Annual Report 2007

HKSE CODE：3983

中海石油化学股份有限公司
China BlueChemical Ltd.

Company Profile

China BlueChemical Ltd. ("China BlueChem" or the "Company", together with its subsidiaries, the "Group", Stock code: 3983) is a large-scale and modernized enterprise engaging in the development, production and sales of mineral fertilisers and chemical products. Headquartered in Dongfang City of Hainan Province, the PRC, China BlueChem's production facilities are located in Hainan Province and the Inner Mongolian Autonomous

Region. Its total designed annual production capacity amounts to 1,840,000 tonnes of urea and 800,000 tonnes of methanol. On 29 September 2006, China BlueChem was successfully listed on The Stock Exchange of Hong Kong Limited (the "HKEX").

As a listed company with the largest production volume of urea and methanol in China, China BlueChem is a downstream subsidiary that engages in production of mineral fertilisers, methanol and related chemicals under the parent company, China National Offshore Oil Corporation (CNOOC), which is the third largest energy company in China. The Company is well positioned and has a solid foundation for the rapid development of mineral fertilisers and related chemical products.

Contents

Financial Highlights

Selected Consolidated Income Statement Data

For the year ended 31 December, RMB 'million

	2003	2004	2005	2006	2007
Revenue	738.3	2,027.3	2,371.0	3,465.8	**4,340.4**
Cost of sales	(476.5)	(1,095.0)	(1,293.1)	(2,164.2)	**(2,552.1)**
Gross profit	261.7	932.3	1,077.9	1,301.6	**1,788.3**
Other income and gains	79.4	40.7	1.7	125.6	**74.0**
Excess over the cost of a business combination	–	–	–	577.6	**–**
Selling and distribution costs	(19.0)	(31.1)	(15.4)	(33.9)	**(70.2)**
Administrative expenses	(56.5)	(76.6)	(130.7)	(199.5)	**(223.8)**
Other expenses	(23.8)	(28.8)	(103.1)	(34.5)	**(51.2)**
Finance revenue	3.8	11.8	24.4	119.8	**29.3**
Finance costs	(7.7)	(15.0)	(15.5)	(61.7)	**(18.3)**
Exchange gain /(loss), net	(56.1)	(40.0)	189.5	(1.5)	**14.4**
Share of profits of associates	0.9	1.6	1.9	1.8	**4.0**
Profit before tax	182.7	794.9	1,030.7	1,795.3	**1,546.5**
Income tax expense	(17.2)	(26.9)	(47.5)	(120.1)	**(67.1)**
Profit for the year	165.5	768.0	983.2	1,675.2	**1,479.4**
Profit attributable to equity holders of the parent	137.2	720.5	943.8	1,645.8	**1,448.3**
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	0.05	0.24	0.31	0.48	**0.31**

Selected Consolidated Balance Sheet Data

As at 31 December, RMB 'million

	2003	2004	2005	2006	2007
Assets					
Non-current assets	3,075.1	3,109.3	3,617.5	6,331.1	**5,986.0**
Current assets	1,058.5	1,734.7	2,535.5	2,779.8	**3,711.5**
Total assets	4,133.6	4,844.0	6,153.0	9,110.9	**9,697.5**
Equity and liabilities					
Total equity	2,148.6	2,884.3	4,077.6	7,048.9	**8,482.5**
Non-current liabilities	1,422.9	1,312.7	1,052.8	563.8	**352.4**
Current liabilities	562.1	647.0	1,022.6	1,498.2	**862.6**
Total equity and liabilities	4133.6	4,844.0	6,153.0	9,110.9	**9,697.5**

Operational Highlights

Production volume

Unit: tonne

Facility	**For the year ended 31 December 2007**	For the year ended 31 December 2006	Change (%)
Urea			
Fudao Phase I	**604,682**	606,179	(0.2)
Fudao Phase II	**689,484**	775,146	(11.1)
Tianye Chemical	**550,822**	546,133	0.9
Total	**1,844,988**	1,927,458	(4.3)
Methanol			
CNOOC Jiantao (Note 1)	**316,489**	32,500	873.8
Tianye Chemical (Note 2)	**187,341**	89,695	108.9
Total	**503,830**	122,195	312.3

Notes:

1. CNOOC Jiantao's results are consolidated in the Group's results based on a 60% shareholding basis; the plant commenced commercial operations on 1 December 2006 and the production volume has been accounted for commencing therefrom; In 2006 and 2007 the production volume of methanol was 54,167 and 527,482 tonnes, respectively.
2. Tianye Chemical commenced its commercial operations on 1 April 2006, and in 2006 the production volume has been accounted for commencing that date.

Facility utilisation rate

Unit: %

Facility	**For the year ended 31 December 2007**	For the year ended 31 December 2006	Change
Urea			
Fudao Phase I	**116.3**	116.6	(0.3)
Fudao Phase II	**86.2**	96.9	(10.7)
Tianye Chemical	**105.9**	105.0	0.9
Methanol			
CNOOC Jiantao	**87.9**	90.3	(2.4)
Tianye Chemical	**93.7**	49.8	43.9

Notes:

1. Facility utilization rate is derived by dividing the actual annual production volume by the designed annual production capacity. In accordance with the PRC industry practices, the designed annual production capacity is measured as daily production capacity on a 300-day per annum basis;
2. Tianye chemical's methanol facility utilization rate was calculated based on 9 months of operations in 2006 while CNOOC Jiantao's methanol plant utilization rate was calculated based on 1 month in 2006. In accordance with the PRC industry practices, the designed monthly production capacity is measured as daily production capacity on a 30-day per month basis.

Sales volume

Unit: tonne

	For the year ended 31 December 2007	For the year ended 31 December 2006	Change (%)
Urea			
Fudao Phase I	**606,415**	615,373	(1.5)
Fudao Phase II	**695,418**	778,495	(10.7)
Tianye Chemical	**554,848**	553,393	0.3
Total	**1,856,681**	1,947,261	(4.7)
Methanol			
CNOOC Jiantao	**328,194**	32,068	923.4
Tianye Chemical	**181,138**	97,186	86.4
Total	**509,332**	129,254	294.1

Notes:

1. Tianye Chemical's methanol plant commenced commercial operation on 1 April 2006; The CNOOC Jiantao's methanol plant commenced commercial operation on 1 December 2006. Both sales volumes were calculated from their respective commencement dates of commercial operations in 2006.
2. CNOOC Jiantao's results are consolidated in the Group's results based on a 60% shareholding basis; In 2006 and 2007 the sales volume of methanol of CNOOC Jiantao was 53,447 and 546,990 tonnes, respectively.

Chairman's Statement

Dear Shareholders,

2007 was the first full fiscal year of the Company after listing. With the Company achieving remarkable results, coupled with our stock outperforming the market, we are glad to deliver fruitful returns to our shareholders.

During 2007, in accordance with the changes of national policies, market,resource utilization and business scale expansion, the Board analyzed potential risks on fast growth, strengthened risk control, reviewed and updated the Company's strategy accordingly. Thus, the Board further solidified our confidence on the Company's development.

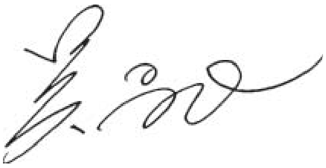
The Board steadily advanced corporate governance and endeavored to build an organized and effective corporate governance system with enhanced standards. An Investment Review Committee was set up under the Board and set of Rules of Procedures was laid down to guide operation of the committee and in turn enhance the quality of investment decisions. The Company also stepped up monitory on connected transactions and diligently honored its disclosure responsibility to honestly and accurately and in timely manner relate complete information of the Company's businesses and operations.

Given the PRC's population of 1.3 billion, the government places high importance on agricultural production and food supply issues. At the end of 2007,the PRC government convened a conference on rural development where the prominence of food production was highlighted, emphasizing the full implementation of the various support schemes, protecting and promoting the incentives for food production, thereby ensuring stability thereof. The increased support toward agriculture provided by the government offered good opportunities for the mineral fertilizers sector as well as the Company in achieving sustainability of development.

The Company is going to take superior opportunity to develop into the largest fertiliser operator in China and the most efficient resource transforming enterprise in chemical sector in the coming years, contributing to Chinese agricultural development and bringing much sustainable increasing value reward to shareholders..

Chairman

WU Mengfei



CEO's Report

Dear Shareholders,

In 2007, the Company has made distinct advancements in its operations. I am hereby pleased to present the 2007 results to the shareholders of the Company for review.

Significant upsurge of annual operating results

In 2007, the Group produced 1,844,988 tonnes of urea and 503,830 tonnes of methanol and achieved corresponding sales of 1,856,681 tonnes and 509,332 tonnes respectively. Methanol operations have become a major driver of the Group profit growth and their results have exceeded the target set by the Board, having discounted the effects of suspension of natural gas supply during the year. The Group made an aggregate earnings of RMB4,340.4 million in 2007. representing an increase of 25.24% over the previous year. The share of net profits by the equity holders of the parent company attained RMB1,448.3 million, representing an increase of 35.58% (compared with RMB1,068.2 million of 2006 after excluding the one-off gaining of approximately RMB577.62 million relation to the acqiusition of Tianye Chemical). The ROE and the EBITDA attained 19.58% and RMB2,113 million respectively.

Long cycle of stable production operations

In 2007, except for the 55-day downtime of the Fudao Phase II and methanol plants resulting from the natural gas supply suspension, the five production plants operated safely and stably. Specifically worth commending, the 600,000-tonne methanol plant of CNOOC Jiantao attained a long operating cycle of 157 days in its first year of operations. Further, pursuant to enhancement of facilities management and refinement of technical operations, the 200,000-tonne methanol plant of Tianye Chemical operated steadily and reached the planned production capacity, significantly improving over last year in terms of its operational efficiency.

The Fudao Brand urea of the Company was awarded the National Inspection-free Product title for the third consecutive time. The quality of methanol products exceeded the national superior standard as well as the America's AA standard.

Venturing into the coal chemical industry

In consideration of the implementation of national resources reallocation and optimal utilisation of the coal reserves of the country, the Company has made a strategic decision in venturing into the coal chemical industry. The Company has set up its technical team for coal chemical research at the beginning of 2007 and commenced the technical study on coal chemical operations. In September 2007, the Company and the State-owned Assets Supervision and Administration Committee of the municipal government of Jincheng City signed a joint venture agreement for the establishment of CNOOC Jincheng Coal Chemical Industry Co., Ltd. The urea project with a one million-tonne production capacity using coal as raw material has been approved by the local government. Meanwhile, the Company launched the Tianye Chemical's upgrading project, utilizing the dual feedstock of natural gas and coal. These endeavors provided a good foundation for the Company's future development in coal-based mineral fertilisers and chemical businesses.

Breakthrough of approval of new project

After more than one year's efforts and endeavors, the Inner Mongolia polyoxymethylene project received approval from relevant departments of the Inner Mongolia Autonomous Region in December 2007, and all approval procedures were completed. To-date, the overall sub-contracting agreement for the project has been signed, while the preparation work on initial design, equipment procurement and construction site are underway.

Through continual liaison with the Hainan government, the Hainan methanol project's environmental assessment is now in the approval stage.

Satisfactory achievements on HSE, energy-saving and reduction pollutants discharge

The Company placed significant importance on HSE work. There were no incidents of major consequence occurred during the year nor incidents involving occupational hazards. The OHSA incident records indicated a level of 0.256, outperforming the target level of 0.346.

In compliance with the prescribed requirements of the relevant government department, the Company commenced energy-saving and reduction pollutants discharge works by means of enhancement of technical operations and reinforcing technology innovation. The energy saved totalled 22,647 tonnes of standard coal, contributing to the national energy-saving endeavors.

Fulfillment of social responsibility

The Company played an active role in fulfilling social responsibility while creating value for the shareholders . Through such works as aiding poverty-burdened area via education provision, supporting local forestry and flood prevention work and improving the living quality of the local community , the Company established a good corporate image. The Company is highly commended by the national environmental protection department as during the course of projects construction, the Company cared for local infrastructure development, landscape preservation and environment and ecology protection. Further, the trial work on soil-testing and fertilizing prescription conducted in Hainan and Guangxi also achieved positive social impact.

In 2008, the Company will continue to develop the mineral fertiliser sector, contribute to the country's agriculture development, and endeavour to reap optimal returns for the shareholders. The Company will focus on the below tasks:

1. Enhance the production and operations management of the five existing plants, accomplish the annual production plan and achieve the set targets on the HSE control objectives;
2. Implement the polyoxymethylene project in accordance with schedule, aiming to have all prescribed approvals of the methanol project obtained in the first half of the year and to commence facilities construction in the second half of the year;
3. Continue advancing the preparation work in relation to the Jincheng urea project;
4. Effect the acquisition of Hubei Dayukou phosphate/compound fertilisers business and assets, and continue to advance other merger and acquisition opportunities; and
5. Further improve the standard of the Company's operational and managerial functions, and stringently control production cost and administrative expenses in order to achieve better operational efficiency and results.

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

YANG Yexin

CEO & President

Management Discussion and Analysis

Sector Review

Urea Sector

In 2007, the central government continued to expand its support towards the "three agricultural issues" (agriculture, rural areas and farmers), steadily advancing the socialist modernization of the rural areas. The annual financial support reached RMB339.7 billion, representing an increase of RMB42.2 billion over last year. There continued to be increased direct subsidies, seed subsidies and farming machines purchase subsidies for farmers, as well as implementation of consolidated subsidizing policy for agricultural production and minimum purchase price policy for target produce and target areas. As disclosed by the National Bureau of Statistics, food production in 2007 reached 497.46 billion tonnes, representing an increase in production of 3.5 million tonnes, or a 0.7% increase, relative to last year, being the fourth highest yield on records as well as the first time for the country since 1985 where there was increased production for 4 consecutive years.

The strong support towards agriculture and overall concessionary schemes offered by the PRC government to mineral fertilizers sector promoted the development of the PRC mineral fertilizers sector. According to the statistics of National Bureau of Statistics, the total fertilizer production volume reached 56.7 million tonnes in 2007, representing an increase of 7.4% over 53 million of 2006 while nitrogen fertilizer reached a production volume of 41.9 million tonnes, representing an increase of 8.3% over 38.7 million of 2006 whereas urea production totalled 24.9 million tonnes, representing an increase of 11.7% over 22.3 million of 2006.

Domestically, although the urea market experienced slack season in the first quarter, increase of international urea prices caused steady rise in domestic prices. During April and May, the domestic ex-factory price for domestic urea manufacturers reached the cap imposed by the government. In the second quarter, although it was high season for spring fertilizing, due to the drop in international urea price and the gradual release of domestic winter urea inventory, the urea price started to fall with the ex-factory price reaching the lowest point in July. Since August, due to the continuous high international price of oil and gas, the decrease in international urea production and the increase in demand of urea, the international urea price rose significantly and this drove up export of domestic urea, especially after the downward adjustment of the PRC export tariff from 30% to 15% in October 2007. The sharp rise in urea export and the implementation of the national urea winter inventory policy caused shortages in domestic urea stocks record high price as well as in domestic urea price in the fourth quarter though traditionally the fourth quarter belonged to a slack season for mineral fertilizers consumption.

Methanol Sector

In 2007, there was rapid growth in the PRC economy and this drove up the demand for methanol-related downstream chemical products. Also, the considerable expansion of production capacity of acetic acid, being downstream product of methanol, increased the demand for methanol.

In April and August 2007, the National Development and Reform Commission and Ministry of Construction introduced the Industry Standard for dimethyl ether and Standard for Civilian Usage of dimethyl ether respectively, paving the way for the standardization and market development of dimethyl ether. Under the current national conditions of coal, oil and gas reserves, with oil and gas being in short supply, dimethyl ether has become an althernative energy product with good prospects. Being a new downstream product of methanol, the production of dimethyl ether in 2007 reached nearly 2 million tonnes, rising from less than 30,000 tonnes of 2002, resulting in strong growth in demand for methanol.

The PRC government continued to step up the study on the methanol blending gasoline, and achieved certain progress in standardizing the mix. The gradual increase in methanol blending gasoline created new growth in demand for methanol.

According to the data published by the National Bureau of Statistics, in 2007, the national methanol production reached 10.78 million tonnes, representing an increase of 44.5% over 7.46 million of 2006; while total import of methanol reached 0.85 million tonnes, being a 32.9% decrease relative to 1.13 million tonnes of 2006. The apparent consumption of 11.07 million tonnes represented an increase of 31.8% relative to 8.4 million tonnes of 2006.

In 2007, there were a number of factors affecting the international and domestic methanol pries, resulting in high fluctuations in the methanol prices. In the first half of 2007, due to the expansion of methanol plant operations and the rapid growth in domestic methanol production, the international and domestic methanol prices fell from a high level at the beginning of the year to an average level as per the past year. Since July, as a result of such factors as growing domestic demands, driven especially by the demand of dimethyl ether and acetic acid, the international methanol market affected by inadequate supply of natural gas, decrease in methanol production and short supply thereof, international and domestic methanol prices started to rise and reached a record high in November.

Business Review

Urea

In 2007, the Company, via strengthened production management, achieved safe, stable, continuous, optimal and effective operations for the urea production facilities.

During the year, Fudao Phase I has achieved continuous production for 114 days, while Fudao Phase II has achieved a long cycle of continuous production for 179 days. Tianye Chemical urea plant has also maintained a high level of operational efficiency.

Production results of the various urea plants in 2007 are set out below:

	2007		2006	
Urea plant	**Production volume** ***(tonnes)***	**Utilisation rate** ***(%)***	Production volume *(tonnes)*	Utilisation rate *(%)*
Fudao Phase I	**604,682**	**116.3**	606,179	116.6
Fudao Phase II	**689,484**	**86.2**	775,146	96.9
Tianye Chemical	**550,822**	**105.9**	546,133	105.0
Group total	**1,844,988**	**100.3**	1,927,458	104.8

Note : Facility utilization rate is derived by dividing the actual annual production volume by the designed annual production capacity. In accordance with the PRC industry practices, the designed annual production capacity is measured as daily production capacity on a 300-day per annum basis.

Methanol

In 2007, under the unified production organization, co-ordination and management of the Company, CNOOC Jiantao's methanol plant achieved a continuous operation cycle of 157 days during the year. The quality of products has so far maintained a leading international standard.

In view of a number of down times experienced by the Tianye Chemical's methanol plant in 2006, Tianye Chemical has enhanced and refined the operations and facilities management, resulting in stable running of the facilities in 2007 and a continuous operations cycle of 88 days.

Production of the various methanol plants in 2007 are set out below:

	2007		2006	
Methanol plant	**Production volume** ***(tonnes)***	**Utilisation rate** ***(%)***	Production volume *(tonnes)*	Utilisation rate *(%)*
CNOOC Jiantao (note 1)	**316,489**	**87.9**	32,500	90.3
Tianye Chemical (note 2)	**187,341**	**93.7**	89,695	49.8
Group total	**503,830**	**90.0**	122,195	56.5

Note 1: CNOOC Jiantao's results are consolidated in the Group's results based on a 60% shareholding basis; the plant commenced operations on 1 December 2006 and the production volume has been accounted for commencing therefrom; In 2006 and 2007, the production volume of methanol was 54,167 and 527,482 tonnes, respectively.

Note 2: Methanol plant of Tianye Chemical commenced commercial operations on 1 April 2006. The production volume has been accounted for commencing that date.

Sales

To respond to the cyclical fluctuations of the urea market, the Company pro-actively undertook exploration and trials in the area of sales operations via, in-depth and detailed market surveys, adjustment of product sales strategy and consolidation of existing sales and marketing channels.

In view of the price fluctuations of methanol in both the domestic and overseas markets, the Company conducted detailed and in-depth market surveys and researches, and continued to develop and strengthen the sales network. Despite policy changes in respect of reduction of export tax refunds for methanol from 13% to 5% as decreed by the Ministry of Finance effective 1 July 2007, the Company has pro-actively adjusted the sales strategy and communicated with the customers, mitigating the impact on the Company brought about by such policy changes.

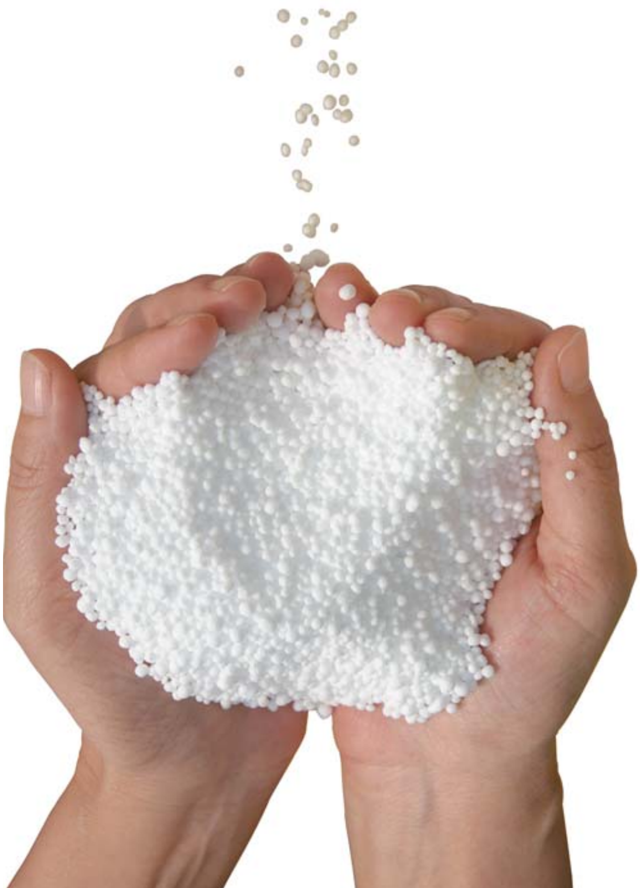
The following table sets out the Group's urea sales volumes by final destinations prouducts during the past two financial years:

	Year Ended 31 December			
	2007		2006	
Sales Region	**Volume** ***(tonnes)***	**Percentage** ***(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**92,620**	**5.0**	43,688	2.2
Northern China	**445,971**	**24.0**	553,969	28.5
Eastern China	**239,645**	**12.9**	272,716	14.0
South-eastern China	**39,532**	**2.1**	125,492	6.4
Southern China	**387,494**	**20.9**	478,483	24.6
Hainan	**187,343**	**10.1**	182,201	9.4
International	**464,076**	**25.0**	290,712	14.9
Total	**1,856,681**	**100.0**	1,947,261	100.0

The following table sets out the Group's methanol sales volumes by final destinations prouducts during the past two financial years:

	Year Ended 31 December			
	2007		2006	
Sales Region	**Volume** ***(tonnes)***	**Percentage** ***(%)***	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**7,596**	**1.5**	5,839	4.5
Northern China	**136,950**	**26.9**	58,925	45.6
Eastern China	**112,979**	**22.2**	32,422	25.1
South-eastern China	**7,379**	**1.4**	—	—
Southern China	**116,554**	**22.9**	9,961	7.7
Hainan	**36,207**	**7.1**	914	0.7
International	**91,667**	**18.0**	21,193	16.4
Total	**509,332**	**100.0**	129,254	100.0

Note : CNOOC Jiantao's results are consolidated in the Group's results based on a 60% shareholding basis; In 2006 and 2007, the sales volume of methanol of CNOOC Jiantao was 53,447 and 546,990 tonnes, respectively.



Sea-land logistics services

In 2007, the throughput completed by Hainan Basuo Port Limited ("Hainan Basuo") was 5.47 million tonnes.

BB fertilisers

In 2007, a total of 31,400 tonnes of BB fertilisers were produced with a sales volume of 28,500 tonnes.

Woven plastic bags

In 2007, the Group produced 28.21 million woven plastic bags with a sales volume of 27.68 million bags.

Financial Review

Revenue

In 2007, the Group recorded RMB4,340.4 million of revenue, an increase of RMB874.6 million from RMB3,465.8 million in 2006, representing an increase of 25.24%.

In 2007, the Group's revenue from urea was RMB2,975.7 million, which remained at the same level as that of 2006 of RMB2,975.7 million. In 2007, sales volume of urea decreased by 90,580 tonnes relative to 2006, but selling prices of urea increased by RMB75/tonne over 2006. The decrease in sales volume of urea was primarily due to the temporary supension of natural gas supply to the urea plant of Fudao Phase II on 6 November 2007, which resumed its production on 29 December 2007. This has resulted in reduction of urea production volume by approximately 135,000 tonnes to the Group in 2007.

In 2007, methanol became the new growth driver for the Group. The urea plant of CNOOC Jiantao remained in steady production until early November 2007. On 6 November 2007, due to suspension in the supply of natural gas, CNOOC Jiantao's methanol plant ceased production, which was resumed on 30 December 2007. This resulted in decrease in production of methanol by approximately 55,600 tonnes for the Group. On the other hand, the methanol plant of Tianye Chemical has maintained steady production throughout the year. In 2007, total sales volume of methanol has increased by 358,699 tonnes over 2006 with an increase in revenue of RMB836.9 million.

In 2007, revenue from the Group's other segments (mainly comprising port operations, provision of transportation services and the manufacture and sales of fertilisers and woven plastic bags) increased by RMB37.7 million. The increase was mainly due to the increase in sales of compound fertilisers amounting to RMB46.3 million. The increase was partially offset by the decrease in port operations income.

Cost of sales

In 2007, the Group's cost of sales was RMB2,552.1 million, an increase of RMB387.9 million from RMB2,164.2 million in 2006, representing an increase of 17.92%.

Increase in the Group's cost of sales in 2007 was primarily attributed to the growth in sales of methanol amounting to 358,699 tonnes over year 2006, which resulted in an increase of RMB324.6 million in total cost of sales.

In 2007, cost of sales of urea increased by RMB17.1 million. However, considering the effect arising from the merger of Tianye Chemical's results commencing 19 January 2006 (from 1 January 2006 to 18 January 2006. Tianye Chemical's cost of sales of urea totalled RMB49.3 million), the Group's 2007 actual cost of sales decreased by RMB32.2 million. The primary reason for decrease in the cost of sales of urea was the suspension of operation in the urea plant of Fudao Phase II resulting from interruption of natural gas transmission and supply, which gave rise to a reduction of sales volume of urea in amount of 135,000 tonnes.

In 2007, the Group's other costs of sales (mainly comprising the costs of port operations, provision of transportation services and the manufacture and sales of compound fertilisers and woven plastic bags) increased by RMB46.2 million over last year. The main reason for the increase was the increased cost of sales of compound fertilisers.

Gross profit

In 2007, the Group's gross profit was RMB1,788.3 million, an increase of RMB486.7 million from RMB1,301.6 million of last year, representing an increase of 37.39%.

The increase in gross profit in 2007 was mainly due to: (1) increase in sales volume of methanol of 358,699 tonnes which resulted in an additional RMB512.3 million of gross profit; (2) gross profit for urea decreased by RMB17.1 million; (3) gross profit for other sales segments reduced by RMB8.5 million.

Other income and gains

In 2007, the Group's other income and gains were RMB74.0 million, a decrease of RMB51.6 million, as compared to RMB125.6 million in 2006.

The Group entered into a cross-currency interest rate swap contract (the "swap") with the Bank of China, Hainan Branch in order to mitigate part of the risks arising from foreign exchange fluctuations between US Dollars and Japanese Yen. The swap will expire on 20 June 2008. In 2007, a fair value gain of RMB19.5 million was recorded, representing, a decrease of RMB5.5 million as compared to RMB25.0 million in 2006.

In 2006, the Group received value-added tax ("VAT") refunds of RMB89.3 million from the government in respect to the VAT paid during the period from 2004 to the first half of 2005 while there were no relevant VAT refunds received for 2007. In 2007, the Group received gains on disposals of available-for-sale investments amounting to RMB47.3 million.

Excess over the cost of a business combination

In 2007, there was no excess over the cost of a business combination.

Selling and distribution costs

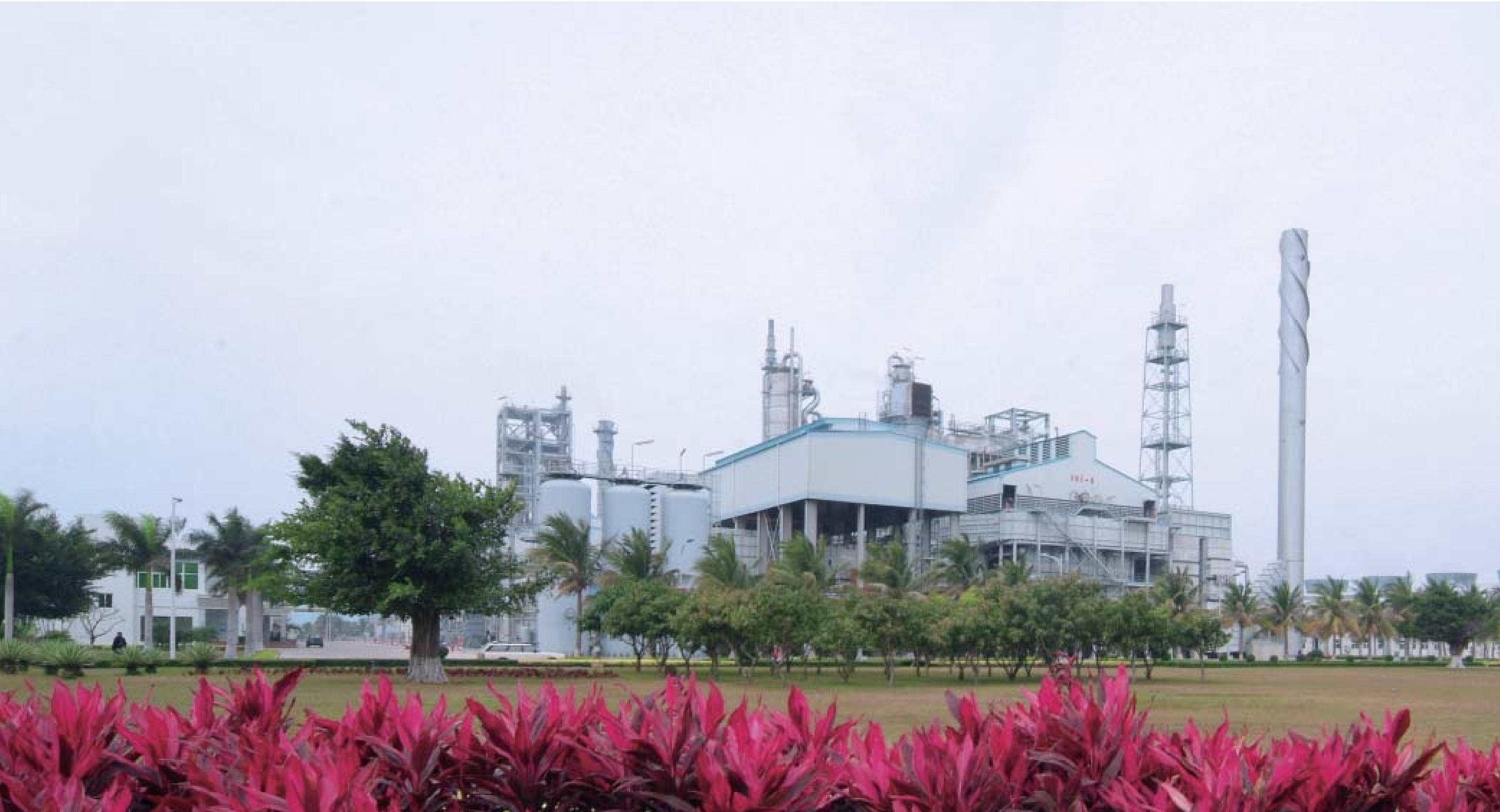
In 2007, the Group's selling and distribution costs amounted to RMB70.2 million, an increase of RMB36.3 million, representing an increase of 107.08%, as compared to RMB33.9 million in 2006. The increase was mainly due to increase in sales of methanol.

Administrative expenses

In 2007, the Group's administrative expenses amounted to RMB223.8 million, an increase of RMB24.2 million, or 12.12%, over that of 2006 of RMB199.6 million. The increase was primarily attributed to: (1) increase in administrative expenses of CNOOC Jiantao by RMB13.9 million; (2) increase in relevant tax expenses of Tianye Chemical by RMB10.3 million due to increase in the land-use tax rates; (3) increase in consultancy expenses, intangibles amortisation expenses, leasing expenses and travelling and lodging expenses amounting to RMB10.3; and (4) the write-back of prior years staff welfare payable in the amount of RMB17.0 million against administrative expenses pursuant to the implementation of the new PRC Accounting Standards in 2007.

Other expenses

In 2007, the Group's other expenses amounted to RMB51.2 million, an increase of RMB16.7 million, or 48.41%, over that of 2006 of RMB34.5 million, which was mainly attributed to: (1) Tianye Chemical's write-back of an asset impairment provision amounting to RMB7.6 million in 2006, while there was no such write-back in 2007; and (2) disposal of the fixed assets in Hainan Basuo of RMB10.1 million.



Finance revenue and finance costs

In 2007, the Group's finance revenue was RMB29.2 million, a decrease of RMB90.6 million, or 75.63%, relative to RMB119.8 million in 2006. The decrease was primarily attributed to the interest income of RMB88.9 million derived from the subscription monies of the Company's listing of H Shares in 2006. There was no such revenue in 2007.

In 2007, the Group's finance costs amounted to RMB18.3 million, representing a decrease of RMB43.4 million, or 70.34%, relative to RMB61.7 million in 2006, which was primarily attributed to the interest savings derived from the early repayment of loans in the amount of RMB520.1 million in early 2007.

Exchange gain/(loss), net

In 2007, the Group received exchange gain of RMB14.4 million, which was primarily attributed to an increase in exchange gain of RMB10.7 million derived from the US dollar debts of CNOOC Jiantao. In 2006, net exchange loss of RMB1.5 million was recorded. The loss was primarily due to the exchange loss arising from the purchase of Japanese Yen to repay part of the Japanese Yen loan.

Income tax expenses

In 2007, the Group recorded income tax expenses amounting to RMB67.1 million, a decrease of RMB53.0 million, or 44.13%, relative to that of 2006 of RMB120.1 million in 2006, which was primarily due to: (1) according to the new PRC income tax law, there are changes in the statutory income tax rate and scope of deductible expenditures from 2008, which resulted in the movement of deferred tax, which resulted in a decrease of income tax expense amounting to RMB31.4 million; (2) impact of the seafloor pipelines incident of interruption of natural gas supply to the urea plant of Fudao Phase II which led to a decrease of income tax expenses for the current year of RMB6.4 million; and (3) taxes on interest income arising from subscription monies deposited by public investors of RMB6.7 million in 2006.

Net profit for the year

In 2007, the Group's net profit was RMB1,479.4 million, representing an increase of RMB464.0 million, or 45.70%, over RMB1,015.4 million in 2006 (excluding the excess over the cost of a business combination relating to the acquisition of Tianye Chemical in January 2006 of RMB577.6 million and the interest income after tax of RMB82.2 million from the subscription monies of the listing of H Shares). The increase is mainly due to the increase in sales and production volume of methanol in CNOOC Jiantao and Tianye Chemical methanol projects.

Dividends

The board of directors of the Company recommended the payment of a final dividend of RMB0.08 per share for 2007, aggregating to RMB368.8 million, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

In view of the issue of H Shares by the Company in September and October 2006, the total number of shares of the Company increased from 3.0 billion shares before issuance of H shares to 4.61 billion shares after the issuance of H shares. The significant increase in the number of shares has a large effect on the earnings per share of the Company.

Capital expenditure

In 2007, the Group's capital expenditure in respect of property, plant and equipment and prepaid land rentals was RMB247.1 million, which mainly comprised: (1) capital expenditure in respect of the liquid chemical berth project of Port of Hainan Basuo of RMB99.0 million; (2) capital expenditure in respect of Fudao Phase I, Fudao Phase II and Tianye Chemical of RMB90.7 million; and (3) other capital expenditure of RMB57.4 million.

The polyoxymethylene project in Inner-mongolia, which was originally scheduled to commence construction in 2007, has received the environmental assessment approval in December 2007 and is now in the stage of preliminary design and equipment procurement. The Hainan methanol project which scheduled the construction in 2007 is now in the approval stage.

Market risk

The major market risk the Group is exposed to include the risk of interest rate, fluctuations in exchange rate and of changes in selling prices of the Group's key products and changes in prices of raw materials of major products, and fluctuations in interest rates and exchange rates.

Commodity price risk

The Group is also exposed to commodity price risk as a result of changes in the selling prices and the costs of raw materials (primarily natural gas).

Interest rate risk

In 2007, the PRC Government has increased the bank lending rate for six times, in which the bank lending rate for 6 to 12 months (inclusive) has cumulatively increased 1.35%. This will increase the finance cost of the Company in the future.

Foreign exchange risk

The Group's sales revenues are denominated in Renminbi and US dollars. In 2007, Renminbi appreciated by 6.46% against the US dollars. Appreciation of Renminbi against US dollars may have a double effect. The Group's revenue from products may decline as a result of the depreciation of US dollars against Renminbi, and cost of import for the purchase of equipments and raw materials will also be reduced. In addition, appreciation of Renminbi may reduce the Group's burden of indebtedness denominated in foreign currencies.

As at 31 December 2007, the balance of the Group's indebtedness in Japanese Yen amounted to JPY1,112.7 million against which the Group has entered into a swap contract to avoid the exchange rate risk of Japanese Yen.

Inflation and currency risk

According to the statistics of the National Bureau of Statistics of China, the consumer price index of the PRC has increased by 4.8% in 2007. Such inflation in the PRC had no material impact on the operating results of the Group.

Post balance sheet events and contingent liabilities

On 25 February 2008, the proposed H share appreciation rights scheme for the Company's management was approved by the shareholders at the extraordinary general meeting and the scheme took effect thereafter.

As at 31 December 2007, the Group had no material contingent liabilities.

Material litigation and arbitration

As at 31 December 2007, the Group had no material litigation or arbitration.

Outlook for 2008

Urea Sector

In 2008, the PRC Government continues to augment its support towards the agriculture sector through provision of more substantial financial assistance relative to last year. The government budget for the agriculture sector reaches RMB562.5 billion, representing an increase of RMB130.7 billion over last year. At the same time, the PRC Government also reinforces and enhances the agriculture support policy, insisting on the most stringent preservation policy on arable land and to increase the minimum prices for agricultural produce.

In 2008, the mineral fertilisers enterprises continue to enjoy government-sanctioned concessionary schemes, such as VAT exemptions for urea producers, rate freeze for natural gas consumption for urea production purposes and concessionary rates offered in the areas of electricity supply and transportation. On the other hand, to safeguard the interests of farmers, urea ex-factory prices are still subject to the price cap policy. Aside from these, to ensure adequate domestic supply, the PRC Government has made adjustments to the urea export tariff rates; the proposed tariff rates being 30% for the first quarter, 35% for the second and third quarters and 25% for the fourth quarter.

After years of development of the urea production capacity, the domestic urea market has reached a state where supply exceeds demand. However, in view of both domestic and international factors, the 2008 domestic urea prices are foreseen to remain at a high level and the average annual price for 2008 will potentially be considerably higher than that of 2007. Domestically speaking, in view of coal being used as raw material by 70% of domestic urea producers and the significant price inflation on coal, the domestic production costs will increase. As regards international urea prices, they will stay at a high level given supply shortage foreseen arising from high international oil and natural gas prices and increased demand for international urea driven by the international biofuel industry boosting the demand for agricultural produce and thereby demand for international urea. Both domestic and international factors is expected to drive up the 2008 urea price relative to that of 2007.

Methanol Sector

It is estimated that the growth trend of the domestic production capacity of methanol in 2008 will be steady though moderate relative to the vigorous growth experienced in 2007. Considering such factors as high international oil and natural gas prices, insufficient natural gas supply, as well as the rapid rise in demand for dimethyl, and effects of gradual growth in consumption of ether fuel and surges in production costs thereof, it is expected that international methanol prices will remain at a high level.

In 2008, the Company will continue to develop the mineral fertiliser sector, contribute to the PRC agriculture development, and endeavour to reap optimal returns for the shareholders. The Company will focus on the below tasks:

1. Enhance the production and operations management of the five existing plants, accomplish the annual production plan and achieve the set targets on the HSE control objectives;
2. Implement the polyoxymethylene project in accordance with schedule, aiming to have all prescribed approvals of the methanol project obtained in the first half of the year and to commence facilities construction in the second half of the year;
3. Continue advancing the preparation work in relation to the Jincheng urea project;
4. Effect the acquisition of Hubei Dayukou phosphate/compound fertilisers business and assets, and continue to advance other merger and acquisition opportunities; and
5. Further improve the standard of the Company's operational and managerial functions, and stringently control production costs and administrative expenses in order to achieve better operational efficiency and results.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Quality, Health, Safety and Environmental Protection

2007 marked a year of implementation and advancement of production safety measures. The Company continued to uphold the safety culture with priority placed on prevention and safe operations and attained the annual target on HSE management set at the beginning of the year. The Company compiled detailed implementation procedures on financial management of production safety related expenditure, ensuring that a long-term mechanism on production safety is in place. The Company elevated the standards on enterprise safety, occupational health, environmental protection and economic profits concurrently.

Quality Control

During the year, the Company's urea products attained a quality production rate of 99.65% with a 100% pass rate on net weight of single packets and a 95% customer satisfaction rate while the Fudao Brand granular urea was awarded the "National Inspection-free Product" title for the third consecutive time. The quality of methanol products fully attained and exceeded the respective national quality and America's "AA" standards and reached the international first-rate standard.

Health, Safety, Environmental Protection--HSE

The Company continued to enhance the HSE system set-up. In April 2007, the Company modified and refined the HSE system and reviewed the HSE systems of CNOOC Jiantao, Basuogang and Tianye Chemical respectively. In July and October, the CNOOC Plastic Company Limited and the E&P Gas Limited commenced establishment of their respective HSE systems.

In 2007, there were no incidents of major environmental pollution consequence occurred during the year, nor incidents requiring direct compensation of above RMB1 million each incident, nor incidents involving occupational hazards while the safety training and certification rate reached 100% and the OHSA incident records indicated a level of 0.256, outperforming the target level of 0.346.

Human Resources

With the change of the internal and external management environment, the Company puts forward an overall guideline of grasping the opportunity, adjusting the strategy, accepting the challenge, and accelerating the development. In order to meet the development needs, the Company makes a further statement about human resources mission, i.e. making full advantage of the core strategic function of revitalizing the company by excellent human resources, cultivating and promoting sustainable development of human resources as a competitive advantage, guaranteeing and advancing the implementation of strategic development goals. Guided by this mission, the Company carried out a series of effective measures in aspects of talents strategy, policy research and supporting system.

The Company fully realizes that as a production enterprise, its survival is based on stable production, which in turn depends on the excellent and industrious staff. Developing and stabilizing staff teams lay foundation for the Company's development. The development of operation and technology makes the company vigorous and maintains sustainable development. The growth of the company reqiires an efficient work team in business operation and technical research. Promoting management team and capitalising on human resources stimulate the development of the company.

Moreover, the Company emphasized introduction and retainment of quality staff. The Company adopted flexible recruiting policy and reinforced introducing quality staff. In 2007 the Company employed 24 skilled personnel in the manufacturing, technical, research and management areas. It also set up a selection, training and employing system, which matched with the modern enterprise system that would enable identification and promotion of quality staff.

In 2007, the Company improved performance evaluation system adopting BSC (balance score card) and individual responsibility. The Company was provided continuously with talent by strengthening the selection and training of reserved talent. The Company made a further improvement in training system for higher management level by assembling new staff in a standardized regulatory regime. The Company, as required by the annual training plan, held training courses of 261 sessions, totalling 64,052 class hours, with participation of 7,476 individual attendance.

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 of Directors has also established the Nomination Committee, the Remuneration Committee and the Audit Committee. In October 2007, the Board of Directors set up the Investment Review Committee.

In 2007, 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 efficiencies 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 in 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 2007, 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.

The members for the current Board of the Company is as follows:

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 their respective term of office subsequent to which they are eligible for re-election at a general meeting of the Company.

Meetings and Major Decisions of the Board

During the report period, the Company convened six meetings of the Board including four physical meetings and two meetings held by electronic means. All such meetings were held in compliance with the relevant laws and provisions of the Articles of Association of the Company. The following is a detail account of the meetings:

(1) The First meeting of the First Board was held in Haikou, Hainan province on April 3 2007. During the meeting , eight proposals were reviewed and adopted including "The Proposal for Review of 2006 Financial Report of CNOOC China BlueChemical Ltd.", "The Proposal for Review of 2006 Financial Report and Performance Report of CNOOC China BlueChemical Ltd.", "The Profit Distribution Proposal for 2006 of CNOOC China BlueChemical Ltd.", "The Proposal for Contracting Annual Accounting Firm for 2007", "The Proposal for 2006 Annual Shareholders Meeting of CNOOC China BlueChemical Ltd.", "The Proposal for Establishing Engineering Technical Center, The Proposal for Increasing Investment for CNOOC Jiantao Chemical Engineering Ltd." and "The Proposal for Review of 2006 Performance Evaluation Report".

(2) The second meeting of the First Board was held in Huhehaote, Inner Mongolia Autonomous Region on July 20 2007. During the meeting, seven proposals were reviewed and adopted including "The Proposal for Authorizing the Board for Determining the Salary of Directors", "The Proposal for Review of Remuneration of Senior Managers", "The Proposal for Appointment and Discharge of Vice-president and Secretary of the Board", "The Proposal for Appointment of Company Secretary of China BlueChemical Ltd.", "The Proposal for Amendment of Articles of Association and The Proposal for Holding Extraordinary General Meeting".

(3) The third meeting of the First Board was held in Shenzhen, Guangdong province on August 26 2007. During the meeting, three proposals were reviewed and adopted including "The Proposal for Review of the 2007 Interim Financial Report of China BlueChemical Ltd.", "The Proposal for Review of the 2007 Interim Report and Performance Report of China BlueChemical Ltd." and "The Proposal of Appointment of Executive Vice-president of the Company".

(4) The fourth meeting of the First Board was held in Haikou, Hainan province on December 24 2007. During the meeting, four proposals were reviewed and adopted "The Proposal for Review of the 2008 Financial Budget", "The Proposal for Review of Jincheng 100-tonne Urea Project", "The Proposal for Review of Application and Acceptance of Bank Credit" and "The Proposal for Review of Time Alteration of the Extraordinary General Meeting".

(5) An extraordinary Boarding meeting was held on March 8 2007. The Board reviewed and adopted "The Proposal of Stock Pledge of Three Agricultural Material Companies' Shareholders" by way of electronic communication voting.

(6) An extraordinary Board meeting was held on October 23 2007. The Board reviwed and adopted "The Proposal for Establishment of Investment Review Committee of the Board", "The Proposal for Remaining Notifying Deadline of Holding General Meeting in Articles of Association", "The Proposal for Temporary Halt of Extra Investment in CNOOC Kingboard Chemistry Industry Ltd." and "The Proposal for Establishment of CNOOC Jincheng Coal Chemical Industry Co., Ltd." by way of electrontic 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 2007

Director	Attendance/Number of meetings	Attendance rate (%)
WU Mengfei	6/6	100
YANG Yexin	6/6	100
FANG Yong	5/6	83
CHEN Kai	6/6	100
WU Xiaohua	5/6	83
TSUI Yiu Wa, Alec	6/6	100
ZHANG Xinzhi	6/6	100
WANG Wenshan	6/6	100
Average attendance rate	-	96

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 2007, the Audit Committee held two meetings, details of which are as follows:

On 25 March 2007, the Audit Committee held its first meeting of the year in Haikou of Hainan province. During the meeting, it reviewed the Company's financial report for 2006;

On 25 August 2007, the Audit Committee held its second meeting of the year in Shenzhen of Guangdong province, and reviewed the Company's interim financial report for 2007.

Attendance rate of individual member in Audit Committee meetings of 2007

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.

Remuneration policy for Executive Directors: The remumeration package policy for Executive Directors is designed to link Executive Directors' remuneration with their performance and the Company's objectives to incite their performance and provide incitives for their re-election. In accordance with Articles of Association of the Company, the directors are not entitled to determine or approve their own remuneration.

Remuneration policy for Non-executive Directors: Remuneration of Non-executive Directors is subject to approval by the Company's shareholders at general meeting and determined after taking into consideration the complexity of the matters to be handled by them and their duties. Pursuant to the service contract entered into between the Non-executive Directors and the Company, the Company pays Non-executive Directors the out-of-pocket expenses incurred in performance of duties (including attendance at the meetings of the Company).

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.

On 24 December 2007, the Remuneration Committee held its first meeting of the year in Haikou of Hainan province. During the meeting, the Committee discussed the Stock Appreciation Rights of China BlueChemical Ltd. and communicated relevant opinions.

Attendance rate of individual member in Remuneration Committee meetings in 2007

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. The Committee assesses the independence of the Independent Non-executive Directors and makes recommendations to the Board on matters relating to the appointment, reappointment 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 2007. There were no changes to the Board during the year.

Investment Review Committee

The Investment Review Committee of the Board is mainly responsible for reviewing the investment proposals beyond the threshold allowed to senior management of the Company for decision making and makes recommendation to the Board. The Committee consists of four four members including two Independent Non-executive Directors, Mr. ZHANG Xinzhi and Mr. TSUI Yiu Wa, Alec, the Non-executive Director, Mr. WU Mengfei and the Executive Director, Mr. YANG Yexin. Mr. ZHANG Xinzhi is the Chairman.

The Investment Review Committee held its first meeting in Haikou, Hainan province on December 24 2007. The Shanxi Jincheng 1million-tonne Urea Project was reviewed and recommended for approval as the Committee considered that the project would capitalize on the advantages of local resources availablity, conform to the national industrial policy and the Company's development strategy.

Investment Review Committee Members' Attendance of Meetings in 2007

Member of Investment Review Committee	Attendance / Number of Meeting	Attendance Rate (%)
ZHANG Xinzhi	1/1	100
TSUI Yiu Wa, Alec	1/1	100
WU Mengfei	1/1	100
YANG Yexin	1/1	100

3. Supervisory Committee

The Supervisory Committee reports to the shareholders at the General Meeting and performs the below duties in accordance with its terms of reference:

- To review the financial matters of the Company;
- To oversee the performance of the directors and senior management when performing their duties for the Company and make recommendations of dimissal in cases of breaches of laws, prescribed regulations and Articles of Association of the Company;
- To correct the improper behavior of the directors, the president and other senior managers that would cause damages to the Company's interests;
- To examine the Board' financial materials submitted to the General Meeting including financial report, business report and profit distribution plan, etc, and to authorize certified public accountant and auditor for re-examination in the name of the Company in case of doubt;
- To propose the holding of extraordinary general meeting and to organize and chair the general meeting when the Board fails to fulfill its responsibility to do so;
- To make proposals for the General Meeting;
- To lodge lawsuits against the Board, the president and other senior administrators in acordance with Company Law; and
- To perform other rights stipulated in the 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 preside over production operations management of company and carry out resolutions of the Board;
- To formulate annual business plans and investment proposals;
- To formulate the internal management organisation plan;
- To formulate the fundamental management system.
- To formulate the fundamental regulations and systems of the company;
- To engage or dismiss the Vice President and Chief Financial Officer of the company,
- To engage or dismiss personnel other than those required to be engaged or dismissed by the Boad; and
- To perform other powers granted in the Company's Articles of Association and by the Board.

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 President

Pursuant to A.2.1 of the Code on Corporate Governance Practices, the roles of Chairman and the President 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. Also, the Company endeavours to maintain continual communications with shareholders, especially through encouraging the shareholders to attend the Annual General meeting or other general meetings.

The secretary office of the Board is responsible for the communication of the Company and other investors including notifying shareholders of voting procedures periodically and ensuring the voting procedures conform to stipulations in the Listing Rules and Articles of Association.

8. Internal Control

In 2007, the Company organized activities to introduce standard specification. To effectively examine the internal control system, the Company organized routine audit work as well as focused internal control audit, and followed up issues identified including seeking third party verification. The Comapny's information management has attained a new level. Upon successful implementation of the ERP system in 2006, the Company implemented the ERP project of Tianye Chemical in 2007.

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. Auditor and remunerations

Ernst & Young are the Company's external auditors. The audit fee for the year ended 31 December 2007 was RMB2.68 million.

10. The 2007 Annual Review on non-competition agreement

On December 24 2007, the Company held the 2007 annual review on non-competition with CNOOC.

In the meeting, the period commencing 1 January 2007 to the date of the meeting was reviewed identifying any investment opportunity made available to CNOOC on its subsidiaries (excluding the Company) that compete or may competes with the Company's core business.

In 2007, CNOOC and its affiliated enterprise (excluding the Company) did not engage in, develop or invest in any business which would cause competition or potential competition to the Company's major businesses.

11. The Directors' Responsibility on Financial Statement

The Directors acknowledged their responsibility for preparing the financial statements of the Group for the year ended 31 December 2007, and to conduct balanced, clear and comprehensive evaluation of the Company's performance, conditions and prospects. The Board promises that except for the information disclosed in this annual report, there is no major uncertain event or condition which may significantly affect the going-concern of the Company.

Directors, Supervisors and Senior Management

Non-Executive Director

WU Mengfei, born in 1955, is a non-executive Director and the Chairman of the Company. Mr. Wu graduated from East China Petroleum Institute (subsequently renamed as "Petroleum University") in 1982 with a major in chemical instrument and automation. He obtained a master degree from East China Petroleum Institute in 1986, and a MBA degree from Massachusetts Institute of Technology in 2002. From 1986 to 1988, Mr. Wu was a lecturer at the graduate division of East China Petroleum Institute. He joined the CNOOC group in 1988 and served as the head of the planning office, a deputy director of the planning & financial department and the director of the planning & treasury department of CNOOC. From September 1999 to June 2002, Mr. Wu was a senior vice president and chief financial officer of CNOOC Limited. From July 2002 to March 2006, he became an executive vice president and the chief financial officer ofChina Oilfield Services Limited ("COSL"). He was an executive director of COSL from May 2004 to March 2006, and was appointed as a non-executive director of COSL in April 2006. Since April 2006, Mr. Wu has also been the chief financial officer of CNOOC. Mr. Wu was appointed as a non-executive Director of the Company in April 2006.

Executive Directors

YANG Yexin, born in 1956, is an executive Director and also the Chief Executive Officer and President of the Company. Mr. Yang graduated from Wuhan Communication Technology University in 1978 with a major in vessel engineering and obtained a master's degree in management engineering from Beijing University of Petroleum in 2004. He joined the CNOOC group in 1978 and served as a mechanical officer and the deputy head of the mechanics division of China Offshore Oil Southern Drilling Company before 1992, the deputy general manager of CNOOC Nanhai West CPEC (Shekou) Company from 1992, the chief officer of the equipment division of CNOOC Nanhai West Corporation from 1993, the deputy general manager of China Offshore Oil Southern Drilling Company from 1994 to 1999, the general manager of China Offshore Oil Southern Shipping Company from 1999 to 2001, the general manager of CNOOC Shipping Company Limited from 2001 to 2002, and a director and executive vice president of COSL from August 2002 to September 2003. Mr. Yang joined the Company in August 2003 when he was appointed as a director and the chairman of CNOOC Fudao Co., Limited. He was appointed as a director of CNOOC Chemical in September 2003 and the general manager of CNOOC Chemical in October 2005, and has been the chairman of CNOOC Jiantao and Hainan Basuo since their incorporation. Mr. Yang was appointed as an executive Director of the Company in April 2006.

FANG Yong, born in 1960, is an executive Director and an Executive Vice President of the Company. Mr. Fang graduated from Shangdong TV University in 1984 with a major in electronics. In 1998, Mr. Fang completed a graduate professional program in international trade at the Chinese Academy of Social Sciences. He undertook an EMBA program at Raj Soin College of Business of the Ohio State University in the USA from March 2005 to May 2006. He worked for Shandong Shengli Institute of Oilfield Geology from 1976 to 1984, and then joined Henan Zhongyuan Oilfield as the head of the contract management division under the ethylene management office. Mr. Fang joined the Company in 1992. He served as the head of foreign affairs, assistant to general manager and the manager of the sales office of CNOOC Fudao Co., Limited before he was appointed as a deputy general manager of CNOOC Chemical in April 2001 and as a director and the president of CNOOC Fudao Co., Limited in December 2001. He was appointed as a director of CNOOC Chemical in November 2003 and a deputy general manager in October 2005. Mr. Fang was appointed as an executive Director of the Company in April 2006.

CHEN Kai, born in 1957, is an executive Director and an Executive Vice President of the Company. Mr. Chen graduated from Zhongshan University in 1982 with a major in philosophy. He joined the CNOOC group in 1982 and served as the deputy director of the cultural centre, the head of the promotions division and an office director of CNOOC Nanhai West Corporation. From August 2002 to October 2005, he was a vice president of COSL. He joined Tianye Chemical in July 2004 as the general manager. Mr. Chen has been a deputy general manager of CNOOC Chemical since October 2005 and the chairman and general manager of Tianye Chemical since February 2006. Mr. Chen was appointed as an executive Director of the Company in April 2006.

Independent Non-Executive Directors

WANG Wenshan, born in 1936, is an independent non-executive Director of the Company. He has over 43 years of experience in engineering design and technology management for the chemical fertilizer industry and is a senior engineer at professor level. Mr. Wang is a graduate of Tianjin University (Chemical Engineering Department) majoring in inorganic processes. From 1969 to 1976, he was the person-in-charge of engineering design for a nitrogenous fertiliser project in Albania supported by China. After returning to China in 1976, he was transferred to the Department of Mineral Fertilisers under the Chemical Ministry of China where he served as the office head and the deputy department head in charge of technology management of newly launched large-scale fertiliser installation projects. In 1988, he became a deputy department head of the Department of Infrastructure under the Chemical Ministry overseeing design and construction of chemical projects.

Mr. Wang was appointed as a director of the China Chemical and Exploration Design Association in 1992. He became a deputy general engineer of the Chemical Ministry as well as a deputy director of the economics and technology committee under the Chemical Ministry in 1993, and was appointed as the chief executive of CNFA in 1996. Mr. Wang was appointed as an independent non-executive Director of the Company in April 2006.

ZHANG Xinzhi, born in 1944, is an independent non-executive Director of the Company. He has more than 35 years of experience in engineering and management in the petrochemical industry and is a senior engineer at professor level. Mr. Zhang obtained a bachelor's degree from University of Science and Technology of China in 1967. From 1967 to 1989, he was with No. 3 Fushun Petroleum Factory where he had served as a technical officer, an engineer and a deputy plant manager. He was a deputy general engineer of Fushun Petroleum Chemical Corporation in 1990, a deputy manager of the Fushun Petroleum and Chemical Company of Sinopec Corporation in 1992, and a manager of Fushun Petroleum Chemical Corporation of Sinopec Corporation in 1995. Mr. Zhang joined PetroChina Corporation in 1999, and served as a director of the refinery and chemical department, the general manager of the chemical and sales branch, a vice president, and a deputy director of the consulting centre. In 2003, he was appointed as honorary director of the sixth session of the China Petroleum Society. From 2003 to 2004, he was engaged as an instructor for part-time doctoral students by the Dalian Institute of Chemical Physics, the Institute of Chemistry and Lanzhou Institute of Chemical Physics with China Academy of Science. Mr. Zhang was appointed as an independent non-executive director in April 2006.

WU Xiaohua, born in 1945, is an independent non-executive Director of the Company. He has more than 30 years of experience in engineering and corporate management. Mr. Wu graduated from China University of Science and Technology in 1968. From 1973 to 1982, he was with Guilin Institute of Electrical Sciences where he had served as an engineer. Mr. Wu was a deputy head of department, the head of department and deputy head of the Electrical Appliance Bureau of the Ministry of Mechanical Industry from 1982 to 1992. He was a deputy general manager of Xian Electrical Machinery and Equipment Manufacturing Company from 1992 to 1995, and was the head of the Department of Major Equipment under the Ministry of Mechanical Industry from 1995 to 1998. Mr. Wu was the general manager of China Machinery and Equipment Import and Export Company from 1998 to 1999 and was the head of the Department of Mechanical Industry from 1999 to 2001. From 2001 to March 2006, he took up several positions with official authorities of the PRC. Mr. Wu was appointed as an independent non-executive Director of the Company in July 2006.

TSUI Yiu Wa, Alec, born in 1949, is an independent non-executive Director of the Company. He has more than 30 years of experience in the securities market and financial management. Mr. Tsui graduated from the University of Tennessee with a bachelor of science degree and a master of engineering degree in industrial engineering. He completed the program for senior managers in government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui served at various international companies, including Arthur Andersen & Co and Swire Bottlers Limited, and China Light and Power Company Limited for 12 years in relation to information technology, financial analysis, corporate planning and management. He was the general manager (finance, technology & human resources), an assistant director (licensing) and the general manager (human resources) of the SFC from 1989 to 1993. Mr. Tsui joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became the chief executive in 1997. From 2001 to 2004, he was chairman of the Hong Kong Securities Institute. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. At present, Mr. Tsui serves as an independent non-executive director in a number of Hong Kong main board listed companies, namely, Industrial and Commercial Bank of China (Asia) Ltd. (from August 2000), China Chengtong Development Group Ltd. (from March 2003), COSCO International Holdings Ltd. (from February 2004), China Power International Development Ltd. (from March 2004), Synergis Holdings Ltd. (from January 2005) and Greentown China Holdings Limited (from June 2006), and a Hong Kong GEM listed company, Vertex Communications & Technology Group Ltd. (from March 2002). He previously was an independent non-executive director to a Hong Kong main board listed company, Citic 21 CN Company Limited (from September 2000 to November 2005), and several Hong Kong GEM listed companies, namely, Value Convergence Holdings Limited (from November 2000 to July 2004), Techpacific Capital Limited (from August 2001 to June 2004) and Stockmartnet Holdings Ltd. (from December 2001 to June 2005). He is also a director of Hong Kong Professional Consultant Association. Mr. Tsui was appointed as an independent non-executive Director of the Company in April 2006.

Supervisors

YIN Jihong, born in 1949, is the chairman of the supervisory committee. He has more than 20 years' experience in labor relations and human resources matters. Mr. Yin graduated from Beijing College of Economics and Management with a bachelor's degree in labor economics. He served as the head of labor affairs at Chief Internal Distribution House of Beijing Automobile Industry Company from 1982 to 1985. He joined CNOOC in 1985, and served as the head of the wages affairs office and the chief economist in the human resources department. Since April 2003, Mr. Yin has been the chairman of the supervisory committee of CNOOC. He is also the chairman of the supervisory committees of several other members of the CNOOC group. Mr. Yin was appointed as a Supervisor of the Company in April 2006.

QU Bin, born in 1969, is a Supervisor elected by the employees. Mr. Qu graduated from Beijing University of Chemical Technology with a major in management engineering in 1992 and then joined the Company. He served at various departments such as the technology office, the human resources management office, and financial planning department of CNOOC Fudao Co., Limited. He had also been a deputy manager of the securities law division and a supervisor (elected by employees) of CNOOC Fudao Co., Limited, and the general manager of the audit & supervising department of the Company. Mr. Qu was appointed as a Supervisor of the Company in April 2006.

HUANG Jinggui, born in 1963, is an independent supervisor. He is a specialist of the State Council's special allowance. Dr. Huang is a university professor and has more than 20 years' experience in teaching. He graduated from Wuhan University with a bachelor's degree in economics in 1986, and pursued post-graduate studies at the School of Economics in Peking University. He obtained a doctorate degree in economics from the University of Moscow in 1994. Dr. Huang is the dean of the School of Economics and Management of Hainan University and the head of the university's Master of Business Administration Education Centre. He is a vice president of the Hainan Federation of Industrial Economics, a vice president of Hainan Consumers Association, a vice president of Hainan Economics Society and an executive director of China Global Economy Society. Dr. Huang was also a part-time professor at Russia State University of Management, China Institute of Management Science, Sichuan Global Economy Society, Economics Centre of Shenzhen University, Institute of Economic Development at Wuhan University as well as Liaoning University. Dr. Huang was appointed as a Supervisor of the Company in April 2006.

Senior Management

ZHOU Fan, Born in 1962, with master's degree, is an Executive Vice President. She graduated from Marine Diesel Major of Guangdong Marine University with bachelor degree of science in 1983; and in 2005 graduated from Management Science and Engineering Major of China University of Petroleum at Beijing with postgraduate degree of management. In 1983, she joined the CNOOC Nanhai Western Company and was appointed successively as official of personnel department, vice minister of Organization Department of Communist Youth League, vice secretary and secretary of Education Department. From May 1989 to May, 1998, she acted as vice-secretary and secretary of Communist Youth League of the CNOOC Nanhai Western Company; and from 1998 to 1999, as a Secretary of Communist Party and vice-manager of the Property Company of the CNOOC Nanhai Western company; from May 1999 to September 2002, as vice-secretary of Communist Party, secretary of Discipline Committee and chairman of Labor Party of Zhanjiang Branch of CNOOC; from September 2002 to Nobember 2004, as a vice-secretary and Secretary of the CNOOC Naihai Western Company; and from November 2004 to August 2007, she was Vice-general manager of CNOOC Base Group Ltd.; Communist Party secretary and Discipline Committee secretary of the CNOOC Nanhai Western Company; and in August 2007, she was appointed as Executive Vice President of the Company.

QUAN Changsheng, born in 1966, is a Vice President and Chief Financial Officer of the Company. Mr. Quan graduated from East China Petroleum Institute (subsequently renamed as "Petroleum University") in 1986 with a major in business management, and then joined the CNOOC group. He was accountant, senior accountant, budget and reporting supervisor and accounting supervisor in different divisions of CNOOC Nanhai East Corporation, a finance manager of the CNOOC QHD32-6 Operating Company from 1999 to 2002, and a finance manager of the Tianjin branch of CNOOC Limited from 2002 to 2006. Mr. Quan joined the Company in March 2006 and was appointed as a Vice President and Chief Financial Officer in May 2006. In July 2007, he was appointed as secretary to the Baord and the Company.

HONG Junlian, born in 1963, is a Vice President of the Company. Mr. Hong graduated from Guangdong Petroleum College (which was subsequently renamed Maoming College) with a major in petroleum geology in 1983. He obtained a degree by participating in self-study examination in Guangdong Province from 1986 to 1989 and is currently taking part in the master of business administration degree program of Hainan University. He obtained a master of business administration degree from a joint program offered by Shanghai Communication University and the Open University of Hong Kong in 2003. Mr. Hong started his career in 1983 and in 1986, he joined CNOOC Nanhai West Corporation and served as a deputy head, the head of the secretarial department and a deputy office director. He joined the Company in 1997 and was appointed as the head of the administration office of CNOOC Chemical upon its establishment. Mr. Hong served as an assistant to general manager and office director of CNOOC Chemical, the general manager of the industrial (logistics) department and a deputy general manager of the Company.

LIANG Mingchu, born in 1951, is a Vice President of the Company. Mr. Liang graduated from Hunan Chemical Technology School with a major in inorganic chemistry in 1975. He then joined the Sinopec Group's Dongting Nitrogenous Fertiliser Factory (which was subsequently renamed Sinopec (Baling) Corporation) and served as a deputy head of its No. 1 factory, a deputy head of the production office, the head of the engineering management office, and a deputy general engineer. Mr. Liang joined the Company in July 2000. He was an assistant to general manager of CNOOC Chemical and assistant to president of CNOOC Fudao Co., Limited from 2001 to October 2005, and then he was appointed as a deputy general manager of CNOOC Chemical.

MIAO Qian, born in 1963, is a Vice President of the Company. Mr. Miao graduated from Fuzhou University in 1983 with a major in civil construction. He then joined the CNOOC group and served as a deputy head of the engineering management division of CNOOC Nanhai West Corporation, the head of the engineering management division of CNOOC Nanhai West Real Estate Company and a manager of CNOOC Nanhai West Jian Yuan Company. He joined the Company in May 2002 and served in the methanol project department. Mr. Miao was an assistant to the general manager of CNOOC Chemical until October 2005 when he was appointed as a deputy general manager of CNOOC Chemical.

LEE Tze Leung, Raymond, born in 1962, is the Qualified Accountant employed on a full-time basis and a Joint Company Secretary of the Company. He has more than 16 years of experience in accounting, auditing and finance with accounting firms and companies listed in Hong Kong. Mr. Lee has an honors bachelor degree awarded by the University of East London (formerly, the Polytechnic of East London) and a master's degree awarded by the City University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA) of the United Kingdom. Mr. Lee joined CNOOC Jiantao in 2003 and was previously mainly responsible for fund management and financing arrangements for CNOOC Jiantao Methanol Plant.

Report of Directors

The Directors are pleased to present their report and the Company's and the Group's audited financial statements for the year ended 31 December 2007.

Principal activities

The Company is principally engaged in the manufacture and sales of mineral fertilisers. The principal activities of the subsidiaries and jointly-controlled entities comprise the manufacture and sale of mineral fertilisers and chemical products. There were no significant changes in the nature of the Company's principal activities during the year.

Results

The Group's profit for the year ended 31 December 2007 and the Company's and the Group's financial position as at that date are set out on pages 35 to 37 and 45 of the financial statements.

Dividends

The Directors recommend the payment of a final dividend of RMB0.08 per share in respect of the year, i.e. RMB368.8 million in total, to all shareholders. The proposed final dividend for the year 2007 is subject to the shareholders' approval in the annual general meeting.

Dividend to shareholders of domestic shares will be paid in Renminbi whereas dividend to shareholders of H shares will be paid in Hong Kong Dollars. The value of Hong Kong Dollar shall be calculated on the basis of the average exchange rate of Renminbi and Hong Kong Dollar announced by the People's Bank of China one week before the date of the declaration of dividend.

Use of proceeds from the Company's initial public offering and placing of new shares

The net proceeds from the IPO and placing (net of related issuance expenses) amounted to approximately RMB2,932.3 million. According to the explanation in the Company's prospectus, approximately RMB1,400 million of the net proceeds from the IPO and placing were used to finance the construction of a production facility for the manufacture of polyoxymethylene at Tianye Chemical Plant, approximately RMB1,410 million were used to repay the Japanese yen bank loans and the remaining balance was used for working capital. The aforesaid uses will remain unchanged.

Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2007are set out in Note 19 to the financial statements.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 1. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 15 to the financial statements.

Share capital

As at 31 December 2007, the aggregate share capital of the Company was RMB4,610,000,000 dividend into 4,610,000,000 ordinary shares with a nominal value of RMB1 each, of which 2,814,000,000 were domestic shares, representing approximately 61.04% of the aggregate number of shares in issue, 25,000,122 were non-listed foreign shares, representing approximately 0.54% of the aggregate number of shares in issue, and the remaining 1,771,000,000 shares were H shares, representing approximately 38.42% of the aggregate number of shares in issue.

Details of changes in the Company's share capital during the year are set out in Note 30 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Company Law of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, sale or redemption of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

Details of reserves available for distribution are set out in Note 31 to the financial statements.

Charitable contribution

During the year, the Group made charitable contributions RMB8.11 million in total.

Major customers and suppliers

During the reporting period, sales to the Group's five largest customers accounted for 30.30% of the total sales for the year and sales to the largest customers included therein amounted to 11.28%. Purchases from the Group's five largest suppliers accounted for 79.25% of the total purchases for the year and purchases from the largest supplier included therein amounted to 27.51%.

The Group has purchased raw materials and services from certain companies with the same ultimate holding company as the Company, details of which are set forth in the note "Connected Transactions" below. Save as aforesaid, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

Directors and Supervisors

The Directors and Supervisors of the Company during the year were:

Executive Directors:

YANG Yexin	appointed on 25 April 2006
FANG Yong	appointed on 25 April 2006
CHEN Kai	appointed on 25 April 2006

Non-executive Director:

WU Mengfei	appointed on 25 April 2006

Independent Non-executive Directors:

WANG Wenshan	appointed on 25 April 2006
ZHANG Xinzhi	appointed on 25 April 2006
WU Xiaohua	appointed on 3 July 2006
TSUI Yiu Wa, Alec	appointed on 25 April 2006

Supervisors:

YIN Jihong	appointed on 25 April 2006
HUANG Jinggui	appointed on 25 April 2006
QU Bin	appointed on 25 April 2006

In accordance with the Company's Articles of Association, all directors and supervisors are elected for a term of three years and may serve consecutive terms upon re-election.

The Company has received the annual confirmations of independence from each of the Independent Non-Executive Directors as at the date of this annual report and still considers them to be independent.

Directors, Supervisors and Senior Management

Biographical details of the Directors and Supervisors of the Company and the senior management of the Group are set out on page 24 to page 26 of this annual report.

Service Contracts of Directors and Supervisors

Each of the Directors and Supervisors is required to enter into a service contract with the Company for a term of three years, renewable upon re-election.

Other than the foregoing, no Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Remuneration of the Directors and Supervisors

Details of the Directors' and Supervisors' remuneration are set out in Note 9 to the financial statements.

Interests of Directors and Supervisors in Contracts

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any material contract in relation to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Directors' and Supervisors' Interests in Shares and Short Positions

As at 31 December 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 the 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.

Directors' and Supervisors' rights to acquire shares or debentures

As at 31 December 2007, none of the Directors and Supervisors has the rights to acquire shares or debentures.

Substantial Shareholders' Interests

As at 31 December 2007, the shareholders (other than the Company's Directors and Supervisors) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register, which is required to be kept pursuant to Section 336 of the SFO, are as follows:

Name of Substantial Shareholder	Capacity	Number of Shares	Class of Shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
CNOOC	Beneficial owner	2,738,999,512(L)	Domestic Shares	97.33	59.41
Yara Nederland BV	Beneficial owner	161,000,000(L) (Note i)	H shares	9.10	3.49
Merrill Lynch&Co.,Inc.	Beneficial owner	107,110,860(L)	H shares	6.05	2.32
Lau Luen Hung	Beneficial owner, owning the equity through a controlled corporation	106,824,000(L) (Note ii)	H shares	6.03	2.32
Allianz SE	Beneficial owner	104,915,700 (L)	H shares	5.92	2.22
GZ Trust Corporation	Trustee	102,324,000(L)	H shares	5.78	2.22

Notes: The letter "L" denotes long position.

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

ii. Lau Luen Hung holds the equity of 106,324,000 H shares of the Company (approximately 6.03% of the H shares in total) through a controlled corporation (among which, Sunny smart Limited is one of entities controlled by Lau Luen Hung and is the beneficial owner of 102,324,000 H shares).

Save as disclosed above and so far as the Directors are aware, as at 31 December 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.

Management Contracts

Save for the contracts in relation to connected transactions as stated in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Connected transactions

Upon the listing of the H shares of the Company on the HKEX on 29 September 2006, transactions between the Group and its connected persons or their respective associates (as the respective terms are defined by the HKEX Listing Rules) are governed by and required to comply with the requirements of the HKEX Listing Rules. During the year ended 31 December 2007, the Group had the following connected transactions:

	2007 RMB'000
A. Continuous connected transactions with CNOOC and its associates	
(1) Acquisition of property leasing services*	2,639
(2) Provision of sewage disposal services*	100
(3) Acquisition of Transportation services	21,188
(4) Purchase of natural gas	539,954
(5) Comprehensive services and sale of products	
(a) Acquisition of comprehensive services and supplies	99,684
(b) Provision of services and supplies	3,542
(c) Sale of products	28,432
(6)Financial service	
(a) Maximum daily outstanding balance of loans (including accrued interest) granted by CNOOC Finance to the Company after listing	60,000
(b1) Maximum daily outstanding balance of deposits (including accrued interest) placed by the Company with CNOOC Finance after listing (before 28 September 2007)	294,045
(b2) Maximum daily outstanding balance of deposits (including accrued interest) placed by the Company with CNOOC Finance after listing (after 28 September 2007)	219,456
(c) Expenses and charges related to the consignment loan between the Company and its subsidiaries, which the Company paid to CNOOC Finance	--
B. Continuous connected transactions with Hainan CNOOC Transportation Company	
(1) Provision of property leasing services*	43
(2) Acquisition of Transportation services	4,418
(3) Provision of loading/uploading services	18,106
C. Continuous connected transactions with Hong Kong Jiantao and its associates	
(1) Guaranty arrangement	--
(2) Sale of products and services	252,374

Purchases f rom Minority Promoters and/or their respective Associates

The Group had started to purchase goods from the Minority Promoters and/or their respective Associates after listing from February 2007 onwards ("Purchase Transactions") and will continue to do so in the future. The Purchase Transactions constitute continuing connected transactions for the Company and were conducted in the Group's usual and ordinary course of business and on arm's length and normal commercial terms.

The aggregate expenditure amount the Group incurred in the Purchase Transactions for the year 2007 was RMB 10,390,549 which has exceeded the de minimis threshold of Rule 14A.33 of the Listing Rules. This transaction amount, however, has not exceeded 2.5% in respect of each applicable percentage ratios calculated under Rule 14.07 of the Listing Rules and the Purchase Transactions are exempted from independent shareholders' approval requirement.

The Company applied for a waiver to exempt the Minority Promoters and their respective Associates from being regarded as connected persons for the purpose of the Listing Rules in relation to the Purchase Transactions, and therefore, exempt all such transactions from all the requirements of Chapter 14A of the Listing Rules regarding connected transactions. HKEX granted a waiver for Purchase Transactions entered into from 13 December 2007 onwards on certain conditions (refer to the announcement dated 31January 2008 published on the website of the HKEX for details).

De minimis transactions*

There is no waiver granted by HKEX in respect of these transactions as the amounts of these transactions were expected to fall below the de minimis threshold as stipulated under Rule 14A.33 (3) of the Listing Rules and are therefore exempted from both announcement and independent shareholders' approval requirements for connected transactions.

The sales revenue reported in Item A (5c) exceeded the minimis threshold under Rule 14A.33 of the Listing Rules, and had been announced under Rule 14A.34 of the Listing Rules.

Continuing connected transcations with Hainan CNOOC Transportation

In addition, Item B relates to the connected transcations between the Company and Hainan CNOOC Transportation Company from January to July 2007. In August 2007, Basuo Port in Hainan injected further capital of RMB1.25 million, resulting in the change of shareholding from 90% to 92%. After this change, Hainan CNOOC Transportation Company is no longer a connected party of the Company.

Item A.(5) (c)

Save as items disclosed above, a waiver has been granted by HKEX to the Company from the strict compliance with the requirement of the connected transactions of the HKEX Listing Rules in respect of the connected transactions set out above.

For Item A (6) (b1) and Item A (6) (b2), the maximum threshold of connected transactions under the waiver granted was RMB300,000,000 before 28 September 2007, and RMB228,788,000 thereafter.

The Independent non-executive directors have reviewed the above transactions and have confirmed that:

1. the transactions were entered into by and between the Group and the connected persons or their respective associates (if appropriate) in the ordinary and usual course of its business.
2. the transactions were entered into on normal commercial terms, or where there is no available comparison, on terms no less favorable than those available from or to independent third parties;
3. the transactions were entered into in accordance with the relevant agreements governing such transactions, on terms that are fair and reasonable to the independent shareholders as a whole;
4. the transactions were entered into with the annual aggregate value of each category of connected transactions not exceeding the relevant annual limits as approved by the independent shareholders.

The auditors have reviewed the foregoing transactions and have provided a letter to the Company stating that:

1. the transactions have received the approval from the Board;
2. the transactions have been entered into in accordance with the pricing policies as stated in the relevant agreements;
3. the transactions have been entered into in accordance with the terms of the relevant agreements governing such transactions;
4. the transactions ,where applicable, did not exceed the annual cap amounts as agreed with the HKEX.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, 38.42% of the Company's total issued share capital was held by the public as at the date of this annual report, meeting the requirement that at least 25% of the total share capital shall be held by the public.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in Note 44 to the financial statements.

Material Legal Proceedings

As at 31 December 2007, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company so far as the Company is aware.

Audit Committee

The 2007 annual results have been reviewed by the Audit Committee of the Board which consists of three Independent Non-executive Directors. The Committee has reviewed the accounting principles and practices adopted by the Company, and has also discussed the auditing, internal control and finance reporting matters including the review of the audited 2007 annual results with the management.

Code on Corporate Governance Practices and Model Code for securities transactions

The Company is committed to high standards of corporate governance through the establishment of an efficient framework of policies, procedures and systems. The Directors are of the opinion that the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year.

The Company has adopted the Model Code set out in Appendix 10 to the Lisitng Rules. Having made specific enquiing of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

Auditors

The financial statements of this year have been audited by Ernst & Young who retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

WU Mengfei

Chairman

Haikou, Hainan, PRC, 30 March 2008

Report by the Supervisory Committee

In 2007, all members of the Supervisory Committee, in accordance with the Company Law of the PRC, the Articles of Association and the Listing Rules of the Stock Exchange of Hong Kong, have actively performed their supervisory functions to protect the rights and interests of the Company and the shareholders.

1. Meetings of the Supervisory Committee

(1) On 25 March 2007, the Company held the first meeting of the first Supervisory Committee in Haikou, Hainan, and the Committee considered and approved the 2006 Work Report of the Supervisory Committee of China BlueChemical Ltd.

(2) On 25 August 2007, the Company held the second meeting of the first Supervisory Committee in Shenzhen, Guangdong, and the Committee considered and approved the 2007 Interim Financial Report of the Company.

(3) On 24 December 2007, the Company held the third meeting of the first Supervisory Committee in Haikou, Hainan and the Committee reviewed the work of the Supervisory Committee in 2007.

2. Principal inspection and supervision work of the Supervisory Committee

(1) Members of the Supervisory Committee carried out inspection and supervision on 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) Members of the Supervisory Committee attended 1 annual general meeting of the shareholders and 4 Board meetings. They made recommendations to matters considered by the Board meeting and provided supervision in respect of the lawfulness and compliance of the decisions made by the Board.

(3) The Supervisory Committee had no objection to the reports and proposals put forward in the general meetings of the shareholders, and that the Board had faithfully implemented the resolutions of the 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 and obtained satisfactory results in areas including production operations, cost control and capital deployment, and the annual targets set on production and operations were achieved. The Company has enhanced the internal control systems, strengthened policy setting and elevated the corporate governance standards.

(2) Financial position of the Company

Members of the Supervisory Committee carried out inspection and review on the financial management system and the financial position of the Company, reviewed and approved relevant financial information of the Company. The Supervisory Committee concluded that the Company has been strictly implementing the laws, regulations and systems 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 2007 audited by Ernst and Young Huaming Certified Public Accountants 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

The proceeds have been used in the same way as has been undertaken in the prospectus of the Company.

(4) Connected transactions

The Company appointed specific persons for threshold management of connected transactions. If any category of connected transaction during the year exceeds the threshold as agreed before listing, timely announcement will be published for the disclosure of such information and timely measures will be taken. The Company entered into connected transactions with connected parties such as CNOOC and its subsidiaries, which were all in line with the regulations of the Stock Exchange of Hong Kong. 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.

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

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

In 2008, the Supervisory Committee will discharge its duties pursuant to the requirements of the Company Law of the PRC and the Articles of Association, as well as Listing Rules of the Stock Exchange of Hong Kong as it has been, and based on the principle of honesty, 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

Haikou, Hainan, PRC, 30 March 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of China BlueChemical Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 35 to 119, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants

Hong Kong

30 March 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**4,340,427**	3,465,781
Cost of sales		**(2,552,162)**	(2,164,164)
Gross profit		**1,788,265**	1,301,617
Other income and gains	5	**74,029**	125,645
Excess over the cost of a business combination	39(b)	**-**	577,619
Selling and distribution costs		**(70,185)**	(33,870)
Administrative expenses		**(223,840)**	(199,582)
Other expenses		**(51,218)**	(34,520)
Finance revenue	6	**29,245**	119,817
Finance costs	7	**(18,291)**	(61,738)
Exchange gain / (loss), net		**14,434**	(1,500)
Share of profits of associates		**4,041**	1,836
PROFIT BEFORE TAX	8	**1,546,480**	1,795,324
Income tax expense	11	**(67,116)**	(120,102)
PROFIT FOR THE YEAR		**1,479,364**	1,675,222
Attributable to:			
Equity holders of the parent	12	**1,448,334**	1,645,819
Minority interests		**31,030**	29,403
		1,479,364	1,675,222
DIVIDENDS	13	**368,800**	635,830
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
- Basic for the year (RMB)	14	**0.31**	0.48

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,508,827**	5,854,898
Prepaid land lease payments	17	**404,821**	413,862
Intangible assets	18	**12,494**	16,425
Investments in associates	21	**11,937**	8,646
Available-for-sale investments	22	**600**	9,465
Deferred tax assets	23	**47,299**	27,819
		5,985,978	6,331,115
CURRENT ASSETS			
Inventories	24	**401,299**	332,684
Trade receivables	25	**21,426**	133,557
Bills receivable	26	**44,960**	20,850
Available-for-sale investments	22	**304,113**	-
Prepayments, deposits and other receivables	27	**153,213**	86,153
Pledged bank deposits	29	**5,774**	10,904
Cash and cash equivalents	29	**2,780,762**	2,195,619
		3,711,547	2,779,767
TOTAL ASSETS		**9,697,525**	9,110,882

CONSOLIDATED BALANCE SHEET (continued)

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Paid-up capital	30	**4,610,000**	4,610,000
Reserves	31	**3,107,310**	2,029,717
Proposed dividend	31	**368,800**	69,150
		8,086,110	6,708,867
Minority interests		**396,430**	340,045
Total equity		**8,482,540**	7,048,912
NON-CURRENT LIABILITIES			
Benefits liability	32	**72,426**	79,958
Interest-bearing bank and other borrowings	33	**180,041**	384,793
Other long-term liabilities	34	**50,840**	38,057
Deferred tax liabilities	23	**49,076**	61,017
		352,383	563,825
CURRENT LIABILITIES			
Trade payables	35	**26,985**	94,686
Other payables and accruals	36	**683,369**	849,963
Derivative financial instruments	37	**6,136**	25,641
Interest-bearing bank and other borrowings	33	**101,015**	476,579
Income tax payable		**45,097**	51,276
		862,602	1,498,145
TOTAL LIABILITIES		**1,214,985**	2,061,970
TOTAL EQUITY AND LIABILITIES		**9,697,525**	9,110,882

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

		Attributable to equity holders of the parent		
	Notes	Paid-up capital RMB'000	Statutory surplus reserves RMB'000	Capital reserve RMB'000
As at 1 January 2007		**4,610,000**	**68,732**	**1,109,635**
Changes in fair value of available-for-sale equity investments		-	-	-
Profit for the year		-	-	-
Total income and expense for the year		-	-	-
Dividends paid to minority shareholders		-	-	-
Capital contribution by a minority shareholder	(a)	-	-	-
2006 final dividend declared		-	-	-
Proposed 2007 final dividend	13	-	-	-
Transfer from retained profits	31	-	113,006	-
As at 31 December 2007		**4,610,000**	**181,738***	**1,109,635***

* These reserve accounts comprise the consolidated reserves of RMB3,107,310,000 (2006: RMB2,029,717,000) in the consolidated balance sheet.

(a) During the year, China BlueChemical Ltd. (the "Company") and the State-owned Assets Supervision and Administration Committee of the municipal government of Jincheng City ("SASAC Jincheng") agreed to establish CNOOC Jincheng Coal Chemical Industry Co., Ltd. ("CNOOC Jincheng") in Jincheng City, Shanxi, as a limited liability company. The Company and SASAC Jincheng contributed a total of RMB160,000,000 to CNOOC Jincheng, among which the Company contributed RMB120,000,000 and therefore holds a 75% equity interest in CNOOC Jincheng.

Retained profits RMB'000	Proposed dividend RMB'000	Investment revaluation reserve RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
849,409	69,150	1,941	6,708,867	340,045	7,048,912
-	-	(1,941)	(1,941)	(736)	(2,677)
1,448,334	-	-	1,448,334	31,030	1,479,364
1,448,334	-	(1,941)	1,446,393	30,294	1,476,687
-	-	-	-	(13,909)	(13,909)
-	-	-	-	40,000	40,000
-	(69,150)	-	(69,150)	-	(69,150)
(368,800)	368,800	-	-	-	-
(113,006)	-	-	-	-	-
1,815,937*	368,800	-*	8,086,110	396,430	8,482,540

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2007

		Attributable to equity holders of the parent		
	Notes	Paid-up capital RMB'000	Statutory surplus reserves RMB'000	Capital reserve RMB'000
As at 1 January 2006		2,394,044	271,136	-
Changes in fair value of available-for –sale equity investments		-	-	-
Profit for the year		-	-	-
Total income and expense for the year		-	-	-
Acquisition of a subsidiary	39(b)	-	-	-
Acquisition of minority interests		-	-	-
Dividends paid to minority shareholders		-	-	-
Capital contribution by a minority shareholder	(a)	-	-	-
Capital contribution	(b)	-	-	7,607
Capitalisation as a result of the Reorganisation	(c)	605,956	(273,136)	(220,308)
Special dividend declared	13	-	-	-
Pre-establishment distribution declared	13	-	-	-
Pre-IPO profit declared	13	-	-	-
Proposed 2006 final dividend	13	-	-	-
Transfer from retained profits	31	-	68,732	-
Issue of H shares	30	1,610,000	-	-
Share premium arising from the issuance of H shares	30	-	-	1,496,494
Share issue expenses	30	-	-	(174,158)
As at 31 December 2006		4,610,000	68,732	1,109,635

Retained profits	Proposed dividend	Investment revaluation reserve	Total	Minority interest	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(91,848)	1,210,801	-	3,786,133	291,460	4,077,593
-	-	1,941	1,941	736	2,677
1,645,819	-	-	1,645,819	29,403	1,675,222
1,645,819	-	1,941	1,647,760	30,139	1,677,899
-	-	-	-	173,716	173,716
-	-	-	-	(5,656)	(5,656)
-	-	-	-	(64,262)	(64,262)
-	-	-	-	27,160	27,160
-	-	-	7,607	-	7,607
-	-	-	112,512	(112,512)	-
-	(1,210,801)	-	(1,210,801)	-	(1,210,801)
(264,538)	-	-	(264,538)	-	(264,538)
(302,142)	-	-	(302,142)	-	(302,142)
(69,150)	69,150	-	-	-	-
(68,732)	-	-	-	-	-
-	-	-	1,610,000	-	1,610,000
-	-	-	1,496,494	-	1,496,494
-	-	-	(174,158)	-	(174,158)
		-		-	
849,409	69,150	1,941	6,708,867	340,045	7,048,912

Notes:

(a) During the year, the registered and paid-up capital of Hainan Basuo Port Limited ("Hainan Basuo"), the Company's 72.5%-owned subsidiary, increased from RMB419,596,000 to RMB518,356,000. Out of the increase in paid-up capital of RMB98,760,000, 72.5% was contributed by the Company by a cash amount of RMB57,299,000 and the transfer of its entire 90% equity interest in Hainan CNOOC Transportation Co., Ltd. ("Transportation Co.") to Hainan Basuo. The remaining 27.5% was contributed by the minority shareholder of Hainan Basuo in cash.

(b) In February and March 2006, the Company obtained unsecured entrusted loans with an aggregate contract amount of RMB1,410,000,000 from China National Offshore Oil Corporation ("CNOOC"), the ultimate holding company, which were unsecured, bore interest at a contract rate of 2.07% per annum and were repayable within six months from the respective dates of drawdown.

The entrusted loans were initially recorded at their aggregate fair value of RMB1,394,281,000 and were subsequently measured at amortised cost using the effective interest method at a rate of 5.22% per annum. The difference of RMB15,719,000 between the fair value of the entrusted loans at initial recognition and the total cash amounts of RMB1,410,000,000 payable to CNOOC by the Company on the respective dates of repayment was accounted for as a capital contribution to the Company by CNOOC at initial recognition and was recorded by the Company as capital reserve.

The entrusted loans obtained from CNOOC were early repaid in full in June 2006. As at the repayment date, there was a difference, amounting to RMB8,112,000, between the cash repaid to CNOOC and the estimated net present value of the entrusted loans, which was computed at the loans' original effective interest rate and their remaining period to maturity. The difference of RMB8,112,000 was adjusted against the capital reserve of RMB15,719,000 that was initially recognised, resulting in a net capital contribution from CNOOC of RMB7,607,000 for the year ended 31 December 2006.

(c) Upon the reorganisation of the Company into a joint stock limited company, its net assets were converted into the share capital of the joint stock limited company of RMB3,000,000,000 at RMB1 each with the capitalisation of the then existing reserves. The resulting difference was dealt with in the capital reserve.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,546,480**	1,795,324
Adjustments for:			
Finance costs	7	**18,291**	61,738
Foreign exchange differences, net	8	**(14,434)**	1,500
Share of profits of associates		**(4,041)**	(1,836)
Interest income		**(29,245)**	(119,817)
Dividend income from listed and unlisted investments	8	**-**	(360)
Gain on disposal of listed investments	8	**(28,763)**	-
Gain on disposal of unlisted investments	8	**(18,540)**	-
Loss on disposal of items of property, plant and equipment	8	**10,230**	2,865
Depreciation	8	**573,578**	506,650
Amortisation of a trademark	8	**328**	311
Amortisation of patents and licences	8	**-**	26
Amortisation of other intangible assets	8	**3,603**	114
Amortisation of prepaid land lease payments	8	**9,409**	8,041
Write-back of impairment of items of property, plant and equipment	8	**(13)**	(7,962)
Changes in fair value of derivative financial instruments	5	**(19,546)**	(24,992)
Provision/(write-back of provision) for bad and doubtful receivables	8	**(2,387)**	2,350
Provision/(write back of provision) for defined benefit plans	32	**(4,622)**	2,918
Gain on dissolution of a subsidiary		**-**	(586)
Excess over the cost of a business combination	39(b)	**-**	(577,619)
Write-down of inventories to net realisable value	8	**924**	467
		2,041,252	1,649,132
Decrease in other long-term assets		**-**	881
Increase in inventories		**(69,539)**	(79,635)
Decrease in trade and bills receivables, prepayments, deposits and other receivables		**24,793**	33,145
Increase/(decrease) in trade payables, other payables and accruals and other long-term liabilities		**(126,272)**	231,976
Cash generated from operations		**1,870,234**	1,835,499
Defined benefits paid	32	**(2,910)**	(2,918)
Taxes paid		**(104,717)**	(67,805)
Net cash inflow from operating activities		**1,762,607**	1,764,776

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Net cash inflow from operating activities		**1,762,607**	1,764,776
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**28,658**	30,961
Dividends received		**1,590**	360
Purchases of items of property, plant and equipment		**(347,420)**	(404,641)
Proceeds from disposal of items of property, plant and equipment		**8,147**	1,180
Additions to prepaid land lease payments		**(1,226)**	(61,956)
Additions to intangible assets		**-**	(15,636)
Increase in unlisted investments		**(304,113)**	-
Increase of investment in an associate		**(840)**	-
Disposal of available-for sale investments		**56,168**	-
Acquisitions of minority interests		**-**	(5,494)
Acquisition of a subsidiary	39(b)	**-**	(892,245)
Dissolution of a subsidiary	39(a)	**-**	(21)
Increase in pledged bank deposits		**5,130**	(10,904)
Decrease in non-pledged time deposits with original maturity of three months or more when acquired		**146,160**	83,840
Net cash outflow from investing activities		**(407,746)**	(1,274,556)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions by minority shareholder		**40,000**	27,160
Issue of H shares	30	**-**	2,932,336
Interest received from subscription monies of H shares		**-**	88,856
New bank and other borrowings		**16,248**	4,283,397
Repayment of bank and other borrowings		**(580,947)**	(4,698,328)
Repayment of amounts due to the Finance Bureau	39(b)	**-**	(898,526)
Repayment of finance lease obligations		**(1,183)**	(673)
Dividends paid		**(69,150)**	(1,777,481)
Interest paid		**(16,526)**	(52,992)
Dividends paid to minority shareholders		**(12,000)**	(64,262)
Net cash outflow from financing activities		**(623,558)**	(160,513)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**731,303**	329,707
Cash and cash equivalents at beginning of year		**2,049,459**	1,719,752
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,780,762**	2,049,459
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	**2,780,762**	1,897,459
Non-pledged time deposits with original maturity of less than three months when acquired	29	**-**	152,000
		2,780,762	2,049,459

BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,594,108**	1,707,337
Investment properties	16	**16,441**	17,422
Prepaid land lease payments	17	**40,535**	42,391
Intangible assets	18	**12,165**	15,768
Interests in subsidiaries	19	**2,368,154**	2,236,154
Investment in a jointly-controlled entity	20	**300,000**	300,000
Deferred tax assets	23	**4,750**	2,090
		4,336,153	4,321,162
CURRENT ASSETS			
Inventories	24	**114,425**	91,503
Trade receivables	25	**2,275**	7,753
Prepayments, deposits and other receivables	27	**94,915**	148,909
Available for sale investment	22	**250,000**	-
Loans receivable	28	**310,000**	600,888
Pledged bank deposits	29	**2,191**	2,413
Cash and cash equivalents	29	**1,944,070**	1,526,205
		2,717,876	2,377,671
TOTAL ASSETS		**7,054,029**	6,698,833
EQUITY AND LIABILITIES			
Paid-up capital	30	**4,610,000**	4,610,000
Reserves	31	**1,826,693**	1,181,053
Proposed dividend	31	**368,800**	69,150
TOTAL EQUITY		**6,805,493**	5,860,203
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**-**	73,106
Other long-term liabilities	34	**19,323**	22,192
		19,323	95,298
CURRENT LIABILITIES			
Trade payables	35	**2,624**	42,145
Other payables and accruals	36	**142,561**	207,744
Derivative financial instruments	37	**6,136**	25,641
Interest-bearing bank and other borrowings	33	**71,284**	446,056
Income tax payable		**6,608**	21,746
		229,213	743,332
TOTAL LIABILITIES		**248,536**	838,630
TOTAL EQUITY AND LIABILITIES		**7,054,029**	6,698,833

1 CORPORATE INFORMATION

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

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

The Company and its subsidiaries (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.

In early 2006, pursuant to a reorganisation notice from its ultimate holding company, CNOOC, and a promotion agreement (the "Promotion Agreement") entered into among CNOOC and the Other Four Promoters (as defined hereinafter), details of which are further explained below, 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.	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.

1 CORPORATE INFORMATION (continued)

(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 Promotion 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. The name of the Company was also changed from CNOOC Chemical Limited to China BlueChemical Ltd. on the same date.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements have been presented in RMB and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and jointly-controlled entity for the year ended 31 December 2007.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The Group's interest in its jointly-controlled entity is accounted for by proportionate consolidation from the date on which joint control over the jointly-controlled entity is established, which involves recognising in the consolidated financial statements a proportionate share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items on a line-by-line basis.

All significant intercompany transactions and balances, including any unrealised profits arising from intercompany transactions, have been eliminated on consolidation.

Minority interests represent the interests held by shareholders which are not within the Group in the results and net assets of certain subsidiaries of the Company. Acquisitions of minority interests are accounted for using the entity concept method.

2.2 IMPACT OF NEW AND AMENDED IFRS

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on the Group's financial statements.

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

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to IAS 1 Presentation of Financial Statements – *Capital disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These disclosures are shown in note 43 to the financial statements.

(c) IFRIC Interpretation 8 *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) IFRIC Interpretation 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no material impact on the financial position or results of operations of the Group.

(e) IFRIC Interpretation 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements:

IFRS 8	Operating Segments[1]
IAS 23 (Amendment)	Borrowing Costs[1]
IFRIC Interpretation 11	IFRS 2 - Group and Treasury Share Transactions[2]
IFRIC Interpretation 12	Service Concession Arrangements[4]
IFRIC Interpretation 13	Customer Loyalty Programmes[3]
IFRIC Interpretation 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2008

IFRS 8, which will replace IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IFRIC Interpretation 11 requires arrangements whereby an employee is granted rights to the group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Interpretation 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

IFRIC Interpretation 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. IFRIC-Interpretation 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangement, the interpretation is unlikely to have any financial impact on the Group.

IFRIC Interpretation 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC Interpretation 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs, upon initial application. These new and revised IFRSs, are unlikely to have a significant impact on the Group's results of operation and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Company, directly, or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in its jointly-controlled entity is accounted for by proportionate consolidation from the date on which joint control over the jointly-controlled entity are established, which involves recognising in the financial statements a proportionate share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items on a line-by-line basis.

The results of the jointly-controlled entity are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a jointly-controlled entity is treated as a non-current asset and is stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Excess over the cost of a business combination

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.57% to 8.33%
Plant and machinery	5.00% to 20.00%
Motor vehicles	6.00% to 20.00%
Computer and electronic equipment	18.00% to 20.00%
Office and other equipment	18.00% to 50.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant, machinery and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. These properties are stated at cost, including transaction costs, less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of the retirement or disposal.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of ten years.

Trademark

Trademark is stated at cost and is amortised on the straight-line basis over the registered term of usage of seven years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separate embedded derivatives, are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, these securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured would have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the consolidated income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as a cross currency interest rate swap contract to partially offset its risks associated with interest rate and foreign currency fluctuations. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group's derivative financial instruments do not qualify for hedge accounting and any gains or losses arising from changes in fair value are taken directly to the consolidated income statement in the year they arise.

The fair value of a cross currency interest rate swap contract is calculated by using valuation technique.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on the weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and an appropriate proportion of overheads

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised directly in equity in the same or a different period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, a jointly-controlled entity and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the provision of services is started and completed within the same financial year, revenue is recognised at the time of completion. When the provision of services is started and completed in different accounting years and the outcome of the transaction can be estimated reliably, revenue is recognised at the balance sheet date on the percentage of completion basis; when the outcome of a transaction cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are expected to be recoverable;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Retirement benefits

The Group, its jointly-controlled entity and associates participate in a government-regulated defined contribution pension scheme, under which the Group, its jointly-controlled entity and associates make contributions into a government-regulated pension scheme at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred.

In addition to the benefits under the government-regulated defined contribution pension scheme above, CNOOC Tianye Chemical Limited (formerly known as Inner Mongolia Tianye Chemical Industry Limited) ("Tianye Chemical"), the Company's 90%-owned subsidiary, also paid supplementary pensions to early retirees in accordance with an internal retirement plan and allowances to retired employees in accordance with the local labour regulations. As detailed in note 32 to the financial statements, these supplementary pensions and post employment allowances payable as at balance sheet date were assessed using the projected unit credit method; the cost of providing these pensions and allowances to the qualifying employees, including the active employees, is charged to the consolidated income statement as shown in the actuarial reports which contained full valuations of the obligations for the relevant accounting periods. These obligations are measured at the present value of the estimated future cash outflows using interest rates of the government securities which have terms to maturity similar to the terms of the related liability. To the extent that any cumulative unrecognised actuarial gains or losses exceed ten percent of the present value of the obligation at a disclosure date, that portion is recognised in the consolidated income statement over the expected average remaining working lives of the active employees. Otherwise the actuarial gains or losses are not recognised and deferred.

Details of the government-regulated pension scheme and the supplementary pension benefits are set out in note 8 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Medical benefit costs

The Group, its jointly-controlled entity and associates participate in government-organised defined contribution medical benefit plans, under which the Group, its jointly-controlled entity and associates make contributions into a government-organised medical benefit plan at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred. Details of the medical benefit plan are set out in note 8 to the financial statements.

Housing fund

The Group contributes on a monthly basis to a defined contribution housing fund plan organised by the PRC government. Contributions to these plans by the Group are expensed as incurred. Details of the housing fund plans are set out in note 8 to the financial statements.

Cash housing subsidies costs

Cash housing subsidies represent payments to the housing subsidy plan implemented by the Group. Cash housing subsidies are charged as an expense to the consolidated income statement as incurred. Details of the cash housing subsidy plan are set out in note 8 to the financial statements.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Dividends

Dividends are recognised as a liability in the period in which they are approved by the shareholders and declared.

Foreign currencies

The financial records of the Group, its jointly-controlled entity and associates are maintained and these financial statements are stated in Renminbi ("RMB"), which is the functional currency of the Group, its jointly-controlled entity and associates.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in these financial statements:

Reclassification from construction in progress to property, plant and equipment

The Group determines when the construction in progress is in the location and condition to be operated in the manner intended by management (i.e. ready for use) and has developed criteria in making that judgement on an individual asset basis.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Deferred tax

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

(b) Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have impact on the carrying amounts of the inventories and the write-down charge/write-back in the period in which these estimate has been changed.

(c) Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of doubtful receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have impact on the carrying amounts of the receivables and doubtful debt expenses/write-back in the period in which these estimate has been changed.

(d) Impairment of items of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of note 2.4 to the financial statements. The recoverable amount of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

(e) Depreciation of property, plant and equipment

The cost of items of property, plant and equipment is depreciated on straight-line basis over their estimated useful lives. Management estimates the useful lives of plant and machinery to be 5 to 18 years, and other assets ranging from 2 to 35 years.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore depreciation charges might be revised in future.

4 SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

(i) on a primary segment reporting basis, by business segment; and

(ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they 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, and assets are attributed to the segments based on the location of the assets. No geographical segments based on the location of the assets are presented as over 90% of the Group's assets are located in the PRC.

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.

4 SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

	Fertilisers RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2007:					
Segment revenue:					
Sales to external customers	3,035,455	1,145,573	159,399	-	4,340,427
Intersegment sales	-	-	234,828	(234,828)	-
Other income	4,975	1,492	713	-	7,180
Total	3,040,430	1,147,065	394,940	(234,828)	4,347,607
Segment results	868,688	680,358	36,089	-	1,585,135
Interest and dividend income and unallocated gains					96,094
Corporate and other unallocated expenses					(134,933)
Finance costs					(18,291)
Exchange gain, net					14,434
Share of profits of associates					4,041
Profit before tax					1,546,480
Income tax expense					(67,116)
Profit for the year					1,479,364
As at 31 December 2007:					
Segment assets	4,416,063	1,503,345	1,103,464	(16,923)	7,005,949
Investments in associates	11,105	-	831	-	11,936
Corporate and other unallocated assets					2,679,640
Total assets					9,697,525
Segment liabilities	(525,477)	(239,786)	(357,718)	361,337	(761,644)
Corporate and other unallocated liabilities					(453,341)
Total liabilities					(1,214,985)
Other segment information:					
Depreciation and amortisation	469,825	94,191	22,902	-	586,918
Other non-cash expenses	(965)	-	(498)	-	(1,463)
Capital expenditure	105,179	40,874	101,044	-	247,097

4 SEGMENT INFORMATION (continued)

Business segments (continued)

	Fertilisers RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2006:					
Segment revenue:					
Sales to external customers	2,989,161	308,700	167,920	-	3,465,781
Intersegment sales	-	-	83,897	(83,897)	-
Other income	99,223	-	484	-	99,707
Total	3,088,384	308,700	252,301	(83,897)	3,565,488
Segment results	1,082,254	123,775	21,944	-	1,227,973
Interest and dividend income and unallocated gains					145,755
Corporate and other unallocated expenses					(94,621)
Finance costs					(61,738)
Exchange loss, net					(1,500)
Share of profits of associates	1,779	-	57	-	1,836
Excess over the cost of a business combination					577,619
Profit before tax					1,795,324
Income tax expense					(120,102)
Profit for the year					1,675,222
As at 31 December 2006:					
Segment assets	5,613,626	1,331,566	958,152	(21,737)	7,881,607
Investments in associates	7,590	-	1,056	-	8,646
Corporate and other unallocated assets					1,220,629
Total assets					9,110,882
Segment liabilities	(592,448)	(196,869)	(374,654)	21,737	(1,142,234)
Corporate and other unallocated liabilities					(919,736)
Total liabilities					(2,061,970)
Other segment information:					
Depreciation and amortisation	446,356	54,482	14,304	-	515,142
Write-back of impairment losses recognised in the consolidated income statement	(7,962)	-	-	-	(7,962)
Other non-cash expenses	2,580	-	237	-	2,817
Capital expenditure	124,454	301,983	163,241	-	589,678

4 SEGMENT INFORMATION (continued)

Geographical segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2007 and 2006:

	2007 RMB'000	2006 RMB'000
Sales to external customers:		
- PRC	**4,113,695**	3,393,877
- Others	**226,732**	71,904
	4,340,427	3,465,781

5 REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced values 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 during the year.

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

	2007 RMB'000	2006 RMB'000
Revenue		
Sale of goods	**4,189,294**	3,303,539
Rendering of services	**151,133**	162,242
	4,340,427	3,465,781
Other income and gains		
Gain on disposal of unlisted investments	**18,540**	-
Gain on disposal of listed investments	**28,763**	-
Dividend income from listed investments	**-**	360
Subsidy income	**-**	89,259
Fair value gains on derivative financial instruments	**19,546**	24,992
Gain on dissolution of a subsidiary	**-**	586
Income from the sale of other materials	**3,262**	6,652
Others	**3,918**	3,796
	74,029	125,645

6 FINANCE REVENUE

Finance revenue represents interest income earned for the years ended 31 December 2007 and 2006.

7 FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank loans and other loans wholly repayable within five years	**5,130**	60,208
Interest on other loans	**13,161**	16,257
Less: Interest capitalised in construction in progress	**-**	(14,727)
	18,291	61,738

8 PROFIT BEFORE TAX

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

	2007 RMB'000	2006 RMB'000
Cost of inventories sold	**2,416,933**	2,036,846
Cost of services provided	**135,228**	127,318
Depreciation	**573,578**	506,650
Amortisation of a trademark	**328**	311
Amortisation of patents and licences	**-**	26
Amortisation of other intangible assets	**3,603**	114
Amortisation of prepaid land lease payments	**9,409**	8,041
Write-down of inventories to net realisable value	**924**	467
Auditors' remuneration	**2,680**	2,100
Employee benefits expense (including directors' and supervisors' remuneration – note 9 below):		
Wages and salaries	**251,905**	202,939
Defined contribution pension scheme (note (i))	**42,450**	26,359
Early retirement benefits and post-employment allowances (note (ii))	**(4,622)**	2,918
Medical benefit costs (note (iii))	**12,507**	12,117
Housing fund (note (iv))	**10,478**	8,242
	312,718	252,575
Foreign exchange differences, net	**(14,434)**	1,500
Provision/(write-back of provision) for bad and doubtful receivables *	**(2,387)**	2,350
Write-back of impairment of items of property, plant and equipment *	**(13)**	(7,962)
Loss on disposal of items of property, plant and equipment *	**10,230**	2,865

* These items are included in "Other expenses" on the face of the consolidated income statement.

8 PROFIT BEFORE TAX (continued)

Notes:

(i) Defined contribution pension scheme

The Group's employees in the PRC are covered by a government-regulated scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension scheme at 20% of the employees' salaries. This defined contribution pension scheme continued to be available to the Group's employees for the years ended 31 December 2007 and 2006. The related pension costs are expensed as incurred.

In addition to the government-regulated scheme, commencing from 1 January 2005, the Group operates a supplementary defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. Contributions are made based on a percentage of the employee's basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme. The assets of this scheme are held separately from those of the Group in an independently administered fund.

(ii) Early retirement benefits and post-employment allowances

Tianye Chemical, the Group's 90%-owned subsidiary, paid supplementary pensions to early retirees and allowances to retired employees in addition to the benefits under the government-regulated defined contribution pension scheme above. The benefits are assessed using the projected unit credit method and are charged to the consolidated income statement as shown in the actuarial reports which contained full valuations of the obligations for each of the relevant accounting periods. Details of the early retirement benefits are set out in note 32 to the financial statements.

(iii) Medical benefit costs

The Group contributes on a monthly basis to defined contribution medical benefit plans organised by the PRC government. The PRC government undertakes to assume the medical benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for medical benefits for their qualified employees under these plans.

(iv) Housing fund

The Group contributes on a monthly basis to a defined contribution housing fund plan organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

9 DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the directors' and supervisors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Companies Ordinance are as follows:

	Directors	
	2007	2006
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**1,122**	776
Discretionary bonuses	**803**	751
Pension scheme contributions	**91**	80
	2,016	1,607

	Supervisors	
	2007	2006
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**153**	86
Discretionary bonuses	**151**	128
Pension scheme contributions	**16**	13
	320	227

9 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The remuneration of each of the directors and supervisors of the Company for the year ended 31 December 2007 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Directors				
Non-executive director				
Wu Mengfei	30	-	-	30
Executive directors				
Yang Yexin	227	294	35	556
Fang Yong	159	241	23	423
Chen Kai	209	268	33	510
	595	803	91	1,489
Independent non-executive directors				
Zhang Xinzhi	93	-	-	93
Wu Xiaohua	87	-	-	87
Tsui Yiu Wa, Alec	233	-	-	233
Wang Wenshan	84	-	-	84
	497	-	-	497
	1,122	**803**	**91**	**2,016**
Supervisors				
Yin Jihong	19	-	-	19
Qu Bin	85	151	16	252
Huang Jinggui	49	-	-	49
	153	**151**	**16**	**320**

9 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The remuneration of the directors and supervisors of the Company for the year ended 31 December 2006 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Directors				
Non-executive director				
Wu Mengfei	15	-	-	15
Executive directors				
Yang Yexin	200	273	30	503
Fang Yong	140	226	21	387
Chen Kai	181	252	29	462
Wang Zhongan*	-	-	-	-
Cao Xinghe*	-	-	-	-
Zheng Baoguo*	-	-	-	-
Cheng Chi*	-	-	-	-
	521	751	80	1,352
Independent non-executive directors				
Zhang Xinzhi	38	-	-	38
Wu Xiaohua	38	-	-	38
Tsui Yiu Wa, Alec	126	-	-	126
Wang Wenshan	38	-	-	38
	240	-	-	240
	776	**751**	**80**	**1,607**
Supervisors				
Yin Jihong	-	-	-	-
Qu Bin	49	120	10	179
Huang Jinggui	19	-	-	19
Yin Gang**	18	8	3	29
Zhou Shengwei*	-	-	-	-
Fu Maosheng*	-	-	-	-
	86	**128**	**13**	**227**

* These directors and supervisors have not been in office since March 2006.

** The remuneration of Yin Gang was for the period from 1 January 2006 to 28 February 2006, the date of his resignation as a supervisor.

10 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the years ended 31 December 2007 and 2006 are analysed as follows:

	2007	2006
Directors and supervisors	**3**	3
Non-director and non-supervisor employees	**2**	2
	5	5

Details of the remuneration of the above non-director and non-supervisor, highest paid employees during the years ended 31 December 2007 and 2006 are as follows:

	2007 RMB'000	2006 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**270**	244
Discretionary bonuses	**461**	426
Pension scheme contributions	**44**	38
	775	708

The remuneration of all of these non-director and non-supervisor, highest paid employees fell within the band from nil to HKD1,000,000 for the years ended 31 December 2007 and 2006.

11 INCOME TAX EXPENSE

Major components of income tax expense for the years ended 31 December 2007 and 2006 are as follows:

	2007 RMB'000	2006 RMB'000
Current - PRC		
Charge for the year	**98,537**	115,399
Deferred (note 23)	**(31,421)**	4,703
Total tax charge for the year	**67,116**	120,102

11 INCOME TAX EXPENSE (continued)

(a) Corporate income tax

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, as the Company was assessed as a high technology enterprise, it is entitled to benefit from the said reduction in the applicable tax rate of CIT until 31 December 2011.

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 the 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.

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

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the years ended 31 December 2007 and 2006, respectively.

11 INCOME TAX EXPENSE (continued)

A reconciliation of the income tax expense applicable to profit before tax using the statutory rates for the country in which the Group and its jointly-controlled entity are domiciled to the income tax expense at the effective tax rates is as follows:

	2007 RMB'000	2006 RMB'000
Profit before tax	**1,546,480**	1,795,324
Tax at the statutory tax rate of 33%	**510,338**	592,457
Lower tax rate for specific provinces / districts or concessions	**(413,762)**	(431,359)
Overprovision of income tax expense in prior year	**(4,478)**	-
Profits attributable to associates	**(640)**	(267)
Income not subject to tax	**(592)**	(43,322)
Expenses not deductible for tax	**5,583**	919
Effect on deferred tax of changes in tax rates	**(31,258)**	-
Tax losses not recognised	**374**	92
Others	**1,551**	1,582
Income tax expense reported in the consolidated income statement	**67,116**	120,102
The Group's effective income tax rate	**4.3%**	6.7%

12 PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit for the year attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB1,014,440,000 (2006: RMB1,190,051,000) dealt with in the financial statements of the Company (note 31).

13 DIVIDENDS

	Notes	2007 RMB'000	2006 RMB'000
Pre-establishment distribution	(i)	-	264,538
Pre-IPO profit	(ii)	-	302,142
Proposed final – RMB0.08 (2006: RMB0.015) per ordinary share	(iii)	**368,800**	69,150
		368,800	635,830

Notes:

(i) In accordance with the Provisional Regulations Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment notice (財政部關於印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知) issued by the Ministry of Finance (English title is a direct translation of the Chinese title of the notice), which became effective from 27 August 2002, the Company is required to make a distribution (the "Pre-establishment distribution") to CNOOC in an amount equal to its net profit, as determined in accordance with PRC GAAP, of the Company, generated from 1 January 2006 to 24 April 2006, the date immediately prior to the date on which the Company was reorganised into a joint stock limited company.

Pursuant to a supplementary agreement to the Promotion Agreement dated 10 July 2006, the Company's promoters (i.e. CNOOC and the Other Four Promoters) agreed to distribute a Pre-establishment distribution of RMB264,538,000 to CNOOC, which was paid in 2006.

(ii) On 25 April 2006, the promoters of the Company unanimously resolved that they will be entitled to, in the same proportion as their respective shareholdings in the Company, all of the undistributed profit (the "Pre-IPO profit"), as determined in accordance with PRC GAAP, of the Company for the period from 25 April 2006, the date of the Company's reorganisation into a joint stock limited company, to the last day of the month immediately preceding the listing of the Company's H shares on the Stock Exchange (i.e. 31 August 2006). On 30 December 2006, the directors resolved to distribute an aggregate amount of RMB302,142,000 to the promoters as the Pre-IPO profit which was paid in full in 2006.

(iii) The proposed 2006 final dividend was approved at the annual general meeting on 15 June, 2007. The proposed 2007 final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Upon listing of the Company's shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the profit after tax as determined under PRC GAAP and IFRS. Further details are set out in note 31 to the financial statements.

14 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2007 RMB'000	2006 RMB'000
Earnings		
Profit for the year attributable to equity holders of the parent	**1,448,334**	1,645,819

	Number of shares '000	'000
Shares		
Weighted average number of shares in issue during the year	**4,610,000**	3,400,438

The weighted average number of shares in issue during the year ended 31 December 2006 used in the basic earnings per share calculation is determined on the assumption that 3,000,000,000 Domestic Shares of RMB1 each issued as a result of the Reorganisation had been in issue throughout the year ended 31 December 2006 and as adjusted to add the 1,610,000,000 H shares of RMB1 each issued to the public upon the listing of the Company's H shares on the Stock Exchange. Further details are set out in note 1 to the financial statements.

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during these years.

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Motor vehicles	Computer and electronic equipment	Office and other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2006:							
Cost	2,532,158	6,312,343	74,745	325,090	42,496	160,329	9,447,161
Accumulated depreciation and impairment	(817,615)	(2,421,022)	(50,889)	(271,392)	(31,345)	-	(3,592,263)
Net carrying amount	1,714,543	3,891,321	23,856	53,698	11,151	160,329	5,854,898
Cost as at 1 January 2007, net of accumulated depreciation and impairment	**1,714,543**	**3,891,321**	**23,856**	**53,698**	**11,151**	**160,329**	**5,854,898**
Additions	**255**	**25,524**	**10,934**	**3,744**	**3,236**	**202,178**	**245,871**
Other transfers	**(173,371)**	**139,077**	**1,945**	**12,311**	**20,038**	**-**	**-**
Disposals	**(15,045)**	**(2,242)**	**(814)**	**(48)**	**(228)**	**-**	**(18,377)**
Transfers	**203,147**	**20,308**	**642**	**1,856**	**895**	**(226,848)**	**-**
Write-back of impairment	**-**	**-**	**-**	**-**	**13**	**-**	**13**
Depreciation for the year	**(107,224)**	**(421,618)**	**(7,805)**	**(15,587)**	**(21,344)**	**-**	**(573,578)**
Cost as at 31 December 2007, net of accumulated depreciation and impaiment	**1,622,305**	**3,652,370**	**28,758**	**55,974**	**13,761**	**135,659**	**5,508,827**
As at 31 December 2007:							
Cost	**2,538,402**	**6,493,548**	**83,039**	**342,179**	**65,880**	**135,659**	**9,658,707**
Accumulated depreciation and impairment	**(916,097)**	**(2,841,178)**	**(54,281)**	**(286,205)**	**(52,119)**	**-**	**(4,149,880)**
Net carrying amount	**1,622,305**	**3,652,370**	**28,758**	**55,974**	**13,761**	**135,659**	**5,508,827**

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 31 December 2005:							
Cost	947,794	3,211,272	46,470	32,436	4,733	478,517	4,721,222
Accumulated depreciation and impairment	(165,079)	(1,040,103)	(21,877)	(13,664)	(1,366)	-	(1,242,089)
Net carrying amount	782,715	2,171,169	24,593	18,772	3,367	478,517	3,479,133
Cost as at 1 January 2006, net of accumulated depreciation and impairment	782,715	2,171,169	24,593	18,772	3,367	478,517	3,479,133
Additions	26,850	22,200	8,159	21,397	644	432,836	512,086
Acquisition of a subsidiary (note 39(b))	681,508	1,138,063	2,932	14,904	10,810	519,216	2,367,433
Disposals	-	(636)	(365)	(355)	(2,689)	-	(4,045)
Dissolution of a subsidiary (note 39(a))	(415)	-	-	-	(606)	-	(1,021)
Transfers	323,103	932,045	-	14,199	893	(1,270,240)	-
Write-back of impairment /(impairment)	2,678	5,340	-	-	(56)	-	7,962
Depreciation for the year	(101,896)	(376,860)	(11,463)	(15,219)	(1,212)	-	(506,650)
Cost as at 31 December 2006, net of accumulated depreciation and impairment	1,714,543	3,891,321	23,856	53,698	11,151	160,329	5,854,898
As at 31 December 2006:							
Cost	2,532,158	6,312,343	74,745	325,090	42,496	160,329	9,447,161
Accumulated depreciation and impairment	(817,615)	(2,421,022)	(50,889)	(271,392)	(31,345)	-	(3,592,263)
Net carrying amount	1,714,543	3,891,321	23,856	53,698	11,151	160,329	5,854,898

As at 31 December 2007, the net book value of the Group's property, plant and equipment held under finance leases amounted to RMB2,471,000 (2006: RMB2,297,000).

As at 31 December 2007, the Group has yet to obtain building ownership certificates for certain buildings with net book value of approximately RMB11,729,000 (2006:RMB34,952,000).

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 31 December 2006:							
Cost	463,168	1,677,404	19,825	17,718	4,326	900	2,183,341
Accumulated depreciation	(106,786)	(350,183)	(11,205)	(6,185)	(1,645)	-	(476,004)
Net carrying amount	356,382	1,327,221	8,620	11,533	2,681	900	1,707,337
Cost as at 1 January 2007, net of accumulated depreciation	**356,382**	**1,327,221**	**8,620**	**11,533**	**2,681**	**900**	**1,707,337**
Additions	**-**	**4,027**	**574**	**1,214**	**-**	**27,551**	**33,366**
Other transfers	**30,984**	**(27,728)**	**(2,729)**	**2,006**	**(2,533)**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	**(27,986)**	**(111,473)**	**(2,377)**	**(4,721)**	**(38)**	**-**	**(146,595)**
Cost as at 31 December 2007, net of accumulated deprecition	**359,380**	**1,192,047**	**4,088**	**10,032**	**110**	**28,451**	**1,594,108**
As at 31 December 2007:							
Cost	**494,152**	**1,653,703**	**17,670**	**20,938**	**1,793**	**28,451**	**2,216,707**
Accumulated depreciation	**(134,772)**	**(461,656)**	**(13,582)**	**(10,906)**	**(1,683)**	**-**	**(622,599)**
Net carrying amount	**359,380**	**1,192,047**	**4,088**	**10,032**	**110**	**28,451**	**1,594,108**
As at 31 December 2005:							
Cost	449,940	1,668,286	20,934	16,570	4,133	17,722	2,177,585
Accumulated depreciation	(79,745)	(237,516)	(10,304)	(3,334)	(1,273)	-	(332,172)
Net carrying amount	370,195	1,430,770	10,630	13,236	2,860	17,722	1,845,413
Cost as at 1 January 2006, net of accumulated depreciation	370,195	1,430,770	10,630	13,236	2,860	17,722	1,845,413
Additions	151	8,170	106	636	54	592	9,709
Disposals	(2,251)	-	(122)	(72)	-	-	(2,445)
Transfers	15,330	948	-	997	139	(17,414)	-
Depreciation for the year	(27,043)	(112,667)	(1,994)	(3,264)	(372)	-	(145,340)
Cost as at 31 December 2006, net of accumulated depreciation	356,382	1,327,221	8,620	11,533	2,681	900	1,707,337
As at 31 December 2006:							
Cost	463,168	1,677,404	19,825	17,718	4,326	900	2,183,341
Accumulated depreciation	(106,786)	(350,183)	(11,205)	(6,185)	(1,645)	-	(476,004)
Net carrying amount	356,382	1,327,221	8,620	11,533	2,681	900	1,707,337

16 INVESTMENT PROPERTIES

Company

	As at 31 December 2007 RMB'000	As at 31 December 2006 RMB'000
Carrying amounts at end of year	**16,441**	17,422

Included in the Company's investment properties are buildings situated in the PRC, which are leased to its subsidiaries under operating leases. Further details are set out in note 40 to the financial statements.

In the opinion of the management, the carrying amounts of the Company's investment properties approximate their fair values.

17 PREPAID LAND LEASE PAYMENTS

Group

	2007 RMB'000	2006 RMB'000
Carrying amount as at 1 January	**422,431**	118,857
Additions	**1,226**	61,956
Acquisition of a subsidiary (note 39(b))	**-**	249,659
Amortisation for the year	**(9,409)**	(8,041)
Carrying amount as at 31 December	**414,248**	422,431
Current portion included in prepayments, deposits and other receivables	**(9,427)**	(8,569)
Non-current portion	**404,821**	413,862

The Group's leasehold land is situated in Mainland China and is held under the following lease terms:

	RMB'000
Long-term leases	40,211
Medium-term leases	374,037
	414,248

17 PREPAID LAND LEASE PAYMENTS (continued)

Company

	2007 RMB'000	2006 RMB'000
Carrying amount as at 1 January	**42,983**	37,907
Additions	**-**	5,591
Amortisation for the year	**(1,224)**	(515)
Carrying amount as at 31 December	**41,759**	42,983
Current portion included in prepayments, deposits and other receivables	**(1,224)**	(592)
Non-current portion	**40,535**	42,391

The Company's leasehold land is situated in Mainland China and is held under the following lease terms:

	RMB'000
Long-term leases	8,487
Medium-term leases	33,272
	41,759

18 INTANGIBLE ASSETS

Group

	Computer software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Total RMB'000
Cost as at 1 January 2007, net of accumulated amortisation	**15,768**	**-**	**657**	**16,425**
Additions	**-**	**-**	**-**	**-**
Amortisation for the year	**(3,603)**	**-**	**(328)**	**(3,931)**
Impairment	**-**	**-**	**-**	**-**
Cost as at 31 December 2007, net of accumulated amortisation and impairment	**12,165**	**-**	**329**	**12,494**
As at 31 December 2007:				
Cost	**16,207**	**253**	**2,299**	**18,759**
Accumulated amortisation and impairment	**(4,042)**	**(253)**	**(1,970)**	**(6,265)**
Net carrying amount	**12,165**	**-**	**329**	**12,494**

18 INTANGIBLE ASSETS (continued)

Group (continued)

	Computer software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Total RMB'000
Cost as at 1 January 2006, net of accumulated amortisation	246	152	-	398
Additions	15,636	-	-	15,636
Acquisition of a subsidiary (note 39(b))	-	-	968	968
Amortisation for the year	(114)	(26)	(311)	(451)
Impairment	-	(126)	-	(126)
Cost as at 31 December 2006, net of accumulated amortisation and impairment	15,768	-	657	16,425
As at 31 December 2006:				
Cost	16,207	253	2,299	18,759
Accumulated amortisation and impairment	(439)	(253)	(1,642)	(2,334)
Net carrying amount	15,768	-	657	16,425

Company

	Computer software RMB'000
Cost as at 1 January 2007, net of accumulated amortisation	**15,768**
Additions	**-**
Amortisation for the year	**(3,603)**
Cost as at 31 December 2007, net of accumulated amortisation	**12,165**
As at 31 December 2007:	
Cost	**16,207**
Accumulated amortisation	**(4,042)**
Net carrying amount	**12,165**
Cost as at 1 January 2006, net of accumulated amortisation	246
Additions	15,636
Amortisation for the year	(114)
Cost as at 31 December 2006, net of accumulated amortisation	15,768
As at 31 December 2006:	
Cost	16,207
Accumulated amortisation	(439)
Net carrying amount	15,768

19 INTERESTS IN SUBSIDIARIES

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	**2,326,154**	2,206,154
Loans to subsidiaries	**42,000**	30,000
	2,368,154	2,236,154

The Company's trade receivables, other receivables, loans receivable, other long-term liabilities, trade payables, and other payable balances with its subsidiaries are disclosed in notes 25, 27, 28, 34, 35 and 36 to the financial statements, respectively.

The loans to subsidiaries included in the interests in subsidiaries above are unsecured, bear interest at a rate of 5.2% per annum and are repayable on 27 April 2008.

Particulars of the principal subsidiaries of the Company are set out as follows:

Company name	Place and date of establishment	Registered capital RMB'000	Percentage of equity interests attributable to the Company		Principal activities
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 Co., Ltd. (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 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 fertilisers
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	6,250	Direct Indirect	- 66.70	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
CNOOC Jincheng Coal Chemical Industry Co., Ltd. (中海石油晉城煤化工產業有限公司)	PRC 26 November 2007	800,000	Direct Indirect	75.00 -	Manufacture and sale of 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
CNOOC Tianye Chemical Limited (formerly known as Inner Mongolia Tianye Chemical Industry Limited) (中海石油天野化工股份有限公司) (原：內蒙古天野化工（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. (內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

19 INTERESTS IN SUBSIDIARIES (continued)

* Upon the Reorganisation of the Company into a joint stock limited company on 25 April 2006, Fudao was restructured from a joint stock limited company into a limited liability company under the name of CNOOC Fudao Limited and became a wholly-owned subsidiary of the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the management, principally affects the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the management, result in particulars of excessive length.

20 INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	**300,000**	300,000

The Group and the Company's trade receivables, other receivables, other long-term liabilities, trade payables, and other payable balances with the jointly-controlled entity are disclosed in notes 25, 27, 34, 35 and 36 to the financial statements.

Particulars of the jointly-controlled entity of the Company and of the Group are set out as follows:

Company name	Place and date of establishment	Registered capital RMB'000	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	500,000	60.00	60.00	60.00	Manufacture and sale of methanol

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Non-current assets	**619,837**	666,263
Current assets	**172,272**	212,515
Non-current liabilities	**(179,781)**	(311,452)
Current liabilities	**(54,838)**	(203,562)
Net assets	**557,490**	363,764

20 INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

Share of the jointly-controlled entity's results:

	2007 RMB'000	2006 RMB'000
Revenue	**797,071**	106,562
Other income	**892**	-
	797,963	106,562
Total expenses	**(359,153)**	(33,145)
Tax	**(602)**	(9,653)
Profit after tax	**438,208**	63,764

21 INVESTMENTS IN ASSOCIATES

Group

	2007 RMB'000	2006 RMB'000
Share of net assets	**11,937**	8,646

The Group's trade receivable and other payable balances with its associates are disclosed in notes 25 and 36 to the financial statements respectively.

Particulars of the associates of the Group are set out as follows:

Company name	Place and hdate of establishment	Registered capital RMB'000	Percentage of ownership interest attributable to the Group		Principal Activities
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. (中國八所外輪代理有限公司)	PRC 24 May 2000	1,800	Direct Indirect	- 36.25	Provision of overseas shipping services

The following table illustrates the aggregate amounts of the assets, liabilities, revenue and profit of the Group's associates.

	2007 RMB'000	2006 RMB'000
Assets	**121,212**	99,340
Liabilities	**83,452**	70,941
Revenues	**615,359**	504,673
Profit	**14,329**	6,044

22 AVAILABLE-FOR-SALE INVESTMENTS

Group

	2007 RMB'000	2006 RMB'000
Current		
Unlisted investments, at cost	**304,113**	-
Non-current		
Unlisted equity investments, at cost	**600**	600
Listed equity securities in the PRC, at cost	**-**	8,865
	600	9,465

Company

	2007 RMB'000	2006 RMB'000
Current		
Unlisted investments, at cost	**250,000**	-

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

The management is of the opinion that the carrying amounts of unlisted investments approximate their fair values.

23 DEFERRED TAXATION

The movements in deferred tax assets and liabilities of the Group and of the Company during the years ended 31 December 2007 and 2006 are as follows:

Group

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Provision for impairment of assets RMB'000	Wages and salaries RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2007	**4,601**	**22,593**	**504**	**121**	**27,819**
Credited/(charged) to the consolidated income statement (note 11)	**8,188**	**(9,838)**	**18,584**	**2,546**	**19,480**
As at 31 December 2007	**12,789**	**12,755**	**19,088**	**2,667**	**47,299**
As at 1 January 2006	2,469	2,203	-	-	4,672
Acquisition of a subsidiary (note 39(b))	-	27,225	504	121	27,850
Credited/(charged) to the consolidated income statement (note 11)	2,132	(6,835)	-	-	(4,703)
As at 31 December 2006	4,601	22,593	504	121	27,819

23 DEFERRED TAXATION (continued)

Group (continued)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary	Differences in depreciation and amortisation between tax regulations and accounting policies	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2007	**61,017**	**-**	**61,017**
Charged/(credited) to the consolidated income statement (note 11)	**(14,792)**	**2,851**	**(11,941)**
As at 31 December 2007	**46,225**	**2,851**	**49,076**
As at 1 January 2006	-	-	-
Acquisition of a subsidiary (note 39(b))	61,017	-	61,017
As at 31 December 2006	61,017	-	61,017

Company

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies	Provision for impairment of assets	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2007	**1,972**	**118**	**2,090**
Credited/(charged) to the income statement	**2,708**	**(48)**	**2,660**
As at 31 December 2007	**4,680**	**70**	**4,750**
As at 1 January 2006	1,285	583	1,868
Credited/(charged) to the income statement	687	(465)	222
As at 31 December 2006	1,972	118	2,090

24 INVENTORIES

Group

	2007 RMB'000	2006 RMB'000
Raw materials and spare parts	**311,318**	252,387
Work in progress	**55,914**	50,732
Finished goods	**34,067**	29,565
Net book value	**401,299**	332,684

Company

	2007 RMB'000	2006 RMB'000
Raw materials and spare parts	**89,931**	77,879
Work in progress	**24,426**	13,594
Finished goods	**68**	30
Net book value	**114,425**	91,503

25 TRADE RECEIVABLES

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

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

An aging analysis of the trade receivables, based on invoice date and net of provision for bad and doubtful debts, of the Group and of the Company is as follows:

Group

	2007 RMB'000	2006 RMB'000
Within six months	**13,624**	127,212
Over six months but within one year	**7,642**	166
Over one year but within two years	**160**	6,179
	21,426	133,557

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the management is of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2007, the amount due from a CNOOC Group company included in the above trade receivable balances was RMB126,000 (2006: nil). The amount due from a jointly-controlled entity included in the above trade receivable balances was RMB nil (2006: RMB4,308,000). The amount due from an associate entity included in the above trade receivable balances was RMB1,934,000 (2006: nil). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

Company

	2007 RMB'000	2006 RMB'000
Within six months	**2,275**	7,753

As at 31 December 2007, the amounts due from subsidiaries of the Company included in the above trade receivable balances were RMB2,248,000 (2006: RMB1,378,000). The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

26 BILLS RECEIVABLE

The bills receivable of the Group as at 31 December 2007 and 2006 all mature within six months.

27 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2007 RMB'000	2006 RMB'000
Prepayments	**70,947**	47,040
Deposits and other receivables	**82,266**	39,113
	153,213	86,153

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

The amounts due from CNOOC group companies and a jointly-controlled entity included in the above can be analysed as follows:

	2007 RMB'000	2006 RMB'000
CNOOC group companies	**6,686**	6,166
A jointly-controlled entity	**7,536**	5,405
	14,222	11,571

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

Company

	2007 RMB'000	2006 RMB'000
Prepayments	**7,694**	3,650
Deposits and other receivables	**87,221**	145,259
	94,915	148,909

27 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Company (continued)

The amounts due from CNOOC group companies, a jointly-controlled entity and subsidiaries of the Company included in the above can be analysed as follows:

	2007 RMB'000	2006 RMB'000
CNOOC group companies	**5,725**	5,666
A jointly-controlled entity	**13,255**	7,014
Subsidiaries	**17,852**	113,368
	36,832	126,048

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

28 LOANS RECEIVABLE

As at 31 December 2007, loans receivable represented an entrusted loan with an amount of RMB310,000,000 which was provided to Tianye Chemical during the year and is unsecured, bears interest at a rate of 5.27% per annum and is repayable on 15 June 2008.

As at 31 December 2006, loans receivable represented an entrusted loan with a contract amount of RMB600,000,000 which was provided to Tianye Chemical during the year and was unsecured, bore interest at a rate of 5.27% per annum and was repaid on 15 June 2007.

29 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Group

	2007 RMB'000	2006 RMB'000
Cash and bank balances	**2,786,536**	1,908,363
Time deposits	-	298,160
	2,786,536	2,206,523
Less: Pledged bank deposits	**(5,774)**	(10,904)
Cash and cash equivalents in the consolidated balance sheet	**2,780,762**	2,195,619
Less: Non-pledged time deposits with original maturity of three months or more when acquired	-	(146,160)
Cash and cash equivalents in the consolidated cash flow statements	**2,780,762**	2,049,459

29 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS (continued)

Group (continued)

As at 31 December 2007, the Group's pledged time deposits of RMB5,774,000 (2006: RMB10,904,000) were deposited to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

The Group's cash and bank balances are denominated in RMB as at 31 December 2007 and 2006, except for amounts of RMB8,577,000 (2006: RMB171,000) which is translated from USD1,174,000 (2006: USD22,000); RMB13,279,000 (2006: RMB4,707,000) which is translated from JPY207,156,000 (2006: JPY71,727,000); and RMB2,800 (2006: RMB12,448,000) which is translated from HKD3,000 (2006: HKD12,390,000).

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

As at 31 December 2007, included in the Group's cash and cash equivalents was RMB184,346,000 (2006: RMB259,866,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"). The deposits with CNOOC Finance are entitled to interest at the rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

Company

	2007 RMB'000	2006 RMB'000
Cash and bank balances	**1,946,261**	1,528,618
Less: Pledged bank deposits	**(2,191)**	(2,413)
	1,944,070	1,526,205

As at 31 December 2007, the Company's pledged time deposits of RMB2,191,000 (2006: RMB2,413,000) were deposited to banks for issuing letters of credit in relation to the purchase of machinery and equipment.

The Company's cash and bank balances are denominated in RMB as at 31 December 2007 and 2006, except for amounts of RMB299,000 (2006:RMB23,000) which is translated from USD41,000 (2006: USD3,000); RMB13,279,000 (2006: RMB4,707,000) which is translated from JPY207,156,300 (2006:71,727,000); and RMB2,800 (2006: RMB12,448,000) which is translated from HKD3,000 (2006: HKD12,390,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2007, included in the Company's cash and cash equivalents was RMB69,705,000 (2006: RMB62,757,000) deposited in CNOOC Finance. The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between one day and six months depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank deposits approximate their fair values.

30 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 31 December 2007	4,610,000	4,610,000

Notes:

(i) On 25 April 2006, the Company was reorganised into a joint stock limited company with a registered share capital of RMB3,000,000,000 divided into 3,000,000,000 shares with a nominal value of RMB1 each.

The Company issued 2,900,000,000 Domestic Shares to CNOOC, 25,000,000 Domestic Shares to each of Zhejiang AMP Incorporation, Guangdong Agricultural Means of Production Corporation and Shanghai Municipal Agricultural Means of Production Corporation, and 25,000,000 Unlisted Foreign Shares to Transammonia Inc, representing approximately 96.68%, 0.83%, 0.83%, 0.83% and 0.83%, respectively, of the Company's issued share capital as at 25 April 2006.

The Domestic Shares rank pari passu, in all material respects, with the H shares.

(ii) In September 2006, the Company issued 1,400,000,000 new H shares to the public at a price of HKD1.90 per share and these H shares were listed on the Main Board of the Stock Exchange on 29 September 2006. In addition, 140,000,000 shares converted from certain Domestic Shares held by CNOOC were transferred to the National Council of the Social Security Fund of the PRC (the "NSSF").

In October 2006, as a result of the exercise of the over-allotment option as detailed in the Company's prospectus dated 18 September 2006, the Company issued 210,000,000 new H shares to the public at a price of HKD1.90 per share and these H shares were listed on the Main Board of the Stock Exchange on 16 October 2006. In addition, 21,000,000 shares converted from certain Domestic Shares held by CNOOC were transferred to the NSSF.

After deducting the share issue expenses of approximately RMB174,158,000, the Company raised net proceeds of approximately RMB2,932,336,000 from issuing a total of 1,610,000,000 H shares. The excess of the net proceeds over the paid-up capital of RMB1,610,000,000, amounting to RMB1,322,336,000, was credited to capital reserve.

31 RESERVES

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2007 and 2006 are presented in the consolidated statement of changes in equity set out on pages 38 to 42 of the financial statements.

Company

	Notes	Statutory surplus reserves	Capital reserve	Retained profits/ (accumulated losses)	Proposed dividend	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note a)	(note b)	(note a)		
As at 1 January 2006		273,136	-	(482,803)	1,210,801	1,001,134
Profit for the year	12	-	-	1,190,051	-	1,190,051
Capital contribution	(c)	-	7,607	-	-	7,607
Capitalisation as a result of the Reorganisation	(d)	(273,136)	(220,308)	-	-	(493,444)
Special dividend declared	13	-	-	-	(1,210,801)	(1,210,801)
Pre-establishment distribution declared	13	-	-	(264,538)	-	(264,538)
Pre-IPO profit declared	13	-	-	(302,142)	-	(302,142)
Proposed 2006 final dividend		-	-	(69,150)	69,150	-
Transfer from retained profits		68,732	-	(68,732)		-
Share premium arising from the issuance of H shares	30	-	1,496,494	-	-	1,496,494
Share issue expenses	30	-	(174,158)	-	-	(174,158)
As at 31 December 2006 and 1 January 2007		**68,732**	**1,109,635**	**2,686**	**69,150**	**1,250,203**
Profit for the year	12	**-**	**-**	**1,014,440**	**-**	**1,014,440**
Transfer from retained profits		**113,006**	**-**	**(113,006)**	**-**	**-**
2006 final dividend paid		**-**	**-**	**-**	**(69,150)**	**(69,150)**
Proposed 2007 final dividend		**-**	**-**	**(368,800)**	**368,800**	**-**
As at 31 December 2007		**181,738**	**1,109,635**	**535,320**	**368,800**	**2,195,493**

31 RESERVES (continued)

Company (continued)

Notes:

(a) In accordance with the articles of association of the Company approved by the relevant government authorities on 25 April 2006, the profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRS following the listing of the Company's shares on the Stock Exchange. On this basis, the net profit available for distribution (after the Pre-establishment Distribution and the Pre-IPO Profit and the appropriation of reserves, as further explained below) was approximately RMB71,836,000, being the amount determined in accordance with IFRS.

Under the PRC Company Law and the Company's articles of association approved on 25 April 2006, net profit after tax could only be distributed as dividends after an allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any;

(ii) Allocations to the statutory common reserve fund of at least 10% of profit after tax, until the fund aggregates to 50% of the Company's share capital. For the purpose of calculating the amount of transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders; and

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

For dividend distribution purposes, the amount which the Company's subsidiaries and its jointly-controlled entity can legally distribute by way of a dividend is determined with reference to their profits available for distribution as reflected in their respective PRC statutory financial statements, which are prepared in accordance with PRC GAAP. These profits may differ from those reflected in this report which is prepared in accordance with IFRS.

(b) As at 31 December 2007, the capital reserve account balance included the Company's share premium of RMB1,322,336,000 (note 30).

(c) The details are set out in note (b) to the consolidated statement of changes in equity on page 42 of the financial statements.

(d) The details are set out in note (c) to the consolidated statement of changes in equity on page 42 of the financial statements.

32 BENEFITS LIABILITY

Tianye Chemical, the Company's 90%-owned subsidiary, provides post-employment allowances covering substantially all of its employees, and also early retirement benefits to qualifying retirees.

The following tables summarise the components of net benefits expense recognised in the consolidated income statement and amounts recognised in the consolidated balance sheet.

The details of net benefits expense by each type of benefits for the year ended 31 December 2007 and 2006 are as follows:

Group

	2007		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	**2,168**	**1,204**	**3,372**
Interest cost on benefits obligation	**1,565**	**1,285**	**2,850**
Net actuarial gain recognised for the year	**230**	**(76)**	**154**
Write off benefit liability	**-**	**(10,998)**	**(10,998)**
Net benefits expense	**3,963**	**(8,585)**	**(4,622)**

	2006		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	1,196	600	1,796
Interest cost on benefits obligation	679	522	1,201
Net actuarial gain recognised for the year	(45)	(34)	(79)
Net benefits expense	1,830	1,088	2,918

The details of benefits liability by each type of benefits as at 31 December 2007 and 2006 are as follows:

	2007		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	**21,271**	**13,636**	**34,907**
Unrecognised net actuarial gain	**31,922**	**5,597**	**37,519**
Benefits liability	**53,193**	**19,233**	**72,426**

32 BENEFITS LIABILITY (continued)

Group (continued)

	2006		
	Early retirement benefits RMB'000	Post-employment allowances RMB'000	Total RMB'000
Defined benefit obligation	39,948	29,978	69,926
Unrecognised net actuarial gain	10,455	(423)	10,032
Benefits liability	50,403	29,555	79,958

The details of changes in present value of the defined benefit obligation by each type of benefits during the year are as follows:

	Early retirement benefits RMB'000	Post-employment allowances RMB'000	Total RMB'000
As at 1 January 2006:			
Acquisition of a subsidiary	39,814	30,033	69,847
Current service cost	1,196	600	1,796
Interest cost	679	522	1,201
Benefits paid	(1,741)	(1,177)	(2,918)
Actuarial gains on obligation	10,455	(423)	10,032
As at 31 December 2006 and 1 January 2007	**50,403**	**29,555**	**79,958**
Current service cost	**2,168**	**1,204**	**3,372**
Interest cost on benefit obligation	**1,565**	**1,285**	**2,850**
Amortization of prior year's service cost	**325**	**-**	**325**
Amortization of net actuarial gains	**(95)**	**(76)**	**(171)**
Write off of benefit liability	**-**	**(10,998)**	**(10,998)**
Benefits paid	**(1,173)**	**(1,737)**	**(2,910)**
As at 31 December 2007	**53,193**	**19,233**	**72,426**

The group expects to contribute RMB 1,735,000 to its defined benefit pension plans in 2008.

The principal assumptions used in determining the early retirement benefits obligation and post-employment allowances of the Group as at 31 December 2007 and 2006 are shown below:

	2007
Discount rate	4.75%
Early retirement rate	0%
Inflation rate	4%

The management has reviewed the actuarial valuation as at 31 December 2007 which was performed by Watson Wyatt Consultant (Shanghai) Ltd., an independent actuary service provider, using the valuation method detailed under the heading "Employee Benefits" in note 2.4 to the financial statements, and considered that the Group's current provision for the net benefits expenses were adequate for the year ended 31 December 2007.

33 INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Effective interest rate (%)	Maturity	2007 RMB'000	2006 RMB'000
Current				
Bank loans				
- Unsecured				
- Yen loan	LIBOR+0.6	2008	**71,284**	146,056
- USD loan	LIBOR+0.85	2008	**16,073**	23,909
- RMB loan	LIBOR+0.65	2008	**13,147**	303,074
			100,504	473,039
Other loans				
- Obligations under finance lease (note 38)	6.03	2008	**511**	908
- Unsecured	5.0 - 5.5	2007	**-**	2,632
			511	3,540
			101,015	476,579
Non-current				
Bank loans				
- Unsecured				
- Yen loan	LIBOR+0.6	2008	**-**	73,106
- USD loan	LIBOR+0.65	2014	**179,782**	239,023
- RMB loan	5.2 - 5.8	2016	**-**	38,999
			179,782	351,128
Other loans				
- Obligations under finance lease (note 38)	6.57	2009	**259**	236
- Unsecured	5.2 - 5.5	2016	**-**	33,429
			259	33,665
			180,041	384,793
			281,056	861,372

33 INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Group (continued)

	2007 RMB'000	2006 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**100,504**	473,039
In the second year	**43,829**	115,878
In the third to fifth years, inclusive	**131,483**	128,318
Beyond five years	**4,470**	106,932
	280,286	824,167
Other loans repayable:		
Within one year or on demand	**511**	3,540
In the second year	**259**	5,379
In the third to fifth years, inclusive	**-**	15,429
Beyond five years	**-**	12,857
	770	37,205
	281,056	861,372

Company

	Effective interest rate (%)	Maturity	2007 RMB'000	2006 RMB'000
Current				
Unsecured bank loans	LIBOR+0.6	2008	**71,284**	446,056
Non-current				
Unsecured bank loans	LIBOR+0.6	2008	**-**	73,106
			71,284	519,162
Analysed into:				
Bank and other loans repayable:				
Within one year or on demand			**71,284**	446,056
In the second year			**-**	73,106
In the third to fifth years, inclusive			**-**	-
Beyond five years			**-**	-
			71,284	519,162

As at 31 December 2007, the carrying amounts of the Group's and the Company's bank and other borrowings approximate their fair values.

34 OTHER LONG-TERM LIABILITIES

Group

As at 31 December 2007, other long-term liabilities of the Group mainly represented a government grant of RMB38,480,000 (2006: RMB25,470,000) received by Hainan Basuo from the Ministry of Communication of the PRC and deferred rental income of RMB5,522,000 (2006: RMB5,654,000), after elimination of the Group's 60% interest therein, received from the Group's jointly-controlled entity.

The government grant is for the specific purpose of the future renovation of the port facilities operated by Hainan Basuo.

Company

As at 31 December 2007, other long-term liabilities of the Company mainly represented deferred rental income of RMB18,426,000 (2006: RMB21,295,000) received from its subsidiaries and its jointly-controlled entity.

35 TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled from thirty to sixty days. An aging analysis of trade payables, based on invoice dates, of the Group and of the Company is as follows:

Group

	2007 RMB'000	2006 RMB'000
Within six months	**26,070**	89,021
Over six months but within one year	**-**	348
Over one year but within two years	**690**	2,753
Over two years but within three years	**-**	1,778
Over three years	**225**	786
	26,985	94,686

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

As at 31 December 2007, the amounts due to CNOOC group companies and a jointly-controlled entity included in the above trade payable balances were RMB2,047,000 (2006: RMB54,041,000) and RMB nil (2006: RMB1,265,000), respectively.

35 TRADE PAYABLES (continued)

Company

	2007 RMB'000	2006 RMB'000
Within six months	**2,624**	42,077
Over six months but within one year	**-**	-
Over one year but within two years	**-**	-
Over two years but within three years	**-**	-
Over three years	**-**	68
	2,624	42,145

The amounts due to CNOOC group companies, subsidiaries and a jointly-controlled entity included in the above can be analysed as follows:

	2007 RMB'000	2006 RMB'000
CNOOC group companies	**165**	34,375
Subsidiaries	**-**	2,314
A jointly-controlled entity	**-**	3,162
	165	39,851

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

36 OTHER PAYABLES AND ACCRUALS

Group

	2007 RMB'000	2006 RMB'000
Advances from customers	**83,883**	146,878
Accruals	**4,887**	10,336
Accrued payroll	**226,942**	208,681
Tax payables	**10,239**	14,846
Other payables	**25,140**	12,730
Port construction fee payable	**163,805**	166,797
Professional fees payable	**-**	24,599
Safety costs	**21,139**	-
Payables in relation to the construction and purchase of property, plant and equipment	**115,993**	217,542
Due to the ultimate holding company	**8,480**	-
Due to CNOOC group companies	**22,281**	42,119
Due to an associate	**448**	5,303
Due to a jointly-controlled entity	**132**	132
	683,369	849,963

36 OTHER PAYABLES AND ACCRUALS (Continued)

Company

	2007 RMB'000	2006 RMB'000
Advances from customers	**14,579**	28,992
Accruals	**36**	3,915
Accrued payroll	**30,298**	34,438
Tax payables	**1,285**	912
Other payables	**16,482**	39,803
Port construction fees payable	**-**	-
Safety costs	**6,945**	-
Payables in relation to the construction and purchase of property, plant and equipment	**34,162**	7,259
Reserve funds for projects	**15,500**	-
Due to the ultimate holding company	**8,480**	-
Due to CNOOC group companies	**8,925**	2,466
Due to an associate	**-**	4,925
Due to subsidiaries	**5,538**	84,703
Due to a jointly-controlled entity	**331**	331
	142,561	207,744

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

37 DERIVATIVE FINANCIAL INSTRUMENTS

In 2001, the Company entered into a cross currency interest rate swap contract with a financial institution to sell United States dollars ("USD") in exchange for Japanese Yen ("JPY") in order to partially offset the potential fluctuation in future repayments of certain Japanese Yen denominated loans (the "Japanese Yen loans") and their related interest payments in USD equivalent. The Japanese Yen loans are subject to floating six-month LIBOR plus 0.6% per annum while the interest rate stipulated in this swap contract for the USD is fixed at a rate of 3.93% per annum. The contractual exchange rate is JPY124/USD1.

This swap contract did not meet the criteria for hedge accounting of IAS 39 as the Company did not prepare the required formal designation and documentation specifying how the hedge effectiveness would be assessed throughout the life of hedge relationship from the outset. As such, changes in the fair values of this non-hedging cross currency interest rate swap contract have been reported as other income and gains or other expenses in the consolidated income statement for the years ended 31 December 2007 and 2006.

37 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional/contract amount of this swap contract indicates the volume of transaction outstanding as at the balance sheet date, i.e. the outstanding Japanese Yen loan amounts or their USD equivalents as at that date. The notional amount changes according to a fixed amortised schedule with a notional amount of USD97,434,000 or JPY11,127,257,000 as at 31 December 2007. The cross currency interest rate swap contract is carried as an asset when the fair value is positive and a liability when the fair value is negative as at each balance sheet date. The fair value of the cross currency interest rate swap contract as of 31 December 2007 and 2006 is detailed as follows:

Group and Company

	2007 RMB'000	2006 RMB'000
Cross currency interest rate swap contract	**(6,136)**	(25,641)

38 OBLIGATIONS UNDER FINANCE LEASE

The Group has finance lease contracts for certain computer equipment with a CNOOC group company. The lease has a term of renewal, but no purchase option and escalation clauses. Renewals are at the option of the Group.

As at 31 December 2007, the future minimum lease payments under finance leases and the present value of the minimum lease payments are as follows:

	Minimum lease payments RMB'000	Present value of minimum lease payments RMB'000
Amounts payable:		
Within one year (note 33)	511	503
In the second year (note 33)	259	241
Total minimum finance lease payments	770	744
Future finance charges	(26)	
Total net finance lease payables	744	

39 NOTES TO THE CONSOLIDATED CASH FLOW STATMENT

(a) Dissolution of a subsidiary

Subsequent to the acquisition of Tianye Chemical, one of its subsidiaries, Inner Mongolia Jie Da Chemical Co., Ltd. ("Jie Da"), was declared bankrupt in March 2006. As at the date of Jie Da's bankruptcy, the carrying amounts of the assets and liabilities of Jie Da were as follows:

	Notes	2006 RMB'000
Net liabilities disposed of:		
Property, plant and equipment	15	1,021
Trade receivables		220
Prepayments, deposits and other receivables		361
Inventories		246
Trade payables		(3,656)
Other payables and accruals		(1,338)
		(3,146)
Group's receivables written off		2,539
Gain on dissolution of a subsidiary	5	586
Net outflow of cash and cash equivalents from dissolution of a subsidiary		(21)

(b) Business combination

In November and December 2005, the Company entered into an equity transfer agreement with each of the four equity holders of Tianye Chemical to acquire a 90% equity interest in Tianye Chemical for an aggregate cash consideration of RMB964,641,000 (the "Acquisition"). The cash consideration was payable to three of the equity holders which together held an 80.92% equity interests in Tianye Chemical. The remaining 9.08% equity interest in Tianye Chemical was transferred from the SASAC of the Inner Mongolia Autonomous Region People's Government to the Company at nil consideration. The transfer of the 9.08% equity interest in Tianye Chemical has given rise to a PRC corporate income tax provision of RMB8,120,000, which was capitalised as part of the Company's investment in Tianye Chemical.

Out of the total cash consideration of RMB964,641,000 paid for the acquisition of equity interests in Tianye Chemical by the Company, an amount of RMB891,118,000 for the acquisition of a 74.74% equity interest in Tianye Chemical from an equity holder was paid on 19 January 2006. The remaining cash consideration of RMB73,523,000 for the acquisition of a combined 6.18% equity interest in Tianye Chemical from the other two equity holders was fully paid on 7 March 2006.

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Business combination (continued)

Tianye Chemical recorded an amount of interest-bearing bank loans denominated in Japanese Yen borrowed from the Export-Import Bank of China (the "Japanese Yen Loans"), related penalty interest and late fee payables thereon due to the late repayment of the Japanese Yen Loans (collectively the "Japanese Yen Loan Obligations") as at 19 January 2006. In addition, it also had an amount due to theInner Mongolia Finance Bureau ("Finance Bureau") as at 19 January 2006 arising from the previous settlement of part of the Japanese Yen Loan obligations with the Export-Import Bank of China by the Finance Bureau on behalf of Tianye Chemical. Pursuant to the document Caijin [2006] No.3 issued by the Ministry of Finance on 12 January 2006 (the "MOF Document"), there was a waiver of the entire penalty interest and late fee payables, and 50% of certain related bank charges included in Tianye Chemical's Japanese Yen Loan Obligations as at 31 December 2005 (the "Waiver"). In connection with the Acquisition, and pursuant to the MOF Document, on 28 February 2006, Tianye Chemical entered into four tripartite loan transfer agreements with the Export-Import Bank of China and the Finance Bureau under which it transferred its Japanese Yen Loan Obligations to the Finance Bureau. After the completion of the above-mentioned transfer, Tianye Chemical, however, was required to pay the Finance Bureau 50% of the Japanese Yen Loan Obligations after the Waiver. Consequently, the Finance Bureau has in effect agreed to assume 50% of Tianye Chemical's Japanese Yen Loan Obligations after the Waiver. In addition, in connection with the four tripartite loan transfer agreements, the Finance Bureau has waived 50% of the amount due to it by Tianye Chemical arising from its previous settlement of part of the Japanese Yen Loan obligations on behalf of Tianye Chemical.

Upon completion of the aforesaid four tripartite loan transfer agreements and as a result of the waivers by the Finance Bureau, in February 2006, the total obligations of Tianye Chemical in respect of the Japanese Yen Loans, related penalty interest and late fee payables, and the amount due to the Finance Bureau were reduced by a total amount of RMB1,019,296,000, from an aggregate amount of RMB1,917,822,000 as at 19 January 2006 to RMB898,526,000, which was fully repaid to the Finance Bureau during the year.

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Business combination (continued)

The fair values of the identifiable assets and liabilities of Tianye Chemical as at the date of acquisition (i.e. 19 January 2006) and the corresponding carrying amounts immediately before the Acquisition were as follows:

	Notes	2006 Fair value recognised on acquisition RMB'000	2006 Carrying amount RMB'000
Property, plant and equipment	15	2,367,433	2,332,900
Prepaid land lease payments	17	249,659	80,624
Intangible assets	18	968	968
Deferred tax assets	23	27,850	27,850
Inventories		90,990	87,617
Trade receivables		11,158	11,158
Bills receivable		12,221	12,221
Prepayments, deposits and other receivables		12,204	12,204
Pledged bank deposits		20,918	20,918
Non-pledged time deposits with original maturity of three months or more when acquired		100,000	100,000
Cash and cash equivalents		72,396	72,396
Trade payables		(5,064)	(5,064)
Other payables and accruals		(1,087,772)	(1,087,772)
Interest-bearing bank and other borrowings		(1,346)	(1,346)
Benefits liability		(80,036)	(80,036)
Income tax payable		(6,466)	(6,466)
Deferred tax liabilities	23	(61,017)	-
Minority interests		(173,716)	(159,124)
		1,550,380	1,419,048
Excess over the cost of a business combination recognised in the consolidated income statement		(577,619)	
		972,761	
Satisfied by:			
Cash		964,641	
Income tax payable		8,120	
		972,761	

In the opinion of the management, the Waiver formed part of the acquisition of Tianye Chemical by the Company. Accordingly, the effect of the Waiver was taken into consideration in determining the fair values of the identifiable assets and liabilities of Tianye Chemical as at the date of the acquisition, thereby giving rise to the excess over the cost of a business combination recognised in the Acquisition of RMB577,619,000.

39 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Business combination (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition is as follows:

	2006 RMB'000
Cash consideration	(964,641)
Cash and cash equivalents acquired	72,396
Net outflow of cash and cash equivalents in respect of the Acquisition	(892,245)

The results of Tianye Chemical have been consolidated into the Group since 19 January 2006. Since its acquisition, Tianye Chemical has contributed RMB1,009,041,000 to the Group's consolidated turnover and RMB141,183,000 to the consolidated profit for the year ended 31 December 2006.

Had the business combination taken place at the beginning of the year, the consolidated turnover and consolidated profit of the Group for the year ended 31 December 2006 would have been RMB3,533,506,000 and RMB1,676,534,000, respectively.

40 OPERATING LEASE ARRANGEMENTS

(i) As lessor

Group

As at 31 December 2007 and 2006, the Group had no significant future minimum lease receivables under non-cancellable operating leases.

Company

The Company leases certain of its buildings under operating lease arrangements with leases negotiated for terms from one year to twenty years to its subsidiaries.

As at 31 December 2007 and 2006, the Company had total future minimum lease receivables from the subsidiaries of the Company under non-cancellable operating leases falling due as follows:

	2007 RMB'000	2006 RMB'000
Within one year	**551**	536
In the second to fifth years, inclusive	**2,205**	2,143
After five years	**4,753**	5,021
	7,509	7,700

(ii) As lessee

As at 31 December 2007 and 2006, the Group and the Company had no significant future minimum lease payments under non-cancellable operating leases.

41 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

Group

	2007 RMB'000	2006 RMB'000
Contracted, but not provided for:		
- Acquisition of land and buildings	**8,458**	46,826
- Acquisition of plant and machinery	**108,282**	5,147
	116,740	51,973
Authorised, but not contracted for:		
- Acquisition of land and buildings	**5,993**	132,267
- Acquisition of plant and machinery	**1,513,142**	3,986,496
	1,519,135	4,118,763
	1,635,875	4,170,736

Company

	2007 RMB'000	2006 RMB'000
Contracted, but not provided for:		
- Acquisition of land and buildings	**272**	-
- Acquisition of plant and machinery	**72,594**	5,043
	72,866	5,043
Authorised, but not contracted for:		
- Acquisition of land and buildings	**1,485**	32,200
- Acquisition of plant and machinery	**65,921**	3,949,653
	67,406	3,981,853
	140,272	3,986,896

41 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(i) Capital commitments (continued)

Company (continued)

	2007 RMB'000	2006 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- A jointly-controlled entity	**179,781**	341,066
	179,781	341,066

42 RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

(1) Recurring

	Notes	2007 RMB'000	2006 RMB'000
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	**28,432**	14,361
Provision of transportation services	(ii)	**3,068**	-
Provision of packaging and assembling services	(iii)	**474**	-
(b) Associates			
Sale of goods	(i)	**251,154**	260,346
Provision of transportation services	(ii)	**-**	11,361
(c) A jointly-controlled entity			
Provision of transportation services	(ii)	**2,697**	-
Provision of rental services	(iii)	**132**	132
Provision of packaging and assembling services	(iii)	**5,393**	-
Provision of logistics services	(iii)	**3,527**	-
Sale of raw materials	(iii)	**4,553**	-

42 RELATED PARTY TRANSACTIONS (continued)

(1) Recurring (continued)

	Notes	2007 RMB'000	2006 RMB'000
(B) Included in cost of sales and other expenses			
(a) The ultimate holding company			
Labour services	(vi)	**3,819**	-
Network services	(vi)	**4,662**	-
(b) CNOOC group companies			
Purchase of raw materials	(i)	**558,754**	433,032
Transportation services	(ii)	**21,188**	9,697
Lease of offices	(iv)	**3,398**	1,895
Construction and installation services	(v)	**55,348**	88,921
Labour services	(vi)	**20,835**	8,233
Network services	(vi)	**4,081**	5,839
Logistics services	(vi)	**620**	-
(c) Associates			
Purchase of raw materials	(i)	**10,391**	-
(d) A jointly-controlled entity			
Purchase of raw materials	(i)	**10,956**	-
(C) Included in interest income/expense			
CNOOC Finance			
Interest income	(vii)	**4,721**	6,895
Interest expense	(vii)	**629**	1,546

42 RELATED PARTY TRANSACTIONS (continued)

(1) Recurring (continued)

Notes:

(i) These transactions were conducted in accordance with terms agreed between the Group, its associates and CNOOC group companies.

(ii) Transportation income was based on mutually agreed terms with reference to the market rate.

(iii) Income from these sales and services was determined by mutually agreed terms.

(iv) Rental fees were based on mutually agreed terms with reference to the market rate.

(v) The construction and installation fees were determined by market prices.

(vi) These services were charged based on mutually agreed terms.

(vii) Interest income/expense was based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.

The amounts of transactions with a jointly-controlled entity 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.

Except the transactions with a jointly-controlled entity, the sale of goods to associates, the purchase of raw materials from an associate and the provision of transportation services to an associate, the above recurring related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Exchange Listing Rules.

(2) Non-recurring

	Notes	2007 RMB'000	2006 RMB'000
Provision of utilities to a CNOOC group company	(i)	**684**	14,461
Interest expense paid to the ultimate holding company	(ii)	**-**	8,897
Fees and charges paid to a CNOOC group company	(iii)	**657**	5,569
Sale of goods to the ultimate holding company	(iv)	**-**	3,719

42 RELATED PARTY TRANSACTIONS (continued)

(2) Non-recurring (continued)

Notes:

(i) The transaction was conducted in accordance with terms agreed between the Group and CNOOC group companies.

(ii) Interest expense was charged at a contract rate of 2.07% per annum.

(iii) Fees and charges were based on mutually agreed terms.

(iv) These transactions were conducted in accordance with terms agreed between the Group and its ultimate holding company.

(3) Balances with related parties

Except for the balances with CNOOC Finance, one of the CNOOC group companies, the balances due from/to related parties of the Group and the Company mainly resulted from trading transactions and miscellaneous amounts reimbursable by/to these related parties. Further details are set out in notes 25, 27, 34, 35 and 36 to the financial statements.

Group

	Due from related parties		Due to related parties	
	2007	2006	2007	2006
	31 December	31 December	31 December	31 December
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	**-**	-	**8,480**	-
CNOOC group companies				
(excluding CNOOC Finance)	**6,812**	6,166	**24,328**	96,160
Associates	**1,934**	-	**448**	5,303
A jointly-controlled entity	**7,536**	9,713	**5,654**	7,051

42 RELATED PARTY TRANSACTIONS (continued)

(3) Balances with related parties (continued)

Company

	Due from related parties		Due to related parties	
	2007 31 December RMB'000	2006 31 December RMB'000	2007 31 December RMB'000	2006 31 December RMB'000
The ultimate holding company	**-**	-	**8,480**	-
CNOOC group companies (excluding CNOOC Finance)	**5,725**	5,666	**9,090**	36,841
Associates	**-**	-	**-**	4,925
A jointly-controlled entity	**13,255**	7,014	**14,136**	17,629

As at 31 December 2007, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	2007 31 December RMB'000	2006 31 December RMB'000
Deposits placed by the Group with CNOOC Finance	**184,346**	259,866

Company

	2007 31 December RMB'000	2006 31 December RMB'000
Deposit placed by the Company with CNOOC Finance	**69,705**	62,757

Further details of the deposits placed with CNOOC Finance are set out in note 29 to the financial statements.

42 RELATED PARTY TRANSACTIONS (continued)

(4) Compensation of key management personnel of the Group

	2007 RMB'000	2006 RMB'000
Short-term employee benefits	**3,528**	4,696
Post-employment benefits	**213**	290
Total compensation paid to key management personnel	**3,741**	4,986

Further details of directors' and supervisors' emoluments are set out in note 9 to the financial statements.

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the "State-owned Enterprises"). During the year, the Group had transactions with the State-owned Enterprises including, but not limited to, the sale of fertilisers and purchases of raw materials. The management considers 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 management is of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments other than derivatives comprise bank loans, other interest-bearing loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including a cross currency interest rate swap contract and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group monitors interest rate exposure and entered into a cross currency interest rate swap contract in which the Group agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount, though the swap contract did not meet the criteria for hedge accounting.

As at 31 December 2007, after taking into account the offset of the interest rate swap, the Group's bank and other borrowings bearing interest of variable rates amounted to RMB209,002,000 (2006: RMB566,006,000), or approximately 74% (2006: 66%) of the Group's interest-bearing borrowings.

The interest rates and the terms of repayment of the Group's bank and other borrowings are disclosed in note 33 to the financial statements.

(ii) Foreign currency risk

Currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than Group's functional currency. Approximately 5% (2006: 2%) of the Group's sales are denominated in currencies other than functional currency of the Group.

The Group's monetary assets, loans and transactions are principally denominated in RMB, USD and JPY. The Group is exposed to foreign currency risk arising from the changes in exchange rates of JPY and USD against RMB. At present, the Group reduces its exposure to foreign exchange fluctuations by entering into a cross currency interest rate swap contract and forward currency contracts to partially offset against future repayments of certain JPY and USD denominated loans and their related interest payments.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk

The carrying amounts of the Group's cash and cash equivalents, available-for-sale investments, trade receivables, other receivables and other current assets except for prepayments and tax recoverable represent the Group's maximum exposure to credit risk in relation to its financial assets.

The majority of the Group's trade receivables are related to the sale of fertilisers and methanol. The sale of fertilisers is normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and only long-standing customers are granted with credit terms. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. As at the balance sheet date, 0% (2006: 0%) and 0% (2006: 4%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

No other financial assets carry a significant exposure to credit risk.

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivable and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and bonds. As at 31 December 2007, RMB101,015,000 (2006:RMB476,579,000), or 36% (2006: 55%) of the Group's debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debt or issue new shares. No changes were made in the objectives, policies or processes in 2007 and 2006. The Group monitors capital on the basis of the debt to capitalisation ratio, which is calculated as interest bearing debts divided by total capital plus interest bearing debts.

	2007 RMB'000	2006 RMB'000
Interest-bearing loans and borrowings	**281,056**	861,372
Equity attributable to equity holders	**8,086,110**	6,708,867
Total capital	**8,482,540**	7,048,912
Capital and net debt	**8,763,596**	7,910,284
Gearing ratio	**3.2%**	10.9%

44 POST BALANCE SHEET EVENTS

On 25 February 2008, the extraordinary general shareholders' meeting approved the proposed H share appreciation rights scheme. The scheme took effect upon the approval.

45 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issuance by the board of directors on 30 March 2008.

Glossary

ammonia	NH_3, a colorless, combustible alkaline gas. Ammonia is a compound of nitrogen and hydrogen, it is used extensively for the manufacture of fertilizers and a wide variety of nitrogen-containing organic and inorganic chemicals;
apparent consumption	consumption of a particular product that is derived from production of the product plus product imports less product exports;
BB fertilizers	bulk blended fertilizers, according to the PRC national standard being a chemical compound containing at least two primary plant nutrients among N, P and K;
compound fertilizers	Chemically obtained fertilizer, composed of at least two primary plant nutrients, also contained secondary nutrients.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization, it does not account for interest income, income tax expense, interest expense, the excess over the cost of a business, or non-operating cash expenses such as depreciation, amortization, gains and losses for foreign exchange and change in fair value of derivative financial instruments.
formaldehyde	CH_2O, a colorless, poisonous gas, made by the oxidation of methanol;
methanol	CH_3OH, or methyl alcohol, or wood alcohol, a colorless, flammable liquid, produced synthetically by the direct combination of hydrogen and carbon monoxide gases, heated under pressure in the presence of a catalyst;
natural gas	colorless, highly flammable gaseous hydrocarbon consisting primarily of methane and ethane. It is a type of petroleum that commonly occurs in association with crude oil. Natural gas is often found dissolved in oil at the high pressures existing in a reservoir, and it also can be present as a gas cap above the oil;
P fertilizer or phosphate-based fertilizer	a fertilizer containing only phosphorus (P) as the main nutrient, common examples include SSP and TSP;
polyoxymethylene (POM)	$-(-O-CH_2-)n-$, also known as acetal resin, an engineering plastic used to make gears, bushings and other mechanical parts. It is a thermoplastic with good physical and processing properties;
urea	$H_2N-CO-NH_2$, nitrogen fertilizer formed by reacting ammonia with carbon dioxide at high pressure (containing 46% nitrogen);
utilization rate	a percentage calculated by dividing the actual annual production volume by the designed annual production volume.

Company Information

Registered Office	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC
Principal place of business in the PRC	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC
Representative Office in Hong Kong	65/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong
Joint Company Secretaries	QUAN Changsheng LEE Tze Leung, Raymond(ACCA,CPA)
Qualified Accountant	LEE Tze Leung, Raymond(ACCA,CPA)
Authorized representatives	YANG Yexin No. 301, Building 5,12 Yongan Road, Basuo Town, Dongfang City Hainan Province, the PRC QUAN Changsheng No. 101, Building 8,12 Yongan Road, Basuo Town, Dongfang City Hainan Province, the PRC
Alternate authorized representative	ZHONG Yingxin 8D, Manrich Court 33, St. Francis Street, Wanchai, Hong Kong
Principal banker	Bank of China, Hainan Branch
Auditor	Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre, 8 Finance Street, Central Hong Kong
Hong Kong & US law legal adviser	Baker & Mckenzie 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
Investor Relations/Public Relations	
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Webiste	www.chinabluechem.com.cn
Stock Code	Hong Kong Stock Exchange: 3983