

Report of the Supervisory Committee

In 2006, all members of the Supervisory Committee, in accordance with the Company Law of the PRC and the requirements of the Articles of Association and with the sense of responsibility to the shareholders and the long-term development of the Company together with the principle of honesty and integrity, have performed their supervisory functions and carried out their tasks in order to provide strong support to the regulated operation and sound results of the Company.

1. Meetings of the Supervisory Committee

(1) On 25 April 2006, the Company held the first meeting of the Supervisory Committee in Haikou, Hainan, and the committee considered and approved the "Resolution for the election of the chairman of the Supervisory Committee of China BlueChemical Ltd.", whereby Mr. Yin Jihong was elected as the chairman of the Supervisory Committee.

(2) On 11 December 2006, the Company held the second meeting of the Supervisory Committee in Haikou, Hainan, and the committee considered and approved the "Rules for the Procedures of Meeting of the Supervisory Committee of China BlueChemical Ltd."

2. Principal inspection and supervision work of the Supervisory Committee

(1) During the reporting period, members of the Supervisory Committee carried out inspection and supervision of the financial management system and the financial position of the Company, including scheduled inspection of the financial reports and non-scheduled review of the accounting evidence and books of the Company.

(2) During the reporting period, members of the Supervisory Committee attended 2 extraordinary general meetings and 5 Board meetings, and they made recommendations to matters considered by the Board meeting and provided supervision in respect of the lawfulness and compliance of the decisions in the Board meetings.

3. Independent opinions of the Supervisory Committee on relevant matters

(1) The management condition of the Company's operations
During the reporting period, the Company operated in accordance with the law with in-depth efforts on strengthening the management, so that its cost-effectiveness grew steadily and its strength increased. The Company took the initiative to be supervised by the regulatory authorities and domestic and overseas investors, so that information disclosure was clear. The Company had put more efforts in budget management, centralized management of capital and cost control. The Company has established a sound

internal control system which effectively prevented operational risks. The procedures of decision making of the Company have been lawful, and the Directors and senior management of the Company have been faithful to their position and duties and have worked diligently and responsibly. They have not violated the laws and regulations or the Articles of Association in discharging their duties, and they have not done anything detrimental to the interests of the Company and shareholders.

(2) The Company has been strictly implementing the laws and regulations relating to finance and its financial management system is sound and has been implemented effectively. Its accounting treatment is in line with consistent principles. The Company's financial reports have truly and fairly reflected the financial position and results of operation of the Company.

The Supervisory Committee has reviewed the audited reports in respect of the financial position and operating results of the Company for 2006 audited by Ernst and Young Huaming and Ernst and Young Certified Public Accountants pursuant to the accounting principles of the PRC and the International Accounting Principles respectively without any qualified opinion.

(3) Use of proceeds

During the reporting period, the proceeds from the IPO to issue RMB1,610 million shares of listed foreign investment shares (including shares from the over-allotment) at an offer price of HK\$1.90, net of expenses, were equivalent to an amount of RMB2,932.3 million. Such proceeds including the interest locked up of RMB88.9 million during the offering period have been received and the proceeds have been used in the same way as has been undertaken in the prospectus of the Company.

(4) Acquisition and disposal of assets

During the reporting period, there has not been any acquisition or disposal of assets which was prejudicial to the interests of shareholders or would cause any loss of assets of the Company.

(5) Connected transactions

During the reporting period, the Company entered into connected transactions with connected parties such as CNOOC and its subsidiaries. The pricing of the connected transactions was open and fair and there has not been any approved connected

transaction which was prejudicial to the interests of the Company or shareholders.

(6) Implementation of the resolutions of the shareholders general meetings

The Supervisory Committee has no objection to the reports and proposals put forward in the shareholders general meetings for consideration, and the Board has faithfully implemented the resolutions of the meetings.

In 2007, the Supervisory Committee will discharge its duties pursuant to the requirements of the Company Law of the PRC and the Articles of Association, and as it has been, it will effectively supervise the Company, its directors and the senior management. It will closely monitor the production, operation and management of the Company and pay attention to any significant development so as to facilitate the growth of the Company's economic effectiveness and to faithfully protect the interests of the Company and shareholders.

By Order of the Supervisory Committee
Chairman of the Supervisory Committee
Yin Jihong
Hainan, the PRC, 3 April 2007



