中海石油化学股份有限公司
China BlueChemical Ltd.

Interim Report 2007 中期報告

股票代碼 HKSE CODE 3983

CONTENTS

FINANCIAL HIGHLIGHTS

Selected Interim Condensed Consolidated Income Statement Data
For the six months ended 30 June 2007
(All amounts expressed in thousands of Renminbi, except per share data)

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
REVENUE	**2,312,027**	1,613,833
Cost of sales	**(1,316,102)**	(993,012)
Gross profit	**995,925**	620,821
Other income and gains	**37,672**	118,321
Excess over the cost of a business combination	**-**	577,619
Selling and distribution costs	**(42,134)**	(10,073)
Administrative expenses	**(88,606)**	(92,046)
Other expenses	**(24,424)**	(22,642)
Finance revenue	**14,133**	11,805
Finance costs	**(11,586)**	(27,909)
Exchange gain/(loss), net	**13,193**	(12,547)
Share of profits and losses of associates	**1,220**	1,137
PROFIT BEFORE TAX	**895,393**	1,164,486
Income tax expense	**(43,250)**	(55,953)
PROFIT FOR THE PERIOD	**852,143**	1,108,533
Attributable to:		
Equity holders of the parent	**826,528**	1,084,821
Minority interests	**25,615**	23,712
	852,143	1,108,533
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
- Basic (RMB fen)	**17.93**	36.16

Selected Interim Condensed Consolidated Balance Sheet Data
As at 30 June 2007
(All amounts expressed in thousands of Renminbi)

	30 June 2007	31 December 2006
	(Unaudited)	(Audited)
Assets		
Non-current assets	**6,120,401**	6,331,115
Current assets	**3,031,139**	2,779,767
Total assets	**9,151,540**	9,110,882
Equity and liabilities		
Total equity	**7,829,964**	7,048,912
Non-current liabilities	**376,419**	563,825
Current liabilities	**945,157**	1,498,145
Total equity and liability	**9,151,540**	9,110,882

OPERATIONAL HIGHLIGHTS

Output volume
Unit: tonne

Facility	For the six-month period ended 30 June		Change (%)
	2007	2006	
Urea			
Fudao Phase I	**287,064**	284,800	0.8
Fudao Phase II	**387,109**	319,954	21.0
Tianye Chemical (Note 1)	**294,436**	300,028	(1.9)
Total for the Group	**968,609**	904,782	7.1
Methanol			
CNOOC Jiantao (Note 2)	**186,329**	-	-
Tianye Chemical (Note 3)	**93,767**	27,059	246.5
Total for the Group	**280,096**	27,059	935.1

Utilization rate
Unit: %

Facility	For the six-month period ended 30 June		Change (%)
	2007	2006	
Urea			
Fudao Phase I	**110.4**	109.5	0.8
Fudao Phase II	**96.8**	80.0	21.0
Tianye Chemical	**113.2**	119.6	(5.4)
Methanol			
CNOOC Jiantao	**103.5**	-	-
Tianye Chemical	**93.8**	54.1	73.4

Sales volume
Unit: tonne

Facility	For the six-month period ended 30 June		Change (%)
	2007	2006	
Urea			
Fudao Phase I	**288,960**	294,745	(2.0)
Fudao Phase II	**395,385**	321,135	23.1
Tianye Chemical	**288,540**	284,706	1.3
Total for the Group	**972,885**	900,586	8.0
Methanol			
CNOOC Jiantao	**191,813**	-	-
Tianye Chemical	**92,705**	32,321	186.8
Total for the Group	**284,518**	32,321	780.3

Note 1: The production volume of Tianye Chemical has been consolidated into our financial statements since 19 January 2006;

Note 2: CNOOC Jiantao's data 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;

Note 3: Tianye Chemical's methanol facilities commenced business operations on 1 April 2006, from which output and sales were computed.

CEO'S REPORT

Dear respectable shareholders,

I am pleased to present to you the interim report of China BlueChemical Ltd. (the "Company") and its subsidiaries (the "Group") for the six months ended 30 June 2007 for your review.

Remarkable Production and Operation Results

We overfulfilled our production and sales tasks in the first half of this year. In the first half of 2007, we produced 968,609 tonnes of urea, completing 50.45% of the whole year's plan and we sold 972,885 tonnes of urea, completing 50.67% of the whole year's plan; we produced 280,096 tonnes of methanol, completing 52.51% of the whole year's plan and we sold 284,518 tonnes of methanol, completing 53.68% of the whole year's plan. The Group's revenue in the first half of 2007 was RMB 2,312.03 million, representing an increase of 43.26% over the same period of 2006; while gross profit amounted to RMB 995.93 million, representing an increase of 60.42% over the same period of 2006; net profit attributable to equity holders of the parent comparing with RMB 507.20 million for the same period in 2006 (after excluding the one-time gain of excess over the cost of a business combination relating to the acquisition of Inner Mongolia Tianye Chemical Industry Limitid in 2006 of approximately RMB 577.62 million) increased 62.96% to RMB 826.53 million.

Production Facilities Continued Safe and Stable Operation

In the first half of 2007, the Group's urea facilities and methanol facilities have all maintained safe and stable operation. Among them, on 19 April, the Fudao Phase I urea facilities had kept running for 114 days; on 17 April, the Fudao Phase II urea facilities had kept running for an continual period of 179 days, marking the best record in history; it is particularly worth noting that the methanol facilities of CNOOC Jiantao had kept running for 96 days on 11 March and realized its designed production capacity in the first six months after commencing commercial production.

In the first half of 2007, we realized the HSE objective in terms of safety production with no occurrence of fatal liability incident or occupational injury/disease incident; and our safety training and certified ratio reached 100%, OHSA statistical recordable accident rate was 0.334, and lower than the Company's OHSA target 0.346 for the year.

In the first half of the year, the Company's urea products achieved a quality superiority rate of 99.63% with net weight of each packaged product attaining 100% passing rate.

Project Construction Steadily Progressing

The 600,000 tonnes methanol project which has been completed and put into operation has made an investment saving of RMB 360 million when compared with budgeted costs. The methanol it produced was of excellent quality and has achieved good economic efficiencies after commencing operation. Other projects in construction have also been steadily progressing.

Methanol Project at 1.13 Million Tonnes per Year and POM Project at 60,000 Tonnes per Year

In terms of the methanol project of 1.13 million tonnes per year, thanks to our prompt tender adjustment and procurement strategy, we managed to control the project construction investment within the original budget amid substantial markup on costs of chemical facilities and construction at home and abroad, establishing a solid foundation for the smooth construction of the project. In terms of the POM project at 60,000 tonnes per year, technical based selection criteria negotiation and contractor bidding selection have been preliminarily completed. These two projects have not commenced operation due to the failure to obtain the approval of environmental evaluation. The State Environmental Protection Administration of China has put forward opinions and requirements after accepting and reviewing the environmental evaluation of the two projects.

The Company has prepared a supplement to the environmental evaluation report of the projects for submission to the State Environmental Protection Administration of China.

Basuo Port Chemical Product Terminal Construction

We have basically completed the construction of the Basuo Port chemical product terminal and are making an initiative in preparing for the project completion settlement.

Other Projects and Research on Potential Investment Opportunities

The research of the urea project at 1 million tonnes per year in Jincheng, Shanxi Province and the compound fertilizer project at 1 million tonnes have seen smooth progress with kinds of conditions for these projects' implementation underway.

Further Enhancement of Management and Internal Control

After the successful launch of ERP on 30 June last year, we have been making great efforts in our follow-up work to further enhance the management system set up and improvement of this system. The Company took a series of measures in the first half of this year, such as standard and procedure training, which have enhanced the internal control system and gradually built up a standardized operation awareness among all employees.

Outlook

In the second half of 2007, the Company will continue to focus on meticulous management of production and sales planning to guarantee the successful fulfillment of the whole year's production and sales objectives. Moreover, the Company will focus more attention to promote the environmental evaluation report of the methanol project at 1.13 million tonnes per year and POM project at 60,000 tonnes per year with an aim to obtain the approval of the State Environmental Protection Administration of China for the purpose of early project commencement. Meanwhile, the Company will closely follow up on opportunities of other projects and acquisition, striving for a breakthrough with the progress achieved in the first half of 2007.

I believe that, with the efforts of the management and employees, the Company will create remarkable returns for our shareholders in 2007.

YANG YEXIN

CEO & President

26 August 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Urea industry

In 2007, China's economy shall sustain rapid growth, and food production will continue to increase steadily.

According to the statistics published by the National Bureau of Statistics of China, total production of urea amounted to 12.42 million tonnes (net), representing a 14.05% increase over the 10.89 million tonnes (net) in the first half of 2006. With respect to domestic demand for urea, the growth in industries was steady whereas the increase in agricultural demands slowed down by droughts and floods. However, due to the substantial increase in international urea prices, which continued to stay at the same high levels, urea export volume in the first half of the year was comparatively higher, reaching 1.25 million tonnes for the period from January to June. It represented a 119.30% growth over 570,000 tonnes in the corresponding period last year.

Domestic urea selling price may decline due to seasonality in the second half of 2007. However, domestic selling price will be sustained by strong international market price, which is forecasted to maintain at high level. In addition, some domestic urea producers suffer from increasing production cost, which supports the urea price.

The company expected the average annual urea selling price of 2007 will maintain at the same level of 2006.

Methanol industry

In the first half of 2007, with the gradual inception of newly expanded facilities, the domestic production capacity of methanol increase rapidly. According to the statistics by the National Bureau of Statistics of China, the production volume of methanol in the PRC in the first half of 2007 increased by 34.11% to 4.60 million tonnes. In terms of demand, the nominal methanol consumption in the PRC amounted to 4.50 million tonnes, representing an increase of 12.22% as compared to the same period in 2006, the market price of methanol retreated from its peak in early 2007 to its normal level in the previous years.

Since July 2007, domestic methanol selling price rebounded, mainly attributable to strong domestic demand driven by the development of DME industry. Meanwhile, once the PRC further promotes the research and development on methanol fuel, the demand for methanol will substantially increase.

The company expected the methanol price keep at a reasonably high level in the second half of 2007.

Business Review

The Company's meticulous management of the five facilities resulted in a highly remarkable capacity utilisation rate. The production volumes of urea and methanol reached 968,609 tonnes and 280,096 tonnes (calculated based on the Group's 60% interest in CNOOC Jiantao), respectively in the first half of 2007. In respect of product sales, the Group has particularly made a prospective analysis of the urea and methanol markets. Methanol sales benefited from the international price of methanol which highly exceeded the domestic price in the first quarter, total exports of methanol amounted to 80,696 tonnes in the first half of the year; while urea sales benefited from the increase in the international price of urea, Hainan region through its agents, has exported 186,241 tonnes of urea in the first half of 2007, achieving outstanding economic efficiency.

Urea

	For the six-month period ended 30 June					
	2007			2006		
Urea	**Output (tonnes)**	**Sales (tonnes)**	**Utilisation Rate (%)**	Output (tonnes)	Sales (tonnes)	Utilisation Rate (%)
Fudao Phase I	**287,064**	**288,960**	**110.4**	284,800	294,745	109.5
Fudao Phase II	**387,109**	**395,385**	**96.8**	319,954	321,135	80.0
Tianye Chemical (Note 1)	**294,436**	**288,540**	**113.2**	300,028	284,706	119.6
Total for the Group	**968,609**	**972,885**	**–**	904,782	900,586	–

Methanol

	For the six-month period ended 30 June					
	2007			2006		
Methanol	**Output (tonnes)**	**Sales (tonnes)**	**Utilisation Rate (%)**	Output (tonnes)	Sales (tonnes)	Utilisation Rate (%)
CNOOC Jiantao (Note 2)	**186,329**	**191,813**	**103.5**	–	–	–
Tianye Chemical (Note 3)	**93,767**	**92,705**	**93.8**	27,059	32,321	54.1
Total for the Group	**280,096**	**284,518**	**–**	27,059	32,321	–

Note 1: The production volume of Tianye Chemical has been consolidated into our financial statements since 19 January 2006;

Note 2: CNOOC Jiantao's data 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;

Note 3: Tianye Chemical's methanol facilities commenced business operations on 1 April 2006, from which output and sales were computed.

Financial Review

Revenue and gross profit

The Group's revenue in the first half of 2007 was RMB2,312.0 million, representing an increase of 43.26% (or RMB698.2 million) from RMB1,613.8 million in the corresponding period of 2006; while gross profit amounted to RMB995.9 million, representing an increase of 60.42% (or RMB375.1 million) from RMB620.8 million in the corresponding period of 2006. Such increases were mainly because (1) methanol has become a new focus of the Group's business growth, with its revenue and gross profit increased by RMB549.6 million and RMB337.6 million, respectively; and (2) urea sales rose by approximately 72,300 tonnes, with its revenue and gross profit increased by RMB121.2 million and RMB33.8 million, respectively.

Other income and gains

Other income and gains in the first half of 2007 mainly represented realised gain arising from the disposal of available-for-sale investments of RMB31.2 million.

The Group's other income and gains in the first half of 2007 were approximately RMB37.7 million, representing a decrease of approximately RMB80.6 million from RMB118.3 million in the corresponding period of 2006. Such decrease was mainly because: (1) the Group recorded a subsidy income, being a refund of value-added-tax ("VAT"), of RMB89.3 million in the first half of 2006 but recorded no such refund in the first half of 2007. The VAT refund represented a refund of 50% of the net VAT paid by the Group on its urea sale from 1 January 2004 to 30 June 2005. From 1 July 2005 onwards, the sale of urea by urea manufacturers in Mainland China were no longer entitled to receive a refund of 50% of the net VAT paid on the urea sale as they are exempted from VAT with effect from 1 July 2005 and; (2) to partially offset the risks arising from fluctuations in the exchange rates of the Japanese Yen, the Group entered into a cross currency interest rate swap contract ("Swap") with Bank of China, Hainan Branch, which will be expired on 20 June 2008. The change in fair value of the Swap in the first half of 2007 was RMB3.0 million, representing a decrease of RMB21.7 million from RMB24.7 million in the corresponding period of 2006.

Selling and distribution costs

The Group's selling and distribution costs in the first half of 2007 were RMB42.1 million, representing an increase of 316.83% (or RMB32.0 million) from RMB10.1 million in the corresponding period of 2006. Such increase was primarily attributable to the new selling and distribution costs for methanol, amounting to RMB23.8 million.

Administrative expenses

The Group's administrative expenses in the first half of 2007 were RMB88.6 million, representing a decrease of 3.70% (or RMB3.4 million) from RMB92.0 million in the corresponding period of 2006. Such decrease was mainly attributable to: (1) the write-back of staff welfare funds of RMB17.0 million in the previous years upon the implementation of the new PRC accounting principles by the Group in 2007; and (2)the increase in consultation fees, amortisation of intangible assets and depreciation of non-production related property, plant and equipment, totalling RMB7.2 million, in the current period as compared to the same period last year.

Finance costs

The Group's finance costs in the first half of 2007 was RMB11.6 million, representing a decrease of 58.42% (or RMB16.3 million) from RMB27.9 million in the corresponding period of 2006. The decrease was mainly attributable to a decrease of loan interests as a result of loan repayment of RMB520.1 million.

Exchange gain/ (loss), net

The Group recorded an exchange gain of RMB13.2 million in the first half of 2007 primarily due to an unrealised exchange gain of RMB11.7 million from the retranslation of the outstanding Yen-denominated loan at the exchange rate ruling at 30 June 2007. In the corresponding period of 2006, the Group recorded an exchange loss of RMB12.5 million primarily due to the exchange loss arising from the purchase of Japanese Yen to repay part of the Yen-denominated loan.

Income tax expense

In the first half of 2007, the Group recorded income tax expense of RMB43.3 million, representing a decrease of 22.68% (or RMB12.7 million) from RMB56.0 million in the same period of 2006. The decrease was primarily due to the change in the Group' s statutory tax rate in response to the promulgation of the New Corporate Income Tax Law in the PRC, whereby resulting in the write-back of prior year net deferred tax liabilities of RMB13.2 million.

Profit for the period

In the first half of 2007, the Group's profit for the period was RMB852.1 million, representing an increase of 60.50% (or RMB321.2 million) over the same period in 2006 of RMB530.9 million (after excluding the excess over the cost of business combination of RMB577.6 million relating to the acquisition of Tianye Chemical in January 2006). Such increase was primarily attributable to the increase in the sale and production volumes of methanol and urea.

Dividend

The board of directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2007 (Six months ended 30 June 2006: Nil).

Upon the issue of H-Shares by the Company in September 2006, as at 30 June 2007, the number of shares in issue of the Company increased from 3 billion (as at 30 June 2006) to 4.61 billion. Such significant increase has contributed significantly to the dilution of the basic earnings per share of the Company.

Capital expenditure

The Group's capital expenditure in respect of property, plant and equipment and prepaid land lease payments in the first half of 2007 amounted to RMB103.3 million. The 1.13-million-ton methanoal plant and the 60-thousand-ton polyoxymethylene project were originally scheduled to commence construction in the first half of 2007. However, the State Administration for Environmental Protection provided feedback after reviewing the environmental impact studies of these two projects. We amended the studies accordingly based on the additional requirements of the State Administration for Environmental Protection and will submit supplementary application materials to the authority for approval.

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 key product prices and costs of raw materials.

Interest rate risk

In the first half of 2007, the PRC government raised the bank lending rate twice, with an accumulative increase of 0.45% in bank lending rate for a term of six months to one year (including one year), which will increase the cost of debt financing.

Foreign exchange risk

The sale revenues of the Group are denominated in Renminbi and US dollars. In the first half of 2007, the Renminbi appreciated against the US dollar by 2.54%.

The appreciation of the Renminbi against the US dollar may have a dual effect. On the one hand, the Group's product sale revenues may be reduced due to the devaluation of the US dollar against the Renminbi. On the other hand, the import prices of equipment and raw materials may also decrease accordingly. Furthermore, the Group's debts denominated in foreign currencies will also be reduced as a result of such appreciation in Renminbi.

As of 30 June 2007, the balance of the Group's Yen-denominated debts amounted to JPY2,225.7 million, and swap contracts have been entered into to offset the exchange risk related to the Yen.

Inflation and currency risk

According to the data from the National Bureau of Statistics of China, the consumer price index of the PRC increased by 3.2% in the first half of 2007. Such inflation in the PRC had no significant effect on the Group's operating results.

Post balance sheet events and contingent liabilities

As at 30 June 2007, the Group had no significant post balance sheet events or contingent liabilities.

Material litigation and arbitration

The group was not involved in any material litigation and arbitration during the six months ended 30 June 2007.

Outlook

In the second half of 2007, the Company will continue its endeavors in the meticulous management of the five facilities and strive to maintain a higher capacity utilization rate; continue its prospective research on and planning for sales as an attempt to win market initiative and commence the production of methanol and POM at 1.13 million tonnes per year and 60,000 tonnes per year respectively as soon as possible; and give impetus to the commencement of other significant projects at the earliest time possible in order to continue our dynamic mergers and acquisitions of fertilizer enterprises.

The objective of the Company has been to create and maximize the continuous growth in value return for our shareholders.

SUPPLEMENTARY INFORMATION

Audit Committee

The Audit Committee, together with the management, has reviewed the accounting principles and standards adopted by the Group and discussed the internal control and reporting matters. The interim results for the six months ended 30 June 2007 have not been audited but have been reviewed by Ernst and 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 for the six months ended 30 June 2007.

Compliance with the Code on Corporate Governance Practices

The Board considers, upon examination, that the Board is not aware of any information which can reasonably show that during the reporting period for the six months ended 30 June 2007, the Company has had any deviation from the provisions of the Code on Corporate Governance Practices as contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") of the Stock Exchange of Hong Kong Limited ("Code"). During the reporting period, the Company has strictly complied with the provisions of the Code.

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

The Board confirms, having made specific enquiries with all directors and supervisors, that during the six months ended 30 June 2007, all members of the Board and all supervisors have complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuer as contained in Appendix 10 of the Listing Rules.

Director's and Supervisors' Interests in shares and short positions

As at 30 June 2007, 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 2007, none of the Directors and Supervisors has the rights to acquire shares or debentures.

Substantial shareholders' interests

Based on the information available to the Directors or chief executives so far as they were aware, as at 30 June 2007, 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 Limited ("CNOOC")	Beneficial owner and security interests	2,813,999,878 (note i) (L)	Domestic Shares	100.00	61.04
Yara Nederland BV	Beneficial owner	161,000,000 (note ii) (L)	H Shares	9.09	3.49
Sunny Smart Limited ("Sunny Smart")	Beneficial owner	102,324,000 (note iii) (L)	H Shares	5.78	2.22

Notes: 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 held through a controlled corporation, CNOOC Finance Corporation Limited.

ii. Yara Nederland BV is a wholly-owned subsidiary of Yara International ASA.

iii. Sunny Smart is a wholly-owned subsidiary of Neway Century Limited. Neway Century Limited is a wholly-owned subsidiary of China Entertainment & Land Investment Limited, which is in turn a subsidiary of Chinese Estates Holdings Limited ("Chinese Estates").

Based on the information available on the website of HKEX, a discretionary trust, which Lau Luen Hung, Joseph, is the founder and GZ Trust Corporation is the trustee, appears to hold a controlling interest in Chinese Estates.

As disclosed in the Company's Prospectus dated 18 September, 2006, each of the following corporate investors have entered into corporate placing agreements with the Company, and was interested in (in respect of BOCGI) or was believed to be interested in (in respect of Bestlane) 5% or more of the issued H shares of the Company as at 30 June 2007:

Name of Substantial Shareholder	Capacity	Number of Shares and Nature of interests (note i)	Class of Shares	Approximate percentage of the relevant class of shares(%)	Approximate percentage of total issued shares (%)
Bestlane Limited ("Bestlane")	Beneficial owner	118,902,439 (note ii) (L)	H Shares	6.71	2.58
Bank of China Group Investment Ltd. ("BOCGI")	Beneficial owner	95,121,951 (note iii) (L)	H Shares	5.37	2.06

Notes: The letter "L" denotes long position.

i. Please refer to the Section headed "Corporate Placing" under "Strategic Investment and Corporate Placing" in the Prospectus for details of the corporate placing agreements.

ii. Bestlane is a company incorporated in the British Virgin Islands and is indirectly wholly-owned by Shau Kee Financial Enterprises Limited, which is in turn wholly-owned by Lee Financial (Cayman) Limited of which Dr. Lee Shau Kee is a substantial shareholder. The lockup period to which Bestlane was subject to under its corporate placing agreement entered into with the Company expired on 28 June 2007. The Company did not receive any notice from Bestlane as to whether it had sold any H shares on or before 30 June 2007.

iii. BOCGI is a wholly-owned subsidiary of Bank of China Limited.

Substantial shareholders' interests (continued)

Save as disclosed above and so far as the Directors are aware, as at 30 June 2007, 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, Sales or Redemption of the Listed Securities of the Company

For the six months ended 30 June 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

ERNST & YOUNG
安永會計師事務所

To the Board of Directors of China BlueChemical Ltd.
(Incorporated in the People's Republic of China as a joint stock company with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 14 to 37 which comprises the condensed consolidated balance sheet of China BlueChemical Ltd. ("the Company") and its subsidiaries (collectively as the "Group") as at 30 June 2007 and the related 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 this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information 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 financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

18th Floor , Two International Finance Centre
8 Finance Street, Central
Hong Kong
26 August 2007

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2007
(All amounts expressed in thousands of Renminbi, except per share data)

	Notes	Six months ended 30 June 2007 (Unaudited)	Six months ended 30 June 2006 (Unaudited)
REVENUE	5	**2,312,027**	1,613,833
Cost of sales		**(1,316,102)**	(993,012)
Gross profit		**995,925**	620,821
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Excess over the cost of a business combination	6	**-**	577,619
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Administrative expenses		**(88,606)**	(92,046)
Other expenses		**(24,424)**	(22,642)
Finance revenue		**14,133**	11,805
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Exchange gain/(loss), net		**13,193**	(12,547)
Share of profits and losses of associates		**1,220**	1,137
PROFIT BEFORE TAX	7	**895,393**	1,164,486
Income tax expense	8	**(43,250)**	(55,953)
PROFIT FOR THE PERIOD		**852,143**	1,108,533
Attributable to:			
Equity holders of the parent		**826,528**	1,084,821
Minority interests		**25,615**	23,712
		852,143	1,108,533
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
- Basic (RMB fen)	9	**17.93**	36.16

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2007

(All amounts expressed in thousands of Renminbi)

	Notes	30 June 2007 (Unaudited)	31 December 2006 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**5,656,525**	5,854,898
Prepaid land lease payments	10	**414,148**	413,862
Intangible assets		**14,640**	16,425
Investments in associates		**9,038**	8,646
Available-for-sale investments		**600**	9,465
Deferred tax assets		**25,450**	27,819
		6,120,401	6,331,115
CURRENT ASSETS			
Inventories		**338,662**	332,684
Trade receivables	11	**85,460**	133,557
Bills receivable		**34,195**	20,850
Prepayments, deposits and other receivables		**129,400**	86,153
Available-for-sale investments		**197,385**	-
Pledged bank deposits	12	**4,927**	10,904
Cash and cash equivalents	12	**2,241,110**	2,195,619
		3,031,139	2,779,767
CURRENT LIABILITIES			
Trade payables	13	**90,366**	94,686
Other payables and accruals		**649,152**	849,963
Derivative financial instruments		**22,680**	25,641
Interest-bearing bank and other borrowings	14	**138,696**	476,579
Income tax payable		**44,263**	51,276
		945,157	1,498,145
NET CURRENT ASSETS		**2,085,982**	1,281,622
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,206,383**	7,612,737
NON-CURRENT LIABILITIES			
Benefits liability		**84,181**	79,958
Interest-bearing bank and other borrowings	14	**202,596**	384,793
Other long-term liabilities		**43,268**	38,057
Deferred tax liabilities		**46,374**	61,017
		376,419	563,825
Net assets		**7,829,964**	7,048,912
EQUITY			
Equity attributable to equity holders of the parent			
Paid-up capital	15	**4,610,000**	4,610,000
Reserves		**2,854,304**	2,029,717
Proposed final dividend	16	**-**	69,150
		7,464,304	6,708,867
Minority interests		**365,660**	340,045
Total equity		**7,829,964**	7,048,912

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2007
(All amounts expressed in thousands of Renminbi)

	Attributable to equity holders of the parent			
	Paid-up capital	Statutory surplus reserves	Capital reserve	Retained profits/ (accumulated losses)
(Unaudited)				
As at 1 January 2006	2,394,044	273,136	-	(91,848)
Profit for the period	-	-	-	1,084,821
Acquisition of a subsidiary	-	-	-	-
Acquisition of minority interests	-	-	-	-
Changes in fair value of available-for-sale investments	-	-	-	-
Dividends paid to minority shareholders	-	-	-	-
Capital contribution by a minority shareholder	-	-	-	-
Capital contribution	-	-	7,607	-
Special dividend declared	-	-	-	-
Capitalization as a result of the Reorganisation	605,956	(273,136)	(220,308)	-
As at 30 June 2006	3,000,000	-	(212,701)	992,973

	Attributable to equity holders of the parent			
	Paid-up capital	Statutory surplus reserves	Capital reserve	Retained profits
(Unaudited)				
As at 1 January 2007	**4,610,000**	**68,732**	**1,109,635**	**849,409**
Profit for the period	-	-	-	**826,528**
Change in fair value of available-for-sale investments	-	-	-	-
Final 2006 dividend paid	-	-	-	-
As at 30 June 2007	**4,610,000**	**68,732**	**1,109,635**	**1,675,937**

Proposed special dividend	Other reserve	Total	Minority interests	Total equity
1,210,801	-	3,786,133	291,460	4,077,593
-	-	1,084,821	23,712	1,108,533
-	-	-	173,716	173,716
-	-	-	(5,656)	(5,656)
-	1,664	1,664	631	2,295
-	-	-	(63,552)	(63,552)
-	-	-	27,160	27,160
-	-	7,607	-	7,607
(1,210,801)	-	(1,210,801)	-	(1,210,801)
-	-	112,512	(112,512)	-
-	1,664	3,781,936	334,959	4,116,895

Proposed final dividend	Other reserve	Total	Minority interests	Total equity
69,150	**1,941**	**6,708,867**	**340,045**	**7,048,912**
-	**-**	**826,528**	**25,615**	**852,143**
-	**(1,941)**	**(1,941)**	**-**	**(1,941)**
(69,150)	**-**	**(69,150)**	**-**	**(69,150)**
-	**-**	**7,464,304**	**365,660**	**7,829,964**

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2007
(All amounts expressed in thousands of Renminbi)

	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITES	**1,022,668**	1,012,939
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(369,963)**	(1,346,300)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(592,214)**	(104,014)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**60,491**	(437,375)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**2,049,459**	1,719,752
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,109,950**	1,282,377
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and balances with banks and financial institutions	**2,246,037**	1,282,377
Less: Pledged time deposits for letter of credit facilities	**4,927**	-
CASH AND CASH EQUIVALENTS FOR THE INTERIM CONDENSED CONSOLIDATED BALANCE SHEET	**2,241,110**	1,282,377
Less: Non-pledged time deposits at banks and financial institutions with original maturity of more than three months when acquired	**131,160**	-
CASH AND CASH EQUIVALENTS FOR THE INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT	**2,109,950**	1,282,377

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

(All amounts expressed in Renminbi unless otherwise stated)

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The registered office of China BlueChemical Ltd. (the "Company") is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, People's Republic of China ("PRC").

The Company and its subsidiaries (hereinafter collectively referred to as 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 2007, particulars of the principal subsidiaries, a jointly-controlled entity and associates are as follows:

Name	Place and date of establishment	Registered capital RMB'000	Percentage of equity interest attributable to the Company		Principal activities
Subsidiaries:					
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	463,000	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan CNOOC Plastic Company Limited (海南中海石油塑編有限公司)	PRC 28 April 2002	12,716	Direct Indirect	100.00 -	Manufacture and sale of woven plastic bags
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	5,000	Direct Indirect	- 65.25	Provision of transportation services
CNOOC（Hainan）E&P Gas Limited (中海石油（海南)環保氣體有限公司）	PRC 8 November 2004	6,900	Direct Indirect	100.00 -	Manufacture and sale of liquid carbon dioxide
Hainan CNOOC Complex Fertiliser Co., Ltd. (海南富島複合肥有限公司)	PRC 19 May 2000	7,500	Direct Indirect	100.00 -	Manufacture and sale of compound fertilisers
Hainan Basuo Port Limited (海南八所港務有限責任公司）	PRC 25 April 2005	518,356	Direct Indirect	72.50 -	Port operation
Shanghai Qionghua Trading Co., Ltd. (上海瓊化經貿有限公司)	PRC 7 January 2002	1,000	Direct Indirect	- 51.00	Trading of fertilisers
Inner Mongolia Tianye Chemical Industry Limited （内蒙古天野化工（集團）有限責任公司)	PRC 4 October 1991	1,981,690	Direct Indirect	90.00 -	Manufacture and sale of fertilisers and methanol
Inner Mongolia Hong Feng Packaging Co., Ltd. (内蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	3,297	Direct Indirect	- 63.54	Manufacture and sale of woven plastic bags
Jointly-controlled entity:					
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
Associates:					
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	11,800	Direct Indirect	- 30.00	Trading of fertilisers
China Basuo Oversea Shipping Agency Co., Ltd. (中國八所運輸代理有限公司)	PRC 24 May 2000	1,800	Direct Indirect	- 36.25	Provision of overseas shipping services

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007
(All amounts expressed in Renminbi unless otherwise stated)

2. REORGANISATION

In early 2006, pursuant to a reorganisation notice from its ultimate holding company, CNOOC, and a promoter agreement (the "Promoter Agreement") entered into among CNOOC and the Other Four Promoters (as defined hereinafter) on 18 March 2006, the Company underwent a corporate reorganisation (the "Reorganisation") to rationalise its business and to reorganise itself into a joint stock limited company:

a) Pursuant to a reorganisation notice issued by CNOOC dated 13 February 2006, equity interests owned by the Company's wholly-owned fellow subsidiaries in the following companies (the "Relevant Companies") were transferred, effective on 31 December 2005, to the Company. These equity interests were transferred to the Company at an aggregate value of RMB15,777,000, representing the aggregate of the wholly-owned subsidiaries respective share of the net asset value, as determined in accordance with the PRC Accounting Standards for Business Enterprises and PRC Accounting System for Business Enterprises ("PRC GAAP"), in the Relevant Companies as at 31 December 2005. The transfer of the equity interests in the Relevant Companies to the Company was treated as an additional capital contribution to the Company by CNOOC with an effective date of 31 December 2005.

	Percentage of equity interest transferred
Hainan CNOOC Plastic Company Limited ("Plastic Co.")	30.23%
Hainan CNOOC Transportation Co., Ltd. ("Transportation Co.")	40%
CNOOC (Hainan) E&P Gas Limited ("E&P Gas")	60%

As a consequence of the aforesaid transfer and after considering the equity interests already held by the Company in the Relevant Companies, Plastic Co. and Transportation Co. have been accounted for as a wholly-owned subsidiary and a 90%-owned subsidiary of the Company, respectively, from the outset, while E&P Gas has been accounted for as a wholly-owned subsidiary of the Company since its establishment on 8 November 2004.

In addition, pursuant to the aforesaid reorganisation notice, the Company transferred to a wholly-owned fellow subsidiary its entire equity interests of 9.21%, 60% and 84% in Sanya Resort Co., Ltd., Haiwan Fudao Hotel and Hainan CNOOC Agriculture Co., Ltd., respectively, at an aggregate value of RMB45,323,000, representing the aggregate of the Company's total costs of investment in Sanya Resort Co., Ltd. and Haiwan Fudao Hotel, and the Company's share of net asset value, as determined in accordance with PRC GAAP, in Hainan CNOOC Agriculture Co., Ltd. as at 31 December 2005.

The transfer of equity interests in the aforesaid companies to the Company's wholly-owned fellow subsidiary was treated as a reduction in capital contribution to the Company by CNOOC with an effective date of 31 December 2005.

b) Pursuant to an equity transfer agreement dated 28 February 2006, the Company acquired a 30% equity interest in Hainan CNOOC Complex Fertiliser Co., Ltd. ("Complex Fertiliser") for a cash consideration of RMB2,363,000 from Hainan Agricultural Means of Production Group Limited. Pursuant to a resolution of the employee shareholders of Complex Fertiliser, who together held a 34.95% equity interest in Complex Fertiliser, dated 6 March 2006, the Company further acquired the 34.95% equity interest in Complex Fertiliser for a cash consideration of RMB2,752,000 from the employee shareholders of Complex Fertiliser. As a consequence of the above acquisitions, Complex Fertiliser became a wholly-owned subsidiary of the Company.

c) Pursuant to the Promoter Agreement entered into among Zhejiang AMP Incorporation, Guangdong Agricultural Means of Production Corporation, Shanghai Municipal Agricultural Means of Production Corporation and Transammonia Inc., (together the "Other Four Promoters") and CNOOC in relation to the reorganisation of the Company into a joint stock limited company dated 18 March 2006, each of the Other Four Promoters transferred its entire shareholding of 3.24% in CNOOC Fudao Limited ("Fudao") to the Company in exchange for a 0.83% equity interest each in the Company upon its reorganisation into a joint stock limited company. Upon the completion of the exchange of shares, Fudao became a wholly-owned subsidiary of the Company.

d) Pursuant to an approval document Guo Zi Gai Ge [2006] No. 462 issued by the State-owned Assets Supervision and Administration Commission of the State Council on 24 April 2006, the Company was reorganised into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2006.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except for the adoption of the following new changes and amendments mandatory for annual periods beginning on or after 1 January 2007:

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The IAS 1 Amendment affects the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial statements and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

IFRIC 8 states that IFRS 2 applies to particular transactions in which goods or services are received and requires that the entity shall measure the unidentifiable goods or services received as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) at grant date.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007
(All amounts expressed in Renminbi unless otherwise stated)

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (continued)

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The adoption of these new changes and amendments did not affect the Group results of operation or financial position.

Impact of issued but not yet effective International Financial Reporting Standards ("IFRSs")

The International Accounting Standards Board has issued a number of new and revised IFRSs that are not mandatory for these financial statements. The Group has not early applied these IFRSs in these financial statements. The following new and amended IFRSs and International Financial Reporting Interpretations ("IFRIC") are effective for the Group's accounting periods beginning on or after 1 January 2008:

IAS 23 Amendment	Borrowing Costs
IFRS 8	Operating Segments
IFRIC 11	Group and Treasury Share Transactions

IAS 23 Amendment requires accounting for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to form part of the cost of that asset, while other borrowing costs are recognised as an expense.

IFRS 8 requires disclosure of information about the Group's operating segments to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.

IFRIC 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the equity instruments from another party, or the shareholders provide the equity instruments needed.

The Group is in the process of making an assessment of the impact of these new and amended IFRSs upon initial application. So far, it has concluded that while the adoption of the IFRS 8 may result in new or amended disclosures, these new and amended IFRSs are unlikely to have a material impact on the Group's results of operations and financial position.

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. 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 2007 and 2006:

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

(All amounts expressed in Renminbi unless otherwise stated)

4. SEGMENT INFORMATION (CONTINUED)

	Fertilisers RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
(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 and losses of associates	**1,220**	**-**	**-**	**-**	**1,220**
Profit before tax					**895,393**
Income tax expense					**(43,250)**
Profit for the period					**852,143**

	Fertilisers RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
(Unaudited)					
Six months ended 30 June 2006					
Segment revenue:					
Sales to external customers	1,477,849	55,332	80,652	-	1,613,833
Intersegment sales	-	-	39,757	(39,757)	-
Other income	92,347	-	411	-	92,758
Total	1,570,196	55,332	120,820	(39,757)	1,706,591
Segment results	622,273	(3,538)	6,567	-	625,302
Interest and dividend income and unallocated gains					37,368
Corporate and other unallocated expenses					(36,484)
Finance costs					(27,909)
Exchange loss, net					(12,547)
Share of profits and losses of associates	1,137	-	-	-	1,137
Excess over the cost of a business combination					577,619
Profit before tax					1,164,486
Income tax expense					(55,953)
Profit for the period					1,108,533

5. 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 ("VAT"), 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 follow:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**2,224,013**	1,536,562
Rendering of services	**88,014**	77,271
	2,312,027	1,613,833
Other income and gains		
Dividend income from listed investments	**-**	135
Realised gain on disposal of available-for-sale investments	**31,180**	-
Subsidy income	**-**	89,259
Fair value gain on derivative financial instruments	**2,961**	24,697
Gain on dissolution of a subsidiary	**-**	586
Income from the sale of other materials	**2,509**	2,942
Gross rental income	**64**	64
Others	**958**	638
	37,672	118,321

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007
(All amounts expressed in Renminbi unless otherwise stated)

6. EXCESS OVER THE COST OF A BUSINESS COMBINATION

The amount represents the excess of fair values of assets and liabilities acquired over the consideration paid in relation to the acquisition of Inner Mongolia Tianye Chemical Industry Limited ("Tianye Chemical") in January 2006.

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,248,717**	936,527
Cost of services provided	**67,385**	56,485
Depreciation	**279,323**	238,947
Amortisation of intangible assets	**1,785**	219
Amortisation of prepaid land lease payments	**5,536**	3,632
Fair value gain on derivative financial instruments	**(2,961)**	(24,697)
Foreign exchange differences, net	**(13,193)**	12,547
Dividend income from listed investments	**-**	(135)
(Gain) / loss on disposal of items of property, plant and equipment	**2,688**	(152)

8. INCOME TAX EXPENSE

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

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

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

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

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

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

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 2007.

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 will become 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%. The Company will continue to be entitled to the preferential CIT rates granted during the transition period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007
(All amounts expressed in Renminbi unless otherwise stated)

8. INCOME TAX EXPENSE (CONTINUED)

As a result of the tax rate change, the Group estimates that the change in the CIT rate has had the following impact on the results and financial position of the Group for the six months ended 30 June 2007:

	RMB'000
Decrease in income tax expenses	13,220
Decrease in deferred tax assets	1,572
Decrease in deferred tax liabilities	14,792

At the date of approval of the interim condensed consolidated financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as special preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

The major components of income tax expense for the six months ended 30 June 2007 and 2006 are as follows:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – PRC		
Charge for the period	**55,524**	56,387
Deferred	**(12,274)**	(434)
Total tax charge for the period	**43,250**	55,953

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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent for the six months ended 30 June 2007 of approximately RMB826,528,000 (Six months ended 30 June 2006: RMB1,084,821,000) and the 4,610,000,000 ordinary shares in issue during the period (Six months ended 30 June 2006: 3,000,000,000).

Diluted earnings per share amount for the six months ended 30 June 2007 and 2006 have not been calculated because no diluting events existed during those periods.

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

During the six months ended 30 June 2007, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB96,377,000 (Six months ended 30 June 2006: RMB447,661,000). The Group also made prepaid land lease payments of approximately RMB6,971,000 (Six months ended 30 June 2006: RMB57,770,000) for the six months ended 30 June 2007. Property, plant and equipment amounting to RMB8,305,000 (Six months ended 30 June 2006: RMB1,570,000) were disposed of for the six months ended 30 June 2007.

As at 30 June 2007, the Group has yet to obtain building ownership certificates for certain buildings with an aggregate net book value of approximately RMB14,648,000, and the land use right certificate for a piece of land amounting to approximately RMB10,047,000 where Tianye Chemical's production facilities for the manufacture of methanol are located.

11. TRADE RECEIVABLES

Sales of the Group's fertilisers 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.

An aging analysis of trade receivable, based on the invoice date and net of provision for bad and doubtful debts, of the Group as at the balance sheet date, is as follows:

	30 June 2007 RMB '000 (Unaudited)	31 December 2006 RMB '000 (Audited)
Within one year	**78,678**	127,212
One to two years	**802**	166
Two to three years	**97**	6,179
Over three years	**5,883**	-
	85,460	133,557

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12. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

As at 30 June 2007, the Group's pledged time deposits of RMB4,927,000 (31 December 2006: RMB10,904,000) were placed with 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 at each balance sheet date, except for an amount of RMB5,356,000 (31 December 2006: RMB171,000), which is translated from USD706,000 (31 December 2006: USD22,000); RMB8,278,000 (31 December 2006: RMB4,707,000), which is translated from JPY133,904,000 (31 December 2006: JPY71,727,000) and RMB65,000 (31 December 2006: RMB12,448,000) which is translated from HKD67,000 (31 December 2006: HKD12,390,000) as at 30 June 2007.

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.

13. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled from thirty to sixty days.

An aged analysis of trade payables, based on the invoice dates, of the Group as at the balance sheet date, is as follows:

	30 June 2007 RMB '000 (Unaudited)	31 December 2006 RMB '000 (Audited)
Within six months	**85,578**	89,021
Over six months but within one year	**2,324**	348
Over one year but within two years	**-**	2,753
Over two years but within three years	**1,119**	1,778
Over three years	**1,345**	786
	90,366	94,686

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Current				
Bank loans - unsecured				
- Yen loan	LIBOR+0.6	2007	**137,559**	146,056
- U.S.$ loan	LIBOR+0.5 – LIBOR+0.65	2007	**338**	23,909
- RMB loan	5.2 – 5.8	2007	**-**	303,074
			137,897	473,039
Other loans				
- Obligations under finance lease	2.25 – 6.03	2007	**799**	908
- Unsecured	5.0 – 5.5	2007	**-**	2,632
			799	3,540
			138,696	476,579
Non-current				
Bank loans - unsecured				
- Yen loan	LIBOR+0.6	2008	**-**	73,106
- U.S.$ loan	LIBOR+0.65	2014	**202,068**	239,023
- RMB loan	5.2 – 5.8	2016	**-**	38,999
			202,068	351,128
Other loans				
- Obligations under finance lease	2.25 – 6.03	2009	**528**	236
- Unsecured	5.2 –5.5	2016	**-**	33,429
			528	33,665
			202,596	384,793
			341,292	861,372

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14. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**137,897**	473,039
In the second year	**-**	115,878
In the third to fifth years, inclusive	**-**	128,318
Beyond five years	**202,068**	106,932
	339,965	824,167
Other loans repayable:		
Within one year or on demand	**799**	3,540
In the second year	**528**	5,379
In the third to fifth years, inclusive	**-**	15,429
Beyond five years	**-**	12,857
	1,327	37,205
	341,292	861,372

As at 30 June 2007, the obligations under finance lease of RMB1,327,000 (31 December 2006: 1,144,000) were due to a CNOOC group company.

15. PAID-UP CAPITAL

	Number of shares '000	Nominal value RMB'000
Registered capital	4,610,000	4,610,000
Issued and fully paid:		
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 2007	4,610,000	4,610,000

16. 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.

The board of directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

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17. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties:

(1) Recurring

	Notes	Six months ended 30 June 2007 (unaudited) RMB'000	2006 (unaudited) RMB'000
(A) Included in revenue, other income and gain			
(a) The CNOOC group companies*			
Sales of goods	(i)	**11,206**	-
Provision of transportation services	(ii)	**890**	-
		12,096	-
(b) Associate companies			
Sales of goods	(i)	**139,319**	117,137
Provision of transportation services	(ii)	**-**	4,068
		139,319	121,205
(c) Jointly-controlled entity			
Provision of rental services	(iv)	**64**	64
(B) Included in cost of sales and other expenses			
(a) The CNOOC group companies*			
Purchase of raw materials	(i)	**312,954**	154,338
Transportation services	(ii)	**12,526**	-
Lease of offices	(v)	**1,600**	800
Construction and installation services	(vi)	**6,641**	60,261
Labour services	(vi)	**7,804**	-
		341,525	215,399
(b) Associate companies			
Purchase of raw materials	(i)	**7,897**	-
(C) Included in interest income/expenses			
CNOOC Finance Corporation Limited			
Interest income	(iii)	**2,199**	4,424
Interest expenses	(iii)	**730**	521

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

Notes:

(i) These transactions were conducted in accordance with terms agreed between the Group and its associate and CNOOC group companies.
(ii) Transportation income/expense was based on mutually agreed terms with reference to the market rate.
(iii) Interest income/expense was based on mutually agreed terms with reference to the market rate.
(iv) Rental income was based on mutually agreed terms.
(v) Rental fees were based on mutually agreed terms with reference to the market rate.
(vi) These services were charged based on mutually agreed terms.

The amounts of transactions with a jointly-controlled entity 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.

(2) Non-recurring

Provision of utilities to a CNOOC group company for the six months ended 30 June 2007 amounted to RMB170,000 (six months ended 30 June 2006: RMB7,247,000). The transaction was conducted in accordance with terms agreed between the Group and the CNOOC group company.

No interest expense paid to the ultimate holding company nor fees and charges paid to a CNOOC group company for the six months ended 30 June 2007 (six months ended 30 June 2006: RMB8,897,000 and RMB5,569,000 respectively).

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17. RELATED PARTY TRANSACTIONS (CONTINUED)

(3) Balances with related parties

As at 30 June 2007, the amounts due from/to the ultimate holding company, CNOOC group companies, excluding CNOOC Finance Corporation Ltd. ("CNOOC Finance"), an associate and a jointly-controlled entity are summarized in the following table:

	Due from related parties		Due to related parties	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
The ultimate holding company	**-**	-	**516**	-
CNOOC group companies (excluding CNOOC Finance)	**7,172**	6,166	**71,094**	96,160
An associate	**3,628**	-	**844**	5,303
A jointly-controlled entity	**8,753**	9,713	**6,227**	7,051

As at 30 June 2007, the deposits placed by the Group with CNOOC Finance amounted to RMB278,561,000 (31 December 2006: RMB259,866,000). The deposits with CNOOC Finance are entitled to the interest at the rates similar to the prevailing bank deposit rates.

(4) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**820**	915
Post-employment benefits	**85**	91
Total compensation paid to key management personnel	**905**	1,006

(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 organizations (collectively the "State-owned Enterprises"). During the six months ended 30 June 2007, the Group had transactions with the State-owned Enterprises including, but not limited to, the sale of fertilisers 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.

18. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At 30 June 2007, the Group had the following capital commitments, principally for the construction or purchases of property, plant and equipment:

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Contracted, but not provided for:		
- Acquisition of land and buildings	**1,083**	46,826
- Acquisition of plant and machinery	**71,621**	5,147
	72,704	51,973
Authorised, but not contracted for:		
- Acquisition of land and buildings	**169,614**	132,267
- Acquisition of plant and machinery	**3,912,036**	3,986,496
	4,081,650	4,118,763
	4,154,354	4,170,736

(b) Operating lease commitments

As at 30 June 2007, the Group had no significant future minimum lease payments under non-cancellable operation leases.

(c) Contingent liabilities

As at 30 June 2007, the Group had no significant contingent liabilities.

19. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2007 were approved and authorised for issue by the board of directors on 26 August 2007.

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
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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
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