

CORPORATE GOVERNANCE REPORT

Since its listing on the HKEX on 29 September 2006, and during the reporting period, the Company had strictly complied with the relevant provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules"). The Company strives to establish and maintain a high standard of corporate governance practices, to perfect the internal monitoring procedures and corporate governance measures, to enhance transparency and to fully safeguard shareholders' interests.

In accordance with the rules set out in the Company Law of the PRC, regulations and guidelines from regulatory bodies of the PRC and overseas and the requirement set out in the Listing Rules and its code provisions, the Company has established a modernized and balanced corporate governance structure which comprises a number of independently operated bodies including shareholders in general meetings, the Board, the Supervisory Committee and the senior management. The Board has also established the Nomination Committee, the Remuneration Committee and the Audit Committee.

In 2006, the Company upheld its regulations of corporate governance to enable the Company to operate efficiently and in the interests of its shareholders. The effectiveness of the Board in decision-making and the Supervisory Committee in supervision enhanced the operational management standard and perfected the regulatory system. Significant efficacies were achieved in various respects.

1. Board of Directors

The Board of Directors (the "Board") comprises all Directors of the Company, and is the decision-making body within the Company's corporate governance structure. The Board is accountable to the shareholders in general meetings and discharges the following duties:

- To convene shareholders' general meetings and to report on its work to shareholders in general meetings;



- To implement the resolutions passed by shareholders' general meetings;
- To decide on the company's business plans and investment proposals;
- To formulate the company's proposed annual financial budgets and accounts;
- To formulate the company's proposals for profit distribution and recovery of losses;
- To formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds, other securities and listing proposals;
- To prepare plans for the merger, division, changes to the company status or dissolution of the Company;
- To decide on the establishment of the company's internal management structure;
- To appoint or remove the company's President and based on the President's recommendation, to appoint or remove members of the senior management of the company and to decide on their remuneration;
- To formulate the company's basic management system;
- To formulate proposals for amendments to the company's Articles of Association;
- To propose to shareholders' general meetings the appointment,

reappointment, or removal of the accounting firms as auditors for the company;

- To exercise powers given in shareholders' general meetings and by the Articles of Association.

The Board consists of eight Directors with three Executive Directors, one Non-executive Director and four Independent Non-executive Directors. The qualifications of the Company's four Independent Non-executive Directors were in compliance with the Listing Rules 3.10(1) and (2). In addition, the Company has received annual confirmations from each of its Independent Non-executive Directors acknowledging full compliance with the relevant requirements in respect of their independence, the Company therefore considers all Independent Non-executive Directors to be independent.

The Independent Non-executive Directors of the Company have no business or financial interests in either the Company or its subsidiaries. Each of the Independent Non-executive Directors has confirmed their independence in the Company, and has not taken up any administrative post in the Company. Independent Non-executive Directors owe a fiduciary duty to the Company and the shareholders, in particular, they are entrusted with the duty to safeguard the interest of minority shareholders. In the decision making process of the Board, they are vital to act as the balancing body, and they play a key role in the Company's corporate governance practices. In 2006, the Independent Non-executive Directors had expressed their views on matters relating to the interests of the shareholders and of the Company as a whole.

Board member	Position	Date of appointment
WU Mengfei	Chairman and Non-executive Director	25 April 2006
YANG Yexin	Executive Director	25 April 2006
FANG Yong	Executive Director	25 April 2006
CHEN Kai	Executive Director	25 April 2006
WANG Wenshan	Independent Non-executive Director	25 April 2006
ZHANG Xinzhi	Independent Non-executive Director	25 April 2006
WU Xiaohua	Independent Non-executive Director	3 July 2006
TSUI Yiu Wa, Alec	Independent Non-executive Director	25 April 2006

Note: The service agreement for each of the Director is for an initial term of three years and will expire upon expiry of their respective term of office subsequent to which they are eligible for re-election at a general meeting of the Company.

Meetings of the Board and major resolutions

During the reporting period, the Company convened eight Board meetings, in which five were physical meetings and three meetings are held by electronic means. All such meetings were held in compliance with provisions of the Articles of Association of the Company. The following is a detailed account of the meetings:

(1) On 25 April 2006, the first Board meeting of the first session of the Board was held in Haikou of Hainan province. During the meeting, eight resolutions were passed including 'Resolution on the election of the Chairman of China BlueChemical Ltd', 'Resolution on the appointment of the President and the CEO of China BlueChemical Ltd', 'Resolution on the appointment of the Executive Vice President and the Vice President of China BlueChemical Ltd', 'Resolution on the appointment of the Chief Financial Officer of China BlueChemical Ltd', 'Resolution on the appointment of the Board Secretary of China BlueChemical Ltd' and 'Resolution on the establishment of internal organization of China BlueChemical Ltd'.

(2) On 25 April 2006, the second Board meeting of the first session of the Board was held in Haikou of Hainan province. During the

meeting, eighteen resolutions were passed including 'Resolution on the initial public offering and listing of the H shares of China BlueChemical Ltd;', 'Resolution on changing the Company's status to permit issuance of foreign shares and overseas listing;', 'Resolution on the use of proceeds from the listing of the Company's H shares;', 'Resolution on the amendment of the Company's "Articles of Association"', 'Resolution on the establishment of special committees under the Board of China BlueChemical Ltd and their respective terms of reference and member appointments' and 'Resolution on the appointment of auditors of the Company and determination of their remuneration'.

(3) On 25 May 2006, the third Board meeting of the first session of the Board was held in Beijing. During the meeting, nine resolutions were passed including 'Resolution on the amendment of the current "Articles of Association of China BlueChemical Ltd.";', 'Resolution on the amendment of the "Articles of Association of China BlueChemical Ltd." to be applicable after listing of the Company's H shares' and 'Resolution on appointment of an additional Independent Non-executive Director of China BlueChemical Ltd.'.

(4) On 15 August 2006, the fourth Board meeting of the first session of the Board was held in Haikou of Hainan province. During the meeting, 54 resolutions in relation to the issuance and listing of the Company's H share were passed.

(5) On 5 September 2006, the fifth Board meeting of the first session of the Board was held by electronic means, the 'Resolution on certain clauses of the "Articles of Association of China BlueChemical Ltd" to be applicable only after adjustment made upon issuance of the Company's H shares' was considered and passed.

(6) On 16 November 2006, the Board held a meeting by electronic means and passed the resolution on the establishment of a representative office in Hong Kong and related matters.

(7) On 11 December 2006, the sixth Board meeting of the first session of the Board was held in Haikou of Hainan province. During the meeting, three resolutions were discussed and passed, including the 'Resolution on the Company's participation in the eSubmission System of HKEX' was considered and passed.

(8) On 30 December 2006, in accordance with the guidelines approved by the first extraordinary general meeting of the Company in 2006, the Board considered and passed the resolution on the Company's pre IPO profits by way of electronic communication voting.

The minutes of board meetings are retained by the Board secretary.

Where necessary, Directors can seek independent professional opinions; the fees incurred will be paid by the Company.

Attendance rate of Board members in board meetings during 2006

Director	Attendance/Number of meetings	Attendance rate (%)
WU Mengfei	8/8	100
YANG Yexin	7/8	87.5
FANG Yong	8/8	100
CHEN Kai	8/8	100
WU Xiaohua (Note)	5/5	100
TSUI Yiu Wa, Alec	8/8	100
ZHANG Xinzhi	8/8	100
WANG Wenshan	7/8	87.5
Average attendance rate	-	96.9

Note : WU Xiaohua was appointed as an Independent Non-executive Director of the Company on 3 July 2006.

2. Committees under the Board

Audit Committee

The primary duty of the Audit Committee is to review and supervise the financial reporting process. It is also responsible for examining any issues related to the appointment, remuneration and removal of auditors. In addition, it is responsible for reviewing the effectiveness of the Company's internal control system so as to ensure efficiency of business operation and fulfillment of the Company's targets and strategies. The scope of review and examination include finance, operation, compliance and risk management. The Audit Committee also examines proposals on internal audit, submits relevant reports and related opinions.

The Audit Committee consists of three Independent Non-executive Directors, namely TSUI Yiu Wa, Alec, ZHANG Xinzhi and WU Xiaohua. Mr. TSUI Yiu Wa, Alec is the Chairman.

In 2006, the Audit Committee held two meetings, details of which are as follows:

On 15 August 2006, the Audit Committee held its first meeting of the year in Haikou of Hainan province. During the meeting, it reviewed the Company's interim report for 2006 and profits forecasts for 2006 and recommended the same for the Board's approval;

On 11 December 2006, the Audit Committee held its second meeting of the year in Haikou of Hainan province to review the internal control report of the Company for 2006 and recommended the same for the Board's approval.

Attendance rate of individual member in Audit Committee meetings of 2006

Audit Committee member	Attendance/Number of meetings	Attendance rate (%)
TSUI Yiu Wa, Alec	2/2	100
ZHANG Xinzhi	2/2	100
WU Xiaohua	2/2	100

Remuneration Committee

The Remuneration Committee considers and makes recommendations to the Board for approval of the remuneration and other benefits paid by the Company to Directors and members of the Company's senior management. It also makes recommendations to the Board on the Company's policy and structure for remuneration of the Company's Directors and senior management, including the performance assessment criteria and incentive plans. It also monitors the implementation of the Company's remuneration system.

The Remuneration Committee consists of three members, of which two are independent Non-executive Directors, namely ZHANG Xinzhi and Mr. TSUI Yiu Wa, Alec and a Non-executive Director, WU Mengfei. Mr. ZHANG Xinzhi is the Chairman.

In 2006, the Remuneration Committee held its first meeting in Haikou of Hainan province on 11 December 2006.

Attendance rate of individual member in Remuneration Committee meetings in 2006

Remuneration Committee member	Attendance/Number of meetings	Attendance rate (%)
ZHANG Xinzhi	1/1	100
TSUI Yiu Wa, Alec	1/1	100
WU Mengfei	1/1	100

Nomination Committee

The Nomination Committee reviews the structure, size and composition (including skills, knowledge and experience) of the Board on a regular basis and makes recommendations to the Board of proposed changes of the Board. It assesses the independence of the Independent Non-executive Directors and makes recommendations to the Board on matters relating to the appointment, re-appointment and plans relating to succession office for Directors.

The Nomination Committee consists of three members, including an Executive Director, YANG Yexin and two Independent Non-executive Directors, namely, Mr. WANG Wenshan and Mr. ZHANG Xinzhi. Mr. YANG Yexin is the Chairman.

The Nomination Committee had not held any meeting during 2006.

3. Supervisory Committee

The primary duties and authority of the Supervisory Committee include but are not limited to the following:

- To verify financial reports and other financial information to be submitted by the Board to the shareholders in general meetings;
- To review the Company's financial position; and
- To supervise the Directors and other members of senior management in relation to their compliance with applicable laws, administrative rules, regulations and the Company's Articles of Association.

The Supervisory Committee consists of three members, two of whom are external supervisors (one member is a shareholders' representative and another member is an independent supervisor) and one of whom is elected by the employees of the Company.

For the work performed by the Supervisory Committee, please refer to the Report of the Supervisory Committee of this Annual Report

4. Senior management

The senior management consists of the Chief Executive Officer and President, the Vice President, the Chief Financial Officer (Financial Controller) and the Board Secretary. The Chief Executive Officer (President) reports to the Board while all functional departments and other senior management report to the Chief Executive Officer (President). The Chief Executive Officer (President) has the authority to organize and carry out operational activities in accordance with the law and regulations, the Company's Articles of Association and power authorized by the Board and exercises the following major powers:

- To undertake routine management of the Company and report to the Board;
- To organize implementation of resolutions adopted in shareholders' general meetings and Board meetings;
- To formulate annual business plans and investment proposals, annual financial budgets and accounts and profits distribution proposals;
- To formulate establishment of internal management and regulatory bodies;
- To formulate basic management system.

5. Securities transaction by Directors and Supervisors

The Company adopts the Model Code set out in Appendix 10 to the Listing Rules as the model code for securities transaction by Directors and Supervisors of the Company. After specific inquiries to the Company's Directors and Supervisors, for the year under review, all Directors and supervisors have confirmed they have strictly complied with the requirements stated in the Model Code.

The Board will examine the corporate governance practices and operation of the Company from time to time so as to ensure compliance with the relevant provisions of the Listing Rules and ensure safeguard on shareholders' interests.

6. Chairman and Chief Executive Officer

Pursuant to A.2.1 of the Code on Corporate Governance Practices, the roles of Chairman and the Chief Executive Officer should be separated and should not be performed by the same individual.

Mr. WU Mengfei is the Chairman of the Company as well as the Company's legal representative.

Mr. YANG Yexin is the Chief Executive Officer and President of the Company and is responsible for the overall operation of the Company.

7. Communications with investors

The Board recognizes the importance of good and effective communication with shareholders as a whole. Pursuant to the provisions and requirements of the regulatory bodies, the Company is proactive in maintaining a good relationship with investors and making proper information disclosure.

The office of the Board Secretary is responsible for the communications between the Company and shareholders and other investors.

8. Internal control

The Company has established a comprehensive internal control system and mechanism in various aspects of corporate standard, business management process flow, information system, audit control, risk management on investment and internal financial control and management. The systems shall be subject to constant improvement to ensure safeguard on shareholders' interests.

The Board has conducted a review on the effectiveness of the system of internal control of the Group through the Audit Committee and confirmed its effectiveness.

9. Auditors and remunerations

The Company's external auditors are Ernst & Young. The audit fee of the Company for the year ended 31 December 2006 was RMB2.1 million.

The Company also incurred approximately RMB5.2 million for the services provided by the reporting accountants in respect of the Company's IPO of H shares. These services were provided in 2005 and 2006 and it was not practicable to separate the amount paid for such services between the years 2005 and 2006.

10. 2006 annual review on non-competition agreement

On 11 December 2006, the Company held a meeting on 2006 annual review of non-competition with CNOOC.

The meeting reviewed the period commencing on the Company's date of listing to the date of the meeting, identifying any investment opportunity made available to CNOOC or its subsidiaries (not included the Company) that competes or may compete with the Company's core business.

In December 2006, pursuant to the decision of the State-owned Assets Supervision and Administration Commission of the State Council, China National Chemical Construction Corporation ("CNCCC") was merged with CNOOC, the parent company of the Company, by absorption. CNCCC has an annual production capacity of 1.40 million tonnes compound fertilizers and 650,000 tonnes of phosphorus compound fertilizers, which do not constitute competition in the industry with the nitrogenous fertilizers and methanol business, the Company's core operations.

11. Director's responsibilities for preparing the financial statements

The Directors acknowledged their responsibility for preparing the financial statements of the Group for the year ended 31 December 2006.