



Chief Executive Officer Yang Yexin

——While growing their businesses, enterprises involved or related to the agricultural sector should also take upon themselves economic, social and environmental protection responsibilities. They should present value not only to their shareholders, but also to the agricultural industry and farmers of the industry. This should be seen as an obligation by a sizeable enterprise aiming for long term development.
——Yang Yexin

CEO'S REPORT

Dear Shareholders,

In 2006, China BlueChem strictly executed the resolutions of the Board during the year to implement the development strategy through organic growth and acquisition expansion. Fruitful achievements are being made in various areas including production, operation, project construction, acquisition, restructuring and H-share listing.

Substantial growth in financial & operating results for the year

In 2006, our revenue and net profit attributable to equity holders of the parent amounted to RMB3,465.8 million and RMB1,645.8 million respectively, representing a year-on-year increase of 46.2% and 74.4% respectively. The Company's return on equity ("ROE") was 31.4% with EBITDA reaching RMB1,688.1 million.

As one of the largest and most efficient nitrogenous fertilizer and methanol producers in China in terms of production volume and energy consumption, we capitalized on the opportunity arising in the country's fast growing economy and government policies supporting agricultural development. The Company attained rapid development through acquisitions and restructuring, cooperation and forging of joint ventures and execution of new projects.

Remarkable growth in production volume of urea and methanol

In 2006, the total output of the Group's three urea production facilities was 1,927,458 tonnes, a year-on-year increase of 41.6%. It included 606,179 tonnes and 775,146 tonnes from Fudao Phase I and Phase II, and 546,133 tonnes produced from Tianye Chemical. Two methanol facilities - CNOOC Jiantao and Tianye Chemical - began commercial operations on 1 December and 1 April respectively and produced a total of 143,862 tonnes of methanol, with the former producing 54,167 tonnes and the latter 89,695 tonnes.

Safe and stable operation of production facilities

In 2006, upholding the principle of "safety first and prevention presides" despite complicated operating environment with scheduled major repair and maintenance for two sets of facilities and complicated pre-operation testing for the new methanol facility in Hainan, we better accomplished our HSE management goal due to stricter safety inspections and supervision. There had been no material incidents with regard to health, safety, environmental protection, quality or over-emission during the year. Fudao Phase I recorded the longest continuous operation without interruption. With total quality management, products quality in both the Hainan and Inner Mongolia plants were further strengthened and

raised. In September 2006, the Fudao brand granular urea was accredited as a "Famous Brand in China".

Breakthrough achieved through acquisitions and restructuring

On 19 January 2006, the Company obtained control over Tianye Chemical, and its financial statements were then consolidated into the Company's results. Since then, the Company's designed annual production capacity for urea and methanol was boosted by 520,000 tonnes and 200,000 tonnes respectively. With our efforts in increasing facility investment, financial re-structuring and enhanced internal management, Tianye Chemical's operations was greatly improved and it brought in RMB1,009.0 million in sales revenue for the Company for 2006.

In October 2006, following the decision of the State-owned Assets Supervision and Administration Commission of the State Council, China National Chemical Construction Corporation ("CNCCC") merged into CNOOC. CNCCC has an annual production capacity of 1.40 million tonnes of compound fertilizers and 650,000 tonnes of phosphorus compound fertilizers. CNOOC fully supports the Company's strive to become a flagship enterprise in the mineral fertilizer industry in China.

Remarkable progress in project development

Construction of the CNOOC Jiantao methanol plant was a key pursuit of our company in 2006. We overcame various difficulties and accelerated the progress to make sure related works were completed on schedule. On 12 September 2006, the trial run of China's largest methanol facility was successful with quality methanol produced in the first attempt. The project realized four major achievements of "project completion one month ahead of the schedule, RMB100 million savings in investment budget, no major accident and no quality incidents. The facility has been running stably after full operation commenced and has met designed standards with products complying with national quality standards and the AA grading of the US standard. Apart from supplying to the coastal regions in China, the facility also sells its products to customers in Southeast Asia.

The Group's new terminal for liquid hazardous chemicals with one 10,000 dwt berth and one 5,000 dwt berth at the Group's Hainan production complex for the transportation of the methanol produced by CNOOC Jiantao methanol plant passed the safety examination on 28 December 2006 with vessels of 3,000 dwt able to moor.

Progress for our 60,000-t/a polyoxymethelene (POM) facility and the 1.13 million-t/a methanol facility were both under way. Feasibility studies of the two projects had passed the review by specialists, and environmental, safety and occupational health assessments reports are expected to be approved by relevant government authorities in the near future.

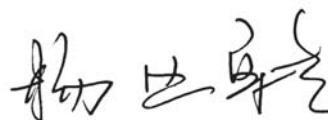
Actively participated in soil testing and explored new distribution & marketing channel

Taking advantage of the Government's determination to modernize the country's agricultural industry and build the New Socialist countryside, we started pilot operation of centralized supply of mineral fertilizers together with soil testing and fertilizer formulae prescription in Hainan, to attain our corporate goal of "attaining corporate growth while bringing benefits to farmers". The Company worked together with the agricultural departments in Hainan in selecting five test fields in Ledong, Danzhou, Lingao, Qionghai and Wanning and the results of the tests showed that the fertilizers had worked effectively in increasing harvest by nearly 20%. The encouraging test results were not only recognized locally by farmers, but had also drawn the attention of the local authorities and central government. This achievement has presented us with a strong foundation for growing our business through acquisitions and developing new product markets.

Looking into 2007, our strategic objective is to evolve into the flagship of China's fertilizer industry and the most cost-effective resources conversion enterprise in the related chemical products arena with competitive edge both in domestic and international markets. A scientific approach for sustainable development will be adopted through technology and service module innovation. We will adhere to our core urea business while gradually expand into diversified products portfolio in related chemical products. The ultimate goal is to realize corporate growth while contributing significantly to the development of China's agricultural industry and community. With these aspirations in mind, China BlueChem will optimize its internal systems and identify suitable acquisitions targets during the process of market consolidating to advance its business in scale and competitiveness, and fortify its standing in the mineral fertilizer and the chemical industry. To this end, we will forge ahead with the followings:

1. Strive for optimum management of production, quality, health, safety and environmental issues and control of production cost;
2. Keep the progress of methanol and POM projects on schedule;
3. Continue development of new projects and technological research and development;
4. Expansion through mergers and acquisitions to optimize asset structure;
5. Pushing forward the soil-testing & fertilizer prescription work and the centralized fertilizer supply mechanism in pilot provinces;
6. Improve internal control system

Last but not least, I would like to express my sincere appreciations to all fellow colleagues for their hard work and shareholders for their trust and support!



Chief Executive Officer

