 December 2006.

Compliance with the Code on Corporate Governance Practices

The Board considers, upon examination, that the Board is not aware of any information which can reasonably show that for the year ended 31 December 2006, the Company has had any deviation from the provisions of the Code of Corporate Governance Practices as contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") of the Stock Exchange ("Code"). During the report period for the year ended 31 December 2006, the Company has strictly complied with the provisions of the Code.

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

The Board confirms, having made specific enquiries with all Directors and supervisors, that during the period for the year ended 31 December 2006, all members of the Board and all supervisors have complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuer.

Book Closure

The register of members will be closed from 16 May 2007 to 15 June 2007 (both days inclusive), during which no transfer of shares of the Company will be effected. In order to be qualified 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 on 1712-1716, 17th Floor, Hopewell Centre, 183 Queensway Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 15 May 2007.

Purchase, Sales or Redemption of Our Securities

During the year in 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the securities of the Company.

Disclosure on the Website of The Stock Exchange of Hong Kong Limited

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

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

Hong Kong, 3 April 2007

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

* *for identification only*