



中海石油化学股份有限公司
China BlueChemical Ltd.

Interim Report

2008 中期報告

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FINANCIAL HIGHLIGHTS

Selected Interim Condensed Consolidated Income Statement Data

For the six months ended 30 June 2008

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

Selected Interim Condensed Consolidated Balance Sheet Data

As at 30 June 2008

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
	Assets	
Non-current assets	6,337,598	5,985,978
Current assets	4,676,877	3,711,547
Total assets	11,014,475	9,697,525
Equity and liabilities		
Total equity	9,590,339	8,482,540
Non-current liabilities	414,877	352,383
Current liabilities	1,009,259	862,602
Total equity and liabilities	11,014,475	9,697,525

OPERATIONAL HIGHLIGHTS

Production volume

Unit: tonne

Facility	For the six-month period ended 30 June		Change (%)
	2008	2007	
Urea			
Fudao Phase I	267,517	287,064	(6.8)
Fudao Phase II	443,308	387,109	14.5
CNOOC Tianye (note i)	280,244	294,436	(4.8)
Group Total	991,069	968,609	2.3
Methanol			
CNOOC Jiantao (note ii)	228,285	186,239	22.6
CNOOC Tianye	89,065	93,767	(5.0)
Group Total	317,350	280,096	13.3

Utilisation rate

Unit: %

Facility	For the six-month period ended 30 June		Change
	2008	2007	
Urea			
Fudao Phase I	102.9	110.4	(6.8)
Fudao Phase II	110.8	96.8	14.5
CNOOC Tianye	107.8	113.2	(4.8)
Group Total	107.7	105.3	(2.3)
Methanol			
CNOOC Jiantao (note ii)	103.8	103.5	0.3
CNOOC Tianye	89.1	93.8	(5.0)
Group Total	99.2	100.0	(0.8)

Sales volume

Unit: tonne

Facility	For the six-month period ended 30 June		Change (%)
	2008	2007	
Urea			
Fudao Phase I	265,068	288,960	(8.3)
Fudao Phase II	438,464	395,385	10.9
CNOOC Tianye	279,991	288,540	(3.0)
Group Total	983,523	972,885	1.1
Methanol			
CNOOC Jiantao (note ii)	223,563	191,813	16.6
CNOOC Tianye	89,621	92,705	(3.3)
Group Total	313,184	284,518	10.1

Notes :

- i. CNOOC Tianye was formerly known as Tianye Chemical;
- ii. CNOOC Jiantao's data for 2007 were based on consolidation of 60% interest, total output and sales of methanol were 310,549 tonnes and 319,688 tonnes respectively in the first half of 2007; data for January to April 2008 were based on consolidation of 60% interest; data for May to June 2008 were based on consolidation of 100% interest, total output and sales of methanol were 312,776 tonnes and 304,557 tonnes respectively in the first half of 2008 for CNOOC Jiantao.

CEO's REPORT

Dear respectable shareholders,

In the first half of 2008 ("the Reporting Period"), the Company earnestly executed the development strategy formulated by the board of Directors ("the Board") and with the concerted efforts of the management and staff, achieved outstanding business results. Both the Group's revenue and the net profit attributable to the holders of equity of the parent company attained new heights in the Group's history.

Surging Business Results

During the Reporting Period, thanks to the further strengthening of production management, effective control of production costs and the strong price trends of urea and methanol in both domestic and international markets, the achieved revenue by the Group was RMB2,832.7 million, up 22.5% over the same period of the previous year; the realised net profit attributable to the holders of equity of the parent company amounted to RMB 966.2 million, up 16.9% over the same period of the previous year; and the basic earnings per share amounted to RMB 20.96 fen, up 16.9% over the same period of the previous year. These indicators were the highest in the history of the Company.

Consistently Safe and Stable Operation of Production Facilities

During the Reporting Period, the Group's five existing urea and methanol production facilities operated well, achieving production stability. Worthy to be mentioned proudly was that, as a result of the enhancement of day-to-day operation and the refined management of equipment, both our Fudao Phase II urea facility and CNOOC Jiantao methanol facility managed to run uninterruptedly throughout the Reporting Period.

During the Reporting Period, no incidents of major consequence nor incidents involving occupational hazard had occurred at the Company, and the OSHA recordable incident rate was merely 0.09. The rigorous HSE management has laid down a solid foundation for safe and stable production for the Company.

Expansion into Phosphorus Rock Mining and Phosphate Fertiliser Manufacturing

In May 2008, through friendly consultation, the Company, together with Yichang Geological Exploration League of Hubei Province and Yichang Honghe Mineral Development Co., Ltd., agreed to establish and contribute to the capital of China BlueChem Yichang Mining Ltd. ("Yichang Mining") with the aim to develop the phosphorus ore of Shanshuya deposit in Yichang, Hubei Province. Yichang Mining will construct a facility with an annual phosphate mining capacity of 1,500,000 tonnes and annual processing capacity of 1,000,000 tonnes.

The Company has been proceeding with the acquisition of the phosphorus deposit and phosphate fertiliser assets of Hubei Dayukou Chemical Ltd. ("Hubei Dayukou") from the CNOOC Group (the "Acquisition"), and expects that the Acquisition would complete later this year.

Upon completion of the Acquisition, the Company hopes to tap the phosphorus ore resources of the Shanshuya and Hubei Dayukou deposits and expand the production capacity of existing phosphate units so as to build Hubei Dayukou into one of the major phosphate production bases in China as soon as possible.

Major Projects Going ahead as Scheduled

The Group's polyoxymethylene project in Hohhot City, Inner Mongolia Autonomous Region (the "Inner Mongolia POM Project") was approved at the end of 2007 and was under construction as scheduled during the Reporting Period. The Inner Mongolia POM Project is expected to complete and put online in the fourth quarter of 2010.

The Group's new methanol project in Dongfang City, Hainan Province (the "Hainan Methanol Project") was approved in June 2008 and is also expected to complete and put online in the fourth quarter of 2010.

The Shanxi urea project (the "Shanxi Urea Project") is in the process of its feasibility study. The Group is currently seeking the necessary examination and approval by the local government.

Internal Management Increasingly Systematised

During the Reporting Period, the Company continued its efforts to the improvement of internal control systems and standards and informatization system, and streamlined the internal business processes in accordance with business development requirements, thereby leading to an increasingly systematised management.

Corporate Social Responsibility in Action

Soon after the Wenchuan earthquake in Sichuan Province in May 2008, the Group made donations to the quake-hit areas, and also mobilised its employees to donate money and blood in support of the quake rescue and disaster relief efforts.

On the basis of the good result from the trial work on soil testing and fertilizing prescription last year, the Company furthered its agrichemical services during the Reporting Period. The Company's persistent efforts in providing fertilisers directly to customers had lowered retail prices in Hainan Province, and thus the Company contributed to increasing grain production, adding farmers' income and improving the ecological environment.

The Group had seriously implemented the Energy Saving Law promulgated in China. By increasing its efforts to renovate energy-saving and pollutants discharge reduction techniques, the Group ensured the smooth progress of saving energy and reducing pollutants discharge.

During the Reporting Period, the Group well fulfilled its social responsibility and established a positive social image.

Outlook for the 2nd Half of 2008

Looking forward to the second half of 2008, the Company will have market and development opportunities. On the other hand, the company will encounter the pressure of China's potential further adjustment of the export tariff of urea in respect of the high urea price levels prevailing in the domestic market as well as the fluctuations in the market demand for and price of methanol.

In the second half of 2008, the Company will focus on the following tasks: continuing to strengthen production and operation management to ensure the safe and steady operation of the urea and methanol production facilities; controlling strictly production costs and various expenses to maintain our low-cost competitiveness of our products; proceeding with the construction of the Inner Mongolia POM Project and the Hainan Methanol Project; effectively carrying out the preliminary research work of Yichang Shanshuya's phosphate mining and processing project and Shanxi Urea Project; actively seeking and implementing merger and acquisition projects that are in line with the Company's development strategy; and, in meeting the requirements of corporate development, optimising the business processes and further improving the internal control system to enhance management efficiency and risk management level.

I am confident that with the concerted efforts of the senior management and staff the Company will create more value and greater returns for shareholders.



Yang Yexin

CEO & President

26 August 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Sector Review and Outlook

The Urea Sector

In 2008, the PRC government continued to attach vital importance to the production of grain and the security of food supply, and has reinforced its commitment to the agriculture industry. With fiscal expenditure towards agriculture markedly higher than last year, the government significantly increased subsidies to the agricultural industry and elevated the protection prices for purchasing wheat and paddy. These measures apparently boosted rural residents' initiative to grow crops.

In 2008, the government continued to prescribe preferential prices to fertiliser producers in their purchase of natural gas, electricity and transportation services. With an aim to secure a stable supply for the domestic market, the export tariff rates for fertilisers were raised. From 20 April onwards, the export tariff rate for urea was increased to 135%.

During the Reporting Period, the total production of urea in the PRC amounted to over 28 million tonnes (in actual amount). Although this represented an increase of 5.9% over the same period last year, it marked a slow-down in the growth rate. As a significant increase of urea export led to a tight supply of urea in the domestic market, urea price maintained at a high level.

For the second half of 2008, it is anticipated that domestic coal-based urea producers will face great cost pressure as the domestic supply of coal remains tight. Given that more than 70% of domestic urea producers are coal-based, the substantial increase in the production cost of urea will provide strong support to a high market price for urea.

From the international market perspective, as urea supply remains tight and the PRC government continues to follow a high export tariff policy for urea, it is expected that the price of urea in the international market will fluctuate at high levels. This will positively support the price of urea in the domestic market.

Although demand for urea is seasonally lower during the second half of 2008, it is expected that the domestic market price for urea will maintain at relatively high levels as the domestic winter buffer fertiliser inventory will be initiated.

The Methanol Sector

During the Reporting Period, as global oil prices soared, the use of dimethyl ether and methanol as substitute fuels promptly expanded in the PRC which in turn significantly increased the domestic demand for methanol. Despite domestic production of methanol having risen by more than 20% during the Reporting Period compared with the same period last year, the net import of methanol still reached around 180,000 tonnes. Due to the tight supply, the price of methanol fluctuated at high levels and set new records during this period.

For the second half of 2008, although there may be a decrease in the global price of methanol following a significant fall in global oil prices, the sustained high price of coal will greatly increase the production cost of methanol as most domestic methanol manufacturers are coal-based. Accordingly, the volume of production, the price and the production cost of methanol in the domestic market may reach a dynamic equilibrium. Also, as there exists a positive correlation between the prices of dimethyl ether and methanol blending gasoline on one hand, and alternative energy sources on the other, it is expected that the price of methanol will have strong support within the current price range.

Business Review

During the Reporting Period, the Group continued to strengthen its production operation and safety management, and its five existing urea and methanol facilities had continued to operate steadily with Fudao Phase II's urea facility and CNOOC Jiantao's methanol facility in particular accomplishing uninterrupted operation. As domestic and international demand for both urea and methanol was strong and their prices maintained at high levels during the Reporting Period, benefiting from the superior quality and reputation of the Group's products whereby demand constantly exceeds supply, the Group achieved outstanding economic results.

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

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

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

Financial Review

Revenue and gross profit

The Group's recorded revenue of RMB2,832.7 million for the Reporting Period, representing an increase of RMB520.7 million or 22.5% from RMB2,312.0 million in the corresponding period of 2007. Gross profit during the Reporting Period was RMB1,313.1 million, representing an increase of RMB317.2 million or 31.8%, from RMB995.9 million for the corresponding period of 2007.

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

During the Reporting Period, the Group's sales from methanol was RMB905.1 million, representing an increase of RMB300.2 million from RMB604.9 million in the corresponding period of 2007, primarily due to an increase in the selling price of methanol.

Revenue from other businesses have increased by RMB14.1 million during the Reporting Period.

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

Other income and gains

During the Reporting Period, other income and gains were RMB35.2 million, which is roughly the same as that of the corresponding period last year of RMB37.7 million.

Selling and distribution costs

During the Reporting Period, the Group's selling and distribution costs were RMB40.1 million, which is roughly the same as that of the corresponding period last year of RMB42.1 million.

Administrative expenses

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

Finance costs

The Group's finance costs for the Reporting Period was RMB4.7 million, representing a decrease of RMB6.9 million or 59.5% from RMB11.6 million in the corresponding period of 2007. The decrease is mainly due to the decrease in interest expenses, as the bank borrowings were less during the Reporting Period as compared with the corresponding period of 2007.

Exchange gain, net

The Group recorded an exchange gain of RMB14.4 million during the Reporting Period, which is roughly the same as that of the corresponding period last year of RMB13.2 million.

Income tax expense

During the Reporting Period, the Group recorded income tax expense of RMB115.6 million, representing an increase of RMB72.3 million or 167% from RMB43.3 million in the corresponding period of 2007. The increase was primarily due to: (1) the tax exemption period of CNOOC Tianye, one of the subsidiaries of the Group, was ended in 2007, and since then there were 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 during the Reporting Period, resulting in an increase of income tax expense; (3) the implementation of the new CIT law with effect from 1 January 2008 has increased the CIT rates for certain subsidiaries of the Group, resulting in an increase of income tax expense; and (4) a reversal of deferred tax liabilities of RMB13.2 million was recorded in the corresponding period of 2007 due to the change of the statutory CIT rate.

Profit for the period

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

Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2008.

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

Capital expenditure

The Group's capital expenditure in respect of property, plant and equipment and prepaid land lease payments during the Reporting Period amounted to RMB248.9 million. This was mainly related to the Hainan Methanol Project and the Inner Mongolia POM Project whose approvals had been obtained and construction have commenced.

Pledge of assets

As at 30 June 2008, the Group had no pledge of assets.

Gearing ratio

The gearing ratio of the Group as at 30 June 2008 (calculated as interest bearing debts divided by total capitalization plus interest bearing debts) was 3.2%. There was no change on gearing ratio compared with 31 December 2007.

Cash and cash equivalents

The Group's Cash and cash equivalents at the beginning of the 2008 were RMB2,780.8 million. The net cash inflow from operating activities for the period was RMB1,468.0 million, net cash outflow from investing activities was RMB2,939.7 million, and net cash outflow from financing activities was RMB431.1 million. As of 30 June 2008, the Group's cash and cash equivalents were RMB878.0 million.

Human resources and training

As at 30 June 2008, the Group had a total of 4,727 employees. The Company has in place a comprehensive remuneration and reward system, a defined and systematic employee benefit scheme, and an effective performance appraisal system, ensuring that the Company's remuneration mechanism incorporates sufficient incentive to employees. The Group's remuneration system is based on positions held and individual performance and abilities of staff.

During the Reporting Period, the Company strictly followed its training scheme and organised 563 training sessions, representing a total of 106,821 training hours whereby 13,001 attendances were recorded.

Market risk

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

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

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

Inflation and currency risk

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

Post balance sheet events and contingent liabilities

On 15 May 2008, the Company, Yichang Geological Exploration League of Hubei Province ("Yichang Geological League") and Yichang Honghe Mineral Development Company Limited ("Yichang Honghe") entered into a co-operation agreement (the "Co-operation Agreement"), pursuant to which the parties have agreed to establish a joint venture named China BlueChem Yichang Mining Ltd. ("Yichang Mining") in Yichang City, Hubei Province of the PRC.

As at 24 July 2008, the Company, Yichang Geological League and Yichang Honghe jointly contributed RMB50.0 million to establish Yichang Mining, of which RMB25.5 million was contributed by the Company, representing 51% of the ownership interest of Yichang Mining.

Yichang Mining obtained its operational business license from the relevant local administration for industry and commerce on 7 August 2008.

Outlook

Considering the changes to the business environment in which the Group operates and the potential development opportunities, the Group will concentrate on the following work in the second half of 2008: (i) to continue to strengthen its production safety management, ensuring the stable operation of the five existing production facilities and accomplishing its annual production and sales targets for the year of 2008; (ii) to proceed with the construction of the Inner Mongolia POM Project and the Hainan Methanol Project as scheduled; (iii) to accomplish the prospecting and construction planning task on Yichang Mining's phosphorus reserves; (iv) to strive to complete the acquisition of the phosphorus reserves and phosphate fertiliser assets of Hubei Dayukou from the CNOOC Group within the year as scheduled; (v) to continue with the preliminary study of the Shanxi Urea Project; and (vi) to endeavour to seek and implement any acquisition opportunities that are in line with the development strategy of the Company.

SUPPLEMENTARY INFORMATION

Audit Committee

The Audit Committee has reviewed the accounting principles and standards adopted by the Group, and has discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2008 have not been audited but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the interim condensed consolidated financial statements of the Group prepared under the International Financial Reporting Standards for the six months ended 30 June 2008. Neither the Audit Committee nor the Company's Independent Auditor Ernst & Young has any disagreement with the accounting policy adopted in receiving the interim results for the Reporting Period.

Compliance with the Code on Corporate Governance Practices

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

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

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

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

Substantial shareholders' interests

Based on the information available to the Directors or chief executives so far as they were aware, as at 30 June 2008, the shareholders who were interested in 5% or more of the issued shares of the Company as recorded in the register pursuant to Section 336 of the SFO, are as follows:

Name of Substantial Shareholder	Capacity	Number of Shares and Nature of interests	Class of Shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
CNOOC	Beneficial owner and security interests	2,813,999,878 (L) (note i)	Domestic Shares	100	61.04
Merrill Lynch & Co., Inc	Owning the equity through a controlled corporation	161,000,000 (L)	H Shares	6.95	2.67
Lau Luen Hung	Beneficial owner, Owning the equity through a controlled corporation	106,254,000 (L) (note ii)	H Shares	5.99	2.30
GZ Trust Corporation	Trustee	102,324,000 (L)	H Shares	5.78	2.22

Note: The letter "L" denotes long position.

- i. Out of the 2,813,999,878 Domestic Shares, 2,738,999,512 shares are held as beneficial owner and 75,000,366 shares are held as having security interests in shares through a controlled corporation, CNOOC Finance Corporation Limited;
- ii. Lau Luen Hung holds the equity of 106,324,000 H shares of the Company partly through controlled corporations (among which, Sunny Smart Limited is one of the entities controlled by Lau Luen Hung and is the beneficial owner of 102,324,000 H shares).

Save as disclosed above and so far as the Directors are aware, as at 30 June 2008, no other person had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under Section 336 of the SFO.

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

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

The interests of Directors and Supervisors in contracts

As at 30 June 2008, none of the Directors and Supervisors had a material interest, either directly or indirectly, in any material contract in relation to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

Directors', Supervisors' and Senior Management Members' Interests in shares and short positions

Pursuant to the Company's H-share appreciation rights scheme, details of which were set out in the Company's circular dated 11 January 2008, as at 30 June 2008, the following Directors, Supervisors and Senior management members were granted share appreciation rights by the Company as follows:

Name	Number of share appreciation rights (shares)	Note
Wu Mengfei	1,053,000	Chairman and Non-executive Director
Yang Yexin	891,000	Executive Director, Chief Executive Officer and President
Fang Yong	681,000	Executive Director and Executive Vice President
Chen Kai	681,000	Executive Director and Executive Vice President
Zhou Fan	454,000	Executive Vice President
Quan Changsheng	616,000	Vice President, Chief Financial Officer and Board Secretary
Hong Junlian	616,000	Vice President
Liang Mingchu	616,000	Vice President
Miao Qian	616,000	Vice President

Save as disclosed above, as at 30 June 2008, none of the Directors and Supervisors or their associates had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the HKEX pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of SFO, or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the company and the Stock Exchange.

Director's and Supervisors' rights to acquire shares or debentures

As at 30 June 2008, none of the Directors and Supervisors had the rights to acquire shares or debentures.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the Board of Directors of China BlueChemical Ltd.

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

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 12 to 38, which comprises the interim condensed consolidated balance sheet of China BlueChemical Ltd. (the "Company") and its subsidiaries (collectively as the "Group") as of 30 June 2008 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

18th Floor, Two International Finance Center
8 Finance Street, Central
Hong Kong
26 August 2008

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2008

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	Notes	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	5,862,677	5,508,827
Prepaid land lease payments	8	400,146	404,821
Intangible assets		10,481	12,494
Investments in associates		14,440	11,937
Available-for-sale investments	9	600	600
Deferred tax assets		49,254	47,299
		<u>6,337,598</u>	<u>5,985,978</u>
CURRENT ASSETS			
Inventories		400,684	401,299
Trade receivables	10	114,922	21,426
Bills receivable		21,350	44,960
Prepayments, deposits and other receivables	11	131,276	153,213
Available-for-sale investments	9	3,045,003	304,113
Pledged bank deposits	12	5,657	5,774
Cash and cash equivalents	12	957,985	2,780,762
		<u>4,676,877</u>	<u>3,711,547</u>
TOTAL ASSETS		<u>11,014,475</u>	<u>9,697,525</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital	13	4,610,000	4,610,000
Reserves		4,090,626	3,107,310
Proposed dividend	14	-	368,800
		<u>8,700,626</u>	<u>8,086,110</u>
Minority interests		<u>889,713</u>	<u>396,430</u>
Total equity		<u>9,590,339</u>	<u>8,482,540</u>
NON-CURRENT LIABILITIES			
Benefits liability		70,513	72,426
Interest-bearing bank and other borrowings	15	247,118	180,041
Other long-term liabilities		48,948	50,840
Deferred tax liabilities		48,298	49,076
		<u>414,877</u>	<u>352,383</u>
CURRENT LIABILITIES			
Trade payables	16	97,069	26,985
Other payables and accruals	17	776,005	683,369
Derivative financial instruments		-	6,136
Interest-bearing bank and other borrowings	15	71,663	101,015
Income tax payable		64,522	45,097
		<u>1,009,259</u>	<u>862,602</u>
TOTAL LIABILITIES		<u>1,424,136</u>	<u>1,214,985</u>
TOTAL EQUITY AND LIABILITIES		<u>11,014,475</u>	<u>9,697,525</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2008

	Attributable to equity holders of the parent			
	Paid-up capital	Statutory reserve funds	Capital reserve	Other reserves
	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)				
As at 1 January 2008	4,610,00	181,738	1,109,635	-
Profit for the period	-	-	-	-
Acquisition of a subsidiary (note 18)	-	-	-	-
Change in fair value of available-for-sale investments	-	-	-	17,138
Capital contribution by a minority shareholder	-	-	-	-
Final 2007 dividend paid	-	-	-	-
As at 30 June 2008	4,610,000	181,738*	1,109,635*	17,138*

* These reserve accounts comprise the consolidated reserves of RMB4,090,626,000 (31 December 2007: RMB 3,107,310,000) in the consolidated balance sheet.

	Attributable to equity holders of the parent			
	Paid-up capital	Statutory reserve funds	Capital reserve	Other reserves
	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)				
As at 1 January 2007	4,610,000	68,732	1,109,635	1,941
Profit for the period	-	-	-	-
Change in fair value of available-for-sale investments	-	-	-	(1,941)
Final 2006 dividend paid	-	-	-	-
As at 30 June 2007	4,610,000	68,732	1,109,635	-

Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
1,815,937	368,800	8,086,110	396,430	8,482,540
966,178	-	966,178	128,581	1,094,759
-	-	-	363,761	363,761
-	-	17,138	824	17,962
-	-	-	117	117
-	(368,800)	(368,800)	-	(368,800)
2,782,115*	-	8,700,626	889,713	9,590,339

Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
849,409	69,150	6,708,867	340,045	7,048,912
826,528	-	826,528	25,615	852,143
-	-	(1,941)	-	(1,941)
-	(69,150)	(69,150)	-	(69,150)
1,675,937	-	7,464,304	365,660	7,829,964

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2008

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

1. CORPORATE INFORMATION

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

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

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

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

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

Name	Note	Place and date of establishment	Registered capital RMB'000	Percentage of equity interest attributable to the Company		Principal activities
Subsidiaries:						
CNOOC Fudao Limited		PRC 31 December 2001	463,000	Direct Indirect	100.00 -	Manufacture and sale of fertiliser
CNOOC Kingboard Chemical Limited	18	PRC 31 October 2003	500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
Hainan CNOOC Plastic Company Limited		PRC 28 April 2002	12,716	Direct Indirect	100.00 -	Manufacture and sale of woven plastic bags
Hainan CNOOC Transportation Co., Ltd.		PRC 22 October 2001	6,250	Direct Indirect	- 66.70	Provision of transportation services
CNOOC (Hainan) E&P Gas Limited		PRC 8 November 2004	6,900	Direct Indirect	100.00 -	Manufacture and sale of liquid carbon dioxide

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

1. CORPORATE INFORMATION (continued)

Name	Place and date of establishment	Registered capital RMB'000	Percentage of equity interest attributable to the Company		Principal activities
Subsidiaries: (continued)					
Hainan CNOOC Complex Fertiliser Co., Ltd.	PRC 19 May 2000	7,500	Direct Indirect	100.00 -	Manufacture and sale of compound fertiliser
CNOOC Jincheng Coal Chemical Industry Co., Ltd.	PRC 26 November 2007	800,000	Direct Indirect	75.00 -	Manufacture and sale of fertiliser
Hainan Basuo Port Limited	PRC 25 April 2005	518,356	Direct Indirect	72.50 -	Port operation
Shanghai Qionghua Trading Co., Ltd.	PRC 7 January 2002	1,000	Direct Indirect	- 51.00	Trading of fertiliser
CNOOC Tianye Chemical Limited	PRC 4 October 1991	1,981,690	Direct Indirect	90.00 -	Manufacture and sale of fertiliser and methanol
Inner Mongolia Hong Feng Packaging Co., Ltd.	PRC 9 December 1999	3,297	Direct Indirect	- 63.54	Manufacture and sale of woven plastic bags
China Basuo Ocean Shipping Tally Co., Ltd.	PRC 9 May 2008	300	Direct Indirect	- 60.90	Tally and cargo management services
Associates:					
Guangxi Fudao Agricultural Means of Production Limited	PRC 11 January 2003	11,800	Direct Indirect	- 30.00	Trading of fertiliser
China Basuo Oversea Shipping Agency Co., Ltd.	PRC 24 May 2000	1,800	Direct Indirect	- 36.25	Provision of overseas shipping services

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. No geographical analysis is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

3. SEGMENT INFORMATION (continued)

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax, after allowances for returns and discounts; and the value of services rendered, net of business taxes and surcharges.

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

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

5. PROFIT BEFORE TAX

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

6. INCOME TAX EXPENSE

(a) Corporate income tax

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

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

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

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

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

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

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

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

(b) Hong Kong profits tax

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

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

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

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

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

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

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

9. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

10. TRADE RECEIVABLES

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

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

12. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

As at 30 June 2008, the Group's pledged time deposits of RMB5,657,000 (31 December 2007: RMB5,774,000) were deposited to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

The Group's cash and bank balances are denominated in RMB as at 30 June 2008 and 31 December 2007, except for the amount of RMB149,000 (31 December 2007: RMB8,577,000) which is translated from USD22,000 (31 December 2007: USD1,174,000); and the amount of RMB169,000 (31 December 2007: RMB2,800) which is translated from HKD193,000 (31 December 2007: HKD3,000).

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

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

13. PAID-UP CAPITAL

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

14. DIVIDENDS

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

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

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

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Current				
Bank loans – unsecured:				
- Yen loan	LIBOR+0.6	2008	-	71,284
- USD loan	LIBOR+0.65 to LIBOR+0.85	2008	70,946	16,073
- RMB loan	LIBOR+0.65	2008	-	13,147
			<u>70,946</u>	<u>100,504</u>
Other loans:				
- Obligations under finance lease	6.03	2008	717	511
			<u>71,663</u>	<u>101,015</u>
Non-current				
Bank loans – unsecured:				
- USD loan	LIBOR+0.65	2013	247,065	179,782
Other loans:				
- Obligations under finance lease	6.57	2009	53	259
			<u>247,118</u>	<u>180,041</u>
			<u>318,781</u>	<u>281,056</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

15. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	70,946	100,504
In the second year	68,591	43,829
In the third to fifth years, inclusive	178,474	131,483
Beyond five years	-	4,470
	<u>318,011</u>	<u>280,286</u>
Other loans repayable:		
Within one year or on demand	717	511
In the second year	53	259
In the third to fifth years, inclusive	-	-
Beyond five years	-	-
	<u>770</u>	<u>770</u>
	<u>318,781</u>	<u>281,056</u>

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. TRADE PAYABLES

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

17. OTHER PAYABLES AND ACCRUALS

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

17. OTHER PAYABLES AND ACCRUALS (continued)

- (a) On 25 February 2008, 6,386,000 share appreciation rights ("the SARs") were granted to senior executives, which can only be settled in cash. The exercise price of the SARs of HKD5.10 was equal to the market price of the shares on the date of grant. The SARs vest if and when (i) the average return on equity for the financial years 2007 and 2008 is not lower than 14%; and (ii) the average year-on-year increase in net profit of the Company is not lower than 10% for the financial years 2007 and 2008. If these conditions are not met, the SARs lapse. Given the SARs vest, the recipients are entitled to exercise once in each year during in 4 years period starting from February 2010 the extent of 25% of total SARs granted.

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

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

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

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

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

18. BUSINESS COMBINATION

On 29 April 2008, the Company obtained approval from the Ministry of Commerce of the PRC with regard to the revisions of the Memorandum and Articles of Association for CNOOC Kingboard. CNOOC Kingboard has been accounted for as a jointly-controlled entity, because minority veto rights existed that kept the Company from controlling CNOOC Kingboard in which the Company holds 60% of the equity interest.

As the minority veto rights lapsed through the revision of the Memorandum and Articles of Association, the Company obtained control over CNOOC Kingboard without transferring consideration with effect from 29 April 2008.

The acquisition method of accounting for a business combination has been applied to this transaction. The management is in the process of reviewing the fair values of the assets and liabilities of CNOOC Kingboard. The provisional amounts of the identifiable assets and liabilities of CNOOC Kingboard as at the date of acquisition, preliminarily estimated by the Company, approximate the carrying amounts immediately before the acquisition.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

19. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties:

(1) Recurring

	Notes	Six months ended 30 June	
		2008	2007
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
(A) Included in revenue, other income and gains			
(a) CNOOC group companies*			
Sale of goods	(i)	15,473	11,206
Provision of transportation services	(ii)	2,229	890
Provision of packaging and assembling services	(iii)	2,310	-
		<u>20,012</u>	<u>12,096</u>
(b) Associates			
Sale of goods	(i)	109,801	139,319
Provision of transportation services	(ii)	6,510	-
Provision of packaging and assembling services	(iii)	293	-
		<u>116,604</u>	<u>139,319</u>
(c) Jointly-controlled entity**			
Provision of rental services	(iii)	44	64
Provision of transportation services	(ii)	470	-
Provision of packaging and assembling services	(iii)	2,243	-
Provision of logistics services	(iii)	1,176	-
Sale of raw materials	(iii)	1,418	-
		<u>5,351</u>	<u>64</u>
(B) Included in cost of sales and other expenses			
(a) CNOOC group companies*			
Purchase of raw materials	(i)	361,893	312,954
Transportation services	(ii)	8,556	12,526
Lease of offices	(iv)	1,375	1,600
Construction and installation services	(v)	11,608	6,641
Labour services	(vi)	13,621	7,804
Logistics services	(vi)	1,114	-
		<u>398,167</u>	<u>341,525</u>
(b) Associates			
Purchase of raw materials	(i)	4,096	7,897

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

19. RELATED PARTY TRANSACTIONS (continued)

(1) Recurring (continued)

	Notes	Six months ended 30 June	
		2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
(C) Included in interest income/expense			
CNOOC Finance			
Interest income	(vii)	1,771	2,199
Interest expense	(vii)	-	730

* CNOOC group companies are defined as the Group's related companies which CNOOC is able to exert control or significant influence over.

** CNOOC Kingboard had been a jointly-controlled entity to the Company up to 29 April 2008. The Company obtained control over CNOOC Kingboard and CNOOC Kingboard became a subsidiary since 29 April 2008.

Notes:

- (i) These transactions were conducted in accordance with terms agreed between the Group, its associates and CNOOC group companies.
- (ii) Transportation income was based on mutually agreed terms with reference to the market rate.
- (iii) Income from these sales and services was determined by mutually agreed terms.
- (iv) Rental fees were based on mutually agreed terms with reference to the market rate.
- (v) The construction and installation fees were determined by market prices.
- (vi) These services were charged based on mutually agreed terms.
- (vii) Interest income/expense was based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.

The amounts of transactions with a jointly-controlled entity (CNOOC Kingboard, which became a subsidiary of the Group effective from 29 April 2008) disclosed in the table above were arrived at after deducting the Group's share portion, which was eliminated in the proportionate consolidation of the Group's investment in the jointly-controlled entity.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

19. RELATED PARTY TRANSACTIONS (continued)

(2) Non-recurring

	Notes	Six months ended 30 June	
		2008	2007
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Provision of utilities to a CNOOC group company	(i)	212	170
Fees and charges paid to a CNOOC group company	(ii)	614	-

Notes:

- (i) The transaction was conducted in accordance with terms agreed between the Group and a CNOOC group company.
- (ii) Fees and charges were based on mutually agreed terms.

(3) Balances with related parties

Except for the balances with CNOOC Finance, one of the CNOOC group companies, the balances due from/to related parties of the Group mainly resulted from trading transactions and miscellaneous amounts reimbursable by/to these related parties. Further details are set out in notes 10, 11, 15, 16 and 17 to the interim condensed consolidated financial statements.

	Due from related parties		Due to related parties	
	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
The ultimate holding company	244	-	3,628	8,480
CNOOC group companies (excluding CNOOC Finance)	17,557	6,812	93,150	24,328
An associate	38	1,934	13,390	448
A jointly-controlled entity	-	7,536	-	5,654

As at 30 June 2008, the deposits placed by the Group with CNOOC Finance amounted to RMB215,137,000 (31 December 2007: RMB184,346,000). The deposits with CNOOC Finance are entitled to the interest at the rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

19. RELATED PARTY TRANSACTIONS (continued)

- (4) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Short-term employee benefits	1,040	820
Post-employment benefits	106	85
Total compensation paid to key management personnel	1,146	905

- (5) Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the "State-owned Enterprises"). During the six months ended 30 June 2008, the Group had transactions with the State-owned Enterprises including, but not limited to, the sale of fertiliser and purchases of raw materials. The directors consider that transactions with such other State-owned Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and such other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At 30 June 2008, the Group had the following capital commitments, principally relating to the construction or purchases of property, plant and equipment:

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
Contracted, but not provided for:		
Acquisition of land and buildings	11,610	8,458
Acquisition of plant and machinery	904,980	108,282
	<u>916,590</u>	<u>116,740</u>
Authorised, but not contracted for:		
Acquisition of land and buildings	96,745	5,993
Acquisition of plant and machinery	3,373,735	1,513,142
	<u>3,470,480</u>	<u>1,519,135</u>
	<u>4,387,070</u>	<u>1,635,875</u>

(b) Operating lease commitments

As at 30 June 2008, the Group had no significant future minimum lease payments under non-cancellable operating leases.

(c) Contingent liabilities

As at 30 June 2008, the Group had no significant contingent liabilities.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

21. EVENTS AFTER BALANCE SHEET DATE

On 15 May 2008, the Company, Yichang Geological Exploration League of Hubei Province (“Yichang Geological League”) and Yichang Honghe Mineral Development Company Limited (“Yichang Honghe”) entered into a co-operation agreement, pursuant to which the parties have agreed to establish a joint venture named China BlueChem Yichang Mining Ltd. (“Yichang Mining”), in Yichang City, Hubei Province of the PRC.

On 24 July 2008, the Company, Yichang Geological League and Yichang Honghe jointly contributed RMB50,000,000 to establish Yichang Mining, of which the RMB25,500,000 was contributed by the Company, representing 51% of the ownership interest of Yichang Mining.

Yichang Mining obtained its operational business license from the relevant local administration for industry and commerce on 7 August 2008.

22. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2008 were approved and authorised for issue by the board of directors on 26 August 2008.

COMPANY INFORMATION

Registered Office	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC
Principal place of business in the PRC	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC
Representative Office in Hong Kong	65/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong
Joint Company Secretaries	QUAN Changsheng LEE Tze Leung, Raymond(ACCA,CPA)
Qualified Accountant	LEE Tze Leung, Raymond(ACCA,CPA)
Authorized representatives	YANG Yexin No. 301, Building 5,12 Yongan Road, Basuo Town, Dongfang City Hainan Province, the PRC QUAN Changsheng No. 101, Building 8,12 Yongan Road, Basuo Town, Dongfang City Hainan Province, the PRC
Alternate authorized representative	ZHONG Yingxin 8D, Manrich Court 33, St. Francis Street, Wanchai, Hong Kong
Principal banker	Bank of China, Hainan Branch
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Hong Kong & US law legal adviser	Baker & Mckenzie 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
Investor Relations/Public Relations Hong Kong	Tel: (852) 22132502 Fax: (852) 25259322
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