Annual Report 2008

HKSE CODE：3983

中海石油化学股份有限公司
China BlueChemical Ltd.

CONTENTS

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 People's Republic of China (the "PRC"), China BlueChem's production facilities are located in Hainan Province, the Inner Mongolian Autonomous Region and Hubei Province. Its total designed annual production capacity amounts to 1,840,000 tonnes of urea, 800,000 tonnes of methanol and 500,000 tonnes of phosphate fertilisers. On 29 September 2006, China BlueChem was 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 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.

Financial Highlights

Selected Consolidated Income Statement Data

For the year ended 31 December, RMB'million

	2004	2005	2006	2007	2008
Revenue	2,027.3	2,371.0	3,465.8	4,340.4	5,518.2
Cost of sales	(1,095.0)	(1,293.1)	(2,164.2)	(2,552.1)	(3,250.0)
Gross profit	932.3	1,077.9	1,301.6	1,788.3	2,268.2
Other income and gains	40.7	1.7	125.6	74.0	127.8
Excess over the cost of a business combination	–	–	577.6	–	–
Selling and distribution costs	(31.1)	(15.4)	(33.9)	(70.2)	(82.5)
Administrative expenses	(76.6)	(130.7)	(199.5)	(223.8)	(280.8)
Other expenses	(28.8)	(103.1)	(34.5)	(51.2)	(28.7)
Finance revenue	11.8	24.4	119.8	29.3	25.5
Finance costs	(15.0)	(15.5)	(61.7)	(18.3)	(12.1)
Exchange gain /(loss), net	(40.0)	189.5	(1.5)	14.4	14.9
Share of profits of associates	1.6	1.9	1.8	4.0	4.7
Profit before tax	794.9	1,030.7	1,795.3	1,546.5	2,037.0
Income tax expense	(26.9)	(47.5)	(120.1)	(67.1)	(176.1)
Profit for the year	768.0	983.2	1,675.2	1,479.4	1,860.9
Profit attributable to equity holders of the parent	720.5	943.8	1,645.8	1,448.3	1,635.3
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	0.24	0.31	0.48	0.31	0.35

Selected Consolidated Balance Sheet Data

As at 31 December, RMB'million

	2004	2005	2006	2007	2008
Assets					
Non-current assets	3,109.3	3,617.5	6,331.1	5,986.0	6,668.8
Current assets	1,734.7	2,535.5	2,779.8	3,711.5	5,030.8
Total assets	4,844.0	6,153.0	9,110.9	9,697.5	11,699.6
Equity and liabilities					
Total equity	2,884.3	4,077.6	7,048.9	8,482.5	10,326.8
Non-current liabilities	1,312.7	1,052.8	563.8	352.4	410.0
Current liabilities	647.0	1,022.6	1,498.2	862.6	962.7
Total equity and liabilities	4,844.0	6,153.0	9,110.9	9,697.5	11,699.6

Operational Highlights

Production volume

Unit: tonne

Name of plant	For the year ended 31 December 2008	For the year ended 31 December 2007	Change (%)
Urea			
Fudao Phase I	564,755	604,682	(6.5)
Fudao Phase II	870,765	689,484	26.3
CNOOC Tianye	513,603	550,822	(6.8)
Total	1,949,123	1,844,988	5.6
Methanol			
CNOOC Jiantao	516,037	316,489	63.1
CNOOC Tianye	170,647	187,341	(8.9)
Total	686,684	503,830	36.3

Utilisation rate

Unit: %

Name of plant	For the year ended 31 December 2008	For the year ended 31 December 2007	Change
Urea			
Fudao Phase I	108.6	116.3	(7.7)
Fudao Phase II	108.8	86.2	22.6
CNOOC Tianye	98.8	105.9	(7.1)
Total	105.9	100.3	5.6
Methanol			
CNOOC Jiantao	100.1	87.9	12.2
CNOOC Tianye	85.3	93.7	(8.4)
Total	96.4	90.0	7.0

Sales volume

Unit: tonne

Name of plant	For the year ended 31 December 2008	For the year ended 31 December 2007	Change (%)
Urea			
Fudao Phase I	555,565	606,415	(8.4)
Fudao Phase II	816,951	695,418	17.5
CNOOC Tianye	509,114	554,864	(8.2)
Total	1,881,630	1,856,681	1.3
Methanol			
CNOOC Jiantao	505,918	328,194	54.2
CNOOC Tianye	169,159	181,138	(6.6)
Total	675,077	509,332	32.5

Note: CNOOC Jiantao's results in 2007 were consolidated into the Group's results on a 60% shareholding basis, and its production volume and sales volume of methanol in 2007 was 527,482 and 546,990 tonnes, respectively. While in 2008, the results from January to April were consolidated into the Group's results on a 60% shareholding basis, and the results from May to December 2008 were consolidated on a 100% shareholding basis. Its production volume and sales volume of methanol in 2008 was 600,527 and 586,192 tonnes, respectively.

Chairman's Statement

Dear Shareholders,

The year of 2008 was unusual for our company. During the year, we properly dealt with dramatic changes in the business environment and achieved steady growth. Our development strategy became highly recognized in the capital market, with share prices outperforming the market.

Within the reporting period, the board of directors of the Company (the "Board") continued its commitment to enhance the standards of corporate governance, build a thorough enterprise risk management framework and earnestly fulfill its responsibility in information disclosure; the proposed caps in relation to continuing connected transactions for 2009 to 2011, having been considered by the Board and were approved at an extraordinary general meeting of our shareholders.

Although the impact of the global financial crisis on the fertiliser and chemical industry does not come to an end, we have seen that the PRC government places great importance in securing grain supply and will continue to provide strong support to the agricultural sector as it has done in 2008, and will also continue its support to the fertiliser sector in 2009. These measures will promote healthy and stable development of the PRC fertiliser sector. A series of policies released by the PRC government to stimulate the economy and expand domestic demand will also help the chemical industry to recover and grow. As methanol is used as an important basic material for chemical industry and an alternative energy, the demand for methanol will recover gradually. Being one of the largest and most efficient nitrogenous fertiliser and methanol producers in China in terms of production volume and energy consumption, our company will definitely benefit from the sustained growth of the PRC economy.

In conclusion, I would like to, on behalf of the Board, express my gratitude to our shareholders for your trust and support, to the management and staff for your excellent contributions, and hope that our company will continue to present outstanding performance results in 2009.

Chairman

WU Mengfei

CEO's Report

Dear Shareholders,

In 2008, the Company, under the leadership of the Board, persisted in steady operations to face dramatically changing market environments and achieved satisfactory operating results by strengthening production management and tightening cost control.

Continuous Safe and Stable Operation of Major Production Facilities

During the reporting period, the Company further strengthened the refined management of production. The standard of production management was improved and enhanced on a continuing basis. The urea plant of Fudao Phase II set the longest continuous operation record since the beginning of its operation and was the best among all of the Company's production plants; the methanol plant of CNOOC Jiantao also set its own longest operation record since it was put into operation. The urea plant of Fudao Phase I achieved a safe and stable operation after a major overhaul completed earlier in the year.

The continuous and long cycle operation of major plants ensure the Company's achievement of its annual production target, effective reduction in production costs and enhancement of the competitiveness of the Company's products. These help to build a solid foundation for achieving outstanding results of the Company.

Continuous and Steady Growth of Business Results

During the first three quarters of 2008 when the prices of urea and methanol were high, the Company took advantage of the favorable market opportunity to achieve a remarkable sales record. When the global and domestic market prices of urea and methanol decreased rapidly due to the financial crisis towards the end of the third quarter, the Company adjusted its sales strategies in a timely manner to effectively mitigate the impact on the sale of the Company's products brought by the market downturn.

In 2008, the revenue of the Group was RMB5,518.2 million, representing an increase of 27.14% over the previous year; the realized net profit attributable to the equity holders of the parent company amounted to RMB1,635.3 million, representing an increase 12.91% over the previous year.

Breakthrough in the Acquisition of Phosphate Resources and Phosphate Fertilisers

During the reporting period, China BlueChemical Yichang Mining Ltd. (Yichang Mining), a 51% owned subsidiary of the Company, was officially established on 7 August and commenced its acquisition of exploration concession right and an initial research and planning in relation to the phosphate resource development in the west of the Shanshuya Phosphate Mine ("Shanshuya Mine") in Yichang. The exploration concession right was obtained by Yichang Mining at the end of the year.

With sufficient study and preparation at the initial stage, the Company completed the acquisition of the phosphate deposits and phosphate fertiliser assets in the Hubei Dayukou area and obtained effective control over Hubei Dayukou Chemical Ltd. and ZHJ Mining Co. Ltd. as at 24 March 2009.

Upon completion of the acquisition, the Company expects to build Hubei Dayukou into one of the major phosphate production bases in the PRC.

Major Projects Progress Smoothly

Upon approval in June 2008, the construction of Company's new methanol project in Hainan (the Hainan Methanol Project) has been commenced.

The construction of the Company's polyoxymethylene project in Inner Mongolia (the Inner Mongolia POM Project) is progressing on schedule.

Coal Chemical and Coal Resources Cooperation Projects Achieved Staged Progress

To support our fertiliser business strategy, the Company has continued with the preliminary work for the coal resources projects and the cost effective coal-based urea projects in Shanxi and Inner Mongolia. In addition, China BlueChemical Baotou Coal Chemical Co., Ltd. was established in Baotou, Inner Mongolia in September 2008, to seek coal resources for the sustainable development of the Company.

Attention to Environmental Protection and Remarkable Performance in Energy-Saving and Pollutants Discharge Reduction

The Company attaches great importance to environmental protection and is committed to build a resource-conserving and environment-friendly enterprise. During the reporting period, the Company increased investment in energy-saving and pollutants discharge reduction programs. The energy saved was equivalent to about 24,000 tonnes of standard coal through projects like comprehensive upgrade of production units and reclaimed water recycling, which minimized pollution and also achieved effective utilisation of resources.

The Company was awarded with the honorary title of "Advanced Unit in Energy -Saving and Pollutants Discharge Reduction" by the China Petroleum and Chemical Industry Association.

Strengthened Fundamental Management and Continuous Improvement in Operation

During the reporting period, the Company optimized the existing business structure to make it more practicable and controllable. The Company also launched an enterprise risk management program and systemized and institutionalized its internal control and risk management structure. As a result of the effective strengthening of fundamental management, the overall operation of the Company was improved continuously and the Company is able to effectively cope with the challenges posed by the complex and difficult business environment.

Actively Fulfilling Social Responsibility and Enhancement of Corporate Image

During the reporting period, the Company made great contributions to assist the agriculture sector, various education programs and also support the poor, underprivileged and disaster relief efforts, such efforts helped the Company to win wide recognition and respect from all social circles and establish a positive corporate image.

The Company was honored as "Top Ten Models in Fulfilling Corporate Social Responsibility in Hainan Province" in 2008.

In 2009, the global financial crisis will not only bring challenges to the business operations of the Company, but also present it with development opportunities. The management will make careful arrangements in areas such as production and sales, capital management, cost control, project construction and acquisition and restructuring, and make continuous efforts in preventing and dealing with various risks present to the Company with an aim to maintain the steady operation and healthy development of all businesses.

Last but not least, I would like to, on behalf of the management, express my sincere gratitude to all the shareholders and directors for their trust and support over the years, and extend my sincere appreciation to all fellow colleagues for their hard work and selfless devotion. In the coming year, we will, with firm commitment, meet any challenge present to us and put in our best efforts in a hope to build the Company into the leader in the fertiliser sector of the PRC.

YANG Yexin

CEO & President

Management Discussion and Analysis

Sector review and Outlook

Urea Sector

In 2008, the PRC government continued to emphasise the importance of grain production and the safety of food supply, and strengthened its commitment to agricultural industry. The related annual expenditure amounted to RMB595.5 billion, representing an increase of 37.9% as compared to 2007, and the minimum purchase prices for food were substantially raised during the year. These measures played a significant role in promoting farmers' initiative to grow crops.

In 2008, the PRC government continued to grant preferential rates in areas such as natural gas, electricity, transportation, and taxation for fertiliser producing enterprises with a view to safeguard agricultural production.

In 2008, domestic urea production exceeded 56 million tonnes (in real terms), representing an increase of about 3.7% compared to 2007, which signified a much slower increase in fertiliser production.

During the first three quarters of 2008, due to a substantial increase in the export of urea due to globally high prices of urea, and increased costs of production of urea caused by an increase in domestic coal prices, the domestic price of urea persistently increased and remained high. In order to secure domestic urea supply, the PRC government raised the urea export tariff with effect on 20 April 2008 and 1 September 2008 respectively. However, starting from the end of the third quarter, the global urea prices slumped and the urea demand slowed in the low season, as a results, the urea prices dropped sharply in the domestic market. On 1 December, the PRC government adjusted the export tariff of fertiliser, and lowered the urea export tariff in the low season substantially.

In 2009, the PRC government will persistently reinforce and strengthen the fundamental status of agriculture and promote the steady development of agriculture. Based on its increased commitment to the agricultural industry in 2008, the PRC government will continue to substantially increase commitment to the agricultural industry and the related subsidies for this sector.

To ensure the steady and sound development of the domestic fertiliser industry, the PRC government has released a series of policies in early 2009, and has continued to grant fertiliser producers favourable pricing for natural gas, electricity and transportation services, as well as preferential tax treatment. From 25 January 2009, the urea ex-factory price caps was abolished with the view to gradually establishing a market-driven fertiliser pricing mechanism. This will provide a level playing field for medium and large urea producers in the PRC.

Given that more than 70% of domestic urea producers use coal, mainly anthracite, as a major raw material, it is expected that urea prices will maintain at a high level as anthracite production and supply are limited even if domestic coal supply will be sufficient. Urea producing enterprises which use anthracite as a raw material will face comparatively high cost pressures.

We expect that, considering the present domestic policies, urea supply and demand will reach a balance in the domestic market in 2009. Meanwhile, the relatively high production costs of coal-based urea producing enterprises will provide critical support to domestic urea price.

Methanol Sector

During the first three quarters of 2008, domestic methanol price remained high as demand increased significantly, caused by robust demand for alternative energy such as dimethyl ether as a result of soaring global fuel prices, and the expansion in downstream chemical sector. However, from the fourth quarter onwards, as global fuel prices slumped dramatically resulting from the global financial crisis affecting the real economy, the demand for alternative energy and downstream chemical products decreased rapidly and methanol prices fell sharply. At the same time, domestic coalbased methanol producers, adversely affected by the import of methanol, started to downsize or suspend production in order to cut losses. Domestic methanol capacity utilisation rate fell below 50% by the end of the year.

Throughout 2008, the production of methanol in the PRC exceeded 11 million tonnes, representing an increase of approximately 6% as compared to 2007. Despite the influence of the financial crisis, domestic demand for methanol increased to over 12.5 million tonnes or more than 14% as compared to 2007.

From 1 July 2008, the value added tax rate for dimethyl ether in the PRC was reduced from 17% to 13%. This will assist in promoting the sound development of dimethyl ether industry in the PRC in a long run.

In 2009, the PRC government introduced a series of policies and plans to stimulate the economy and boost domestic demand, which will contribute prominently to maintain the steady growth of the domestic economy and help with the recovery of the chemical industry. As methanol is an important basic material for chemicals production and alternative energy, demand for methanol will recover gradually. Methanol prices have recovered from the trough and will vary with global and domestic energy prices.

Business Review

Production Management

In 2008, the Company further strengthened the refined production management, and the standard of production management was improved and enhanced on a continuing basis. The urea plant of Fudao Phase II accomplished a continuous operation cycle of 313 days, which is the longest operation record since the beginning of its operation and the best among all of the Group's plants; the methanol plant of CNOOC Jiantao also set a record of continuous operation of 245 days, the longest cycle since it was put into operation; the urea plant of Fudao Phase I achieved a continuous operation cycle of 197 days after a major overhaul completed earlier in the year. The overall production management of the Group attained satisfactory performance.

Production information of the Group's various plants in 2008 are set out below:

	Year Ended 31 December			
	2008		2007	
	Production volume	Utilisation rate	Production volume	Utilisation rate
Name of plant	*(tonnes)*	*(%)*	*(tonnes)*	*(%)*
Fudao Phase I Urea plant	564,755	108.6	604,682	116.3
Fudao Phase II Urea plant	870,765	108.8	689,484	86.2
CNOOC Tianye Urea plant	513,603	98.8	550,822	105.9
Group total for urea	1,949,123	105.9	1,844,988	100.3
CNOOC Jiantao Methanol plant (Note)	516,037	100.1	316,489	87.9
CNOOC Tianye Methanol plant	170,647	85.3	187,341	93.7
Group total for methanol	686,684	96.4	503,830	90.0

Note: CNOOC Jiantao's results in 2007 were consolidated into the Group's results on a 60% shareholding basis, its production volume in 2007 was 527,482 tonnes; the results from January to April 2008 were consolidated into the Group's results on a 60% shareholding basis, the results from May to December 2008 were consolidated on a 100% shareholding basis; the production volume in 2008 was 600,527 tonnes.

Sales Management

During the first three quarters of 2008 when the prices of urea and methanol were high, the Group took advantage of the favourable market opportunity to achieve a remarkable sales record. When the global and domestic market prices of urea and methanol decreased rapidly due to the financial crisis towards the end of the third quarter, the Group adjusted the sales strategies in a timely manner to effectively mitigate the impact on the sale of the Company's products brought by the market downturn.

Urea

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

	Year ended 31 December			
	2008		2007	
	Volume	Percentage	Volume	Percentage
Sales Region	*(tonnes)*	*(%)*	*(tonnes)*	*(%)*
North-eastern China	303,595	16.1	92,620	5.0
Northern China	156,021	8.3	445,971	24.0
Eastern China	343,163	18.2	239,645	12.9
South-eastern China	82,336	4.4	39,352	2.1
Southern China	283,770	15.1	387,494	20.9
Hainan	512,709	27.3	187,343	10.1
International	200,036	10.6	464,076	25.0
Total	1,881,630	100.0	1,856,681	100.0

Methanol

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

	Year ended 31 December			
	2008		2007	
	Volume	Percentage	Volume	Percentage
Sales Region	*(tonnes)*	*(%)*	*(tonnes)*	*(%)*
North-eastern China	30,061	4.5	7,596	1.5
Northern China	107,403	15.9	136,950	26.9
Eastern China	55,459	8.2	112,979	22.2
South-eastern China	1,898	0.3	7,379	1.4
Southern China	380,367	56.3	116,554	22.9
Hainan	62,143	9.2	36,207	7.1
International	37,746	5.6	91,667	18.0
Total	675,077	100.0	509,332	100.0

Note: CNOOC Jiantao's results in 2007 were consolidated into the Group's results on a 60% shareholding basis, and its sales volume of methanol in 2007 was 546,990 tonnes; the results from January to April 2008 were consolidated into the Group's results on a 60% shareholding basis, the results from May to December 2008 were consolidated on a 100% shareholding basis; the sales volume of methanol in 2008 was 586,192 tonnes.

BB fertilisers

In 2008, the Group produced a total of 31,016 tonnes of BB fertilisers with sales volume of 30,611 tonnes.

Woven plastic bags

In 2008, the Group produced a total of 31.3 million woven plastic bags with sales volume of 32.4 million bags.

Sea-land logistics services

In 2008, the volume of freight handled by Hainan Basuo was 5.5 million tonnes.

Financial Review

Revenue

In 2008, the Group's revenue was RMB5,518.2 million, representing an increase of RMB1,177.8 million or 27.1%, from RMB4,340.4 million in 2007.

In 2008, the Group's revenue from the sales of urea and BB fertilisers was RMB3,647.1 million, representing an increase of RMB611.6 million or 20.1%, from RMB3,035.5 million in 2007. The increase was primarily attributable to: (1) the average selling price of urea increased by RMB277.6 per tonne and the sales volume increased by 24,949 tonnes, collectively contributing to an RMB562.3 million increase in revenue; and (2) the sales volume of BB fertilisers increased by 8,016 tonnes, contributing to an RMB49.3 million increase in revenue.

In 2008, the Group's revenue from the sale of methanol was RMB1,646.7 million, representing an increase of RMB501.1 million or 43.7%, from RMB1,145.6 million in 2007. The increase was primarily attributable to: (1) subsequent to the revision of the Memorandum and Articles of Association of CNOOC Jiantao, which came into effect on 29 April 2008, the Company obtained unilateral control of CNOOC Jiantao, and the revenue and sales volume of CNOOC Jiantao were fully consolidated into the Group's consolidated income statement from May to December 2008, while in 2007, only 60% of the respective revenue and sales volume were proportionately consolidated into the Group's consolidated income statement. Meanwhile, the sales volume of CNOOC Jiantao increased by 39,922 tonnes compared to 2007 and the average selling price of CNOOC Jiantao increased by RMB162.1 per tonne. These factors had collectively contributed to an RMB493.9 million increase in revenue from the sales of methanol; and (2) although the sales volume of CNOOC Tianye decreased by 12,123 tonnes compared to 2007, the average selling price of methanol of CNOOC Tianye increased by RMB186.9 per tonne compared to 2007, contributing to an RMB7.2 million increase in revenue.

In 2008, the revenue from the Group's other segments (mainly comprising port operations, provision of transportation services and the manufacture and sales of woven plastic bags) increased by RMB65.1 million. The increase was primarily attributable to an increase in the loading and transportation volume of 1.13 million tonnes in 2008 compared to 2007, which contributed to an RMB57.6 million increase in revenue.

Cost of sales

In 2008, the Group's cost of sales was RMB3,250.0 million, representing an increase of RMB697.8 million or 27.3%, from RMB2,552.2 million in 2007.

In 2008, the Group's cost of sales from the sale of urea and BB fertilisers was RMB2,210.6 million, representing an increase of RMB317.9 million or 16.8%, from RMB1,892.7 million in 2007. The increase was primarily attributable to: (1) an increase in sales tax of RMB170.0 million due to the direct export of urea by the Group in 2008; (2) an 69.7% increase of the average unit cost of coal used as fuel of CNOOC Tianye, an increase in the costs of phosphate and potash used for producing BB fertilisers, and an increase of maintenance costs which contributed to an overall increase of RMB108.2 million in cost of sales; and (3) an increase in the sales volume of BB fertilisers which totalled 8,016 tonnes, contributing to an RMB39.7 million increase in cost of sales.

In 2008, the Group's cost of sales from the sale of methanol was RMB835.1 million, representing an increase of RMB320.1 million or 62.2%, from RMB515.0 million in 2007. The increase was primarily attributable to: (1) the cost of sales of CNOOC Jiantao was fully consolidated into the Group's consolidated income statement from May to December 2008, while in 2007, only 60% of the respective cost of sales was proportionately consolidated into the Group's consolidated income statement. Meanwhile, the sales volume of CNOOC Jiantao increased by 39,922 tonnes relative to 2007. These had collectively contributed to an RMB239.9 million increase in cost of sales; and (2) an RMB0.4 per m^3 increase in CNOOC Tianye's average unit cost of natural gas for the production of methanol and an increase in maintenance costs which collectively contributed an RMB80.2 million increase in cost of sales.

In 2008, the Group's other costs of sales (mainly comprising the costs of port operations, provision of transportation services and the manufacture and sales of woven plastic bags) increased by RMB59.8 million. The increase was primarily attributable to: (1) an increase in the costs of raw materials for the production of woven plastic bags such as polypropylene during the first three quarters of 2008; and (2) an increase in transportation and port operation volume compared to 2007.

Gross profit

In 2008, the Group's gross profit was RMB2,268.2 million, representing an increase of RMB480.0 million or 26.8%, compared with RMB1,788.2 million in 2007.

The increase in gross profit in 2008 was primarily attributable to: (1) an increase in the selling prices of urea and methanol; and (2) the cost efficiency obtained through long cycles of operation of the three production plants located in Hainan. However, such increase was partially offset by an increase in the costs of raw materials such as natural gas used for the production of methanol and coal used as fuel by CNOOC Tianye, as well as a cost increase due to CNOOC Tianye's maintenance.

Other income and gains

In 2008, the Group's other income and gains were RMB127.8 million, representing an increase of RMB53.8 million or 72.7%, compared with RMB74.0 million in 2007. The increase was primarily attributable to: (1) an increase of RMB87.2 million in investment income received from entrusted investment products in 2008; and (2) investment income of RMB28.8 million was received by the Group in 2007 from the disposal of listed investments, while there was no such investment income in 2008.

Selling and distribution costs

In 2008, the Group's selling and distribution costs were RMB82.5 million, representing an increase of RMB12.3 million or 17.5%, compared with RMB70.2 million in 2007. The increase in selling and distribution costs was primarily attributable to: (1) an increase in the sales volume of methanol of CNOOC Jiantao, and the fact that CNOOC Jiantao's selling and distribution costs of methanol were fully consolidated into the Group's consolidated income statement from May to December 2008, which contributed to an RMB11.2 million increase in selling and distribution costs; and (2) soil testing and fertiliser prescription expenses incurred which amounted to RMB3.0 million.

Administrative expenses

In 2008, the Group's administrative expenses were RMB280.8 million, representing an increase of RMB57.0 million or 25.5%, from RMB223.8 million in 2007. The increase was primarily attributable to: (1) an increase in land-use tax rate with the implementation of the detailed rules regarding land-use tax in 2008, resulting in an increase of RMB20.3 million; (2) an increase in professional advisory expenses mainly related to the acquisition of fertilisers assets amounting to RMB11.0 million; and (3) the write-back of prior years' employee welfare payables which amounted to RMB17.0 million against administrative expenses pursuant to the implementation of China Accounting Standards in 2007.

Other expenses

In 2008, the Group's other expenses were RMB28.7 million, representing a decrease of RMB22.5 million or 43.9%, from RMB51.2 million in 2007. The decrease was primarily attributable to a loss of RMB2.0 million due to fair value changes of its derivative financial instruments in 2008, while the loss due to fair value changes of its derivative financial instruments in 2007 was RMB24.3 million.

Finance income and finance costs

In 2008, the Group's finance income was RMB25.5 million, representing a decrease of RMB3.7 million or 12.7%, from RMB29.2 million in 2007. The decrease was primarily attributable to the decrease of interest income which was in line with the decrease in the average balance of bank deposits.

In 2008, the Group's finance costs were RMB12.1 million, representing a decrease of RMB6.2 million or 33.9%, from RMB18.3 million in 2007. The decrease was primarily attributable to the Group's repayment of interest-bearing bank and other borrowings due within one year amounting to RMB101.0 million in 2008; relevant interest expenses decreased as a result of the decrease in the average balance of interest-bearing bank and other borrowings as compared to 2007.

Exchange gains, net

In 2008, the Group realised net exchange gains were RMB14.9 million, which was closely tied to those of 2007; the gains primarily consisted of exchange gains of RMB13.6 million derived from the US dollar loans of CNOOC Jiantao in 2008.

Income tax expense

In 2008, the Group's income tax expense was RMB176.1 million, representing an increase of RMB109.0 million or 162.4%, from RMB67.1 million in 2007. The increase was primarily attributable to: (1) the tax exemption period of CNOOC Tianye, ended in 2007, since which no other tax preferential policies applied. Therefore, with effect from 1 January 2008, a Corporate Income Tax ("CIT") rate of 25% was applied to CNOOC Tianye; (2) the Group's profit before tax increased in 2008, resulting in an increase in income tax expense; (3) the implementation of the New CIT Law with effect from 1 January 2008 increased the CIT rates for several subsidiaries of the Company, resulting in an increase in income tax expense; and (4) in 2007, the Group reversed its deferred tax liabilities amounting to RMB31.3 million due to the change in the statutory CIT rate, causing a decrease in income tax expense in 2007.

Net profit for the year

In 2008, the Group's net profit was RMB1,860.9 million, representing an increase of RMB381.5 million or 25.8%, from RMB1,479.4 million in 2007. The increase was primarily attributable to: (1) cost efficiency obtained through long cycles of operation of the Group's major production plants; and (2) an increase in the sales volume and average selling prices of urea and methanol.

Dividends

The board of directors of the Company recommended the payment of a final dividend of RMB0.095 per share for 2008, representing a total of RMB438.0 million. The recommendation will be subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Capital expenditure

The Group's capital expenditure in respect of property, plant and equipment and prepaid land lease payments in 2008 amounted to RMB777.4 million. The capital expenditure primarily consisted of the followings: (1) RMB370.4 million in relation to the Inner Mongolia Polyoxymethylene Project ("Inner Mongolia POM Project"), (2) RMB157.2 million in relation to the Hainan Methanol Project; and (3) RMB249.8 million in relation to renovation of facilities and procurement of equipments.

Pledge of assets

As at 31 December 2008, the Group had no pledge of assets.

Significant investments

As at 31 December 2008, the Group did not hold any significant investments.

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 for managing capital in 2008 and 2007. The gearing ratio of the Group as at 31 December 2008 (calculated as interest bearing liabilities divided by total capitalisation plus interest bearing liabilities) was 2.7%, representing a decrease of 0.5% as compared to 31 December 2007.

As at 31 December 2008, the Group's bank and other borrowings amounted to RMB9.4 million bearing fixed interest rate at 2.48% to 6.57%, while bank and other borrowings amounted to RMB280.4 million bearing floating interest rate at LIBOR+0.65%. As at 31 December 2008, the Group did not use any derivative financial instruments in mitigating the interest rate risk.

Cash and cash equivalents

The Group's cash and cash equivalents at the beginning of 2008 were RMB2,780.8 million. The net cash inflow from operating activities for the period was RMB2,399.7 million, net cash outflow from investing activities was RMB243.0 million, and net cash outflow from financing activities was RMB760.2 million. As at 31 December 2008, the Group's cash and cash equivalents were RMB4,177.3 million. The Group has sufficient cash flow to satisfy the capital needs of daily operation and future development.

Number, wages and salaries of employees

As of 31 December 2008, the Group had about 4,833 employees, the aggregate wages and salaries for the year 2008 paid for the employees was RMB288.6 million.

Market risk

The major market risk the Group is exposed to include changes in the sale prices of key products, changes in the costs of raw materials (mainly natural gas), fuel (mainly coal), and fluctuations in interest and exchange rates.

Commodity price risk

The Group is also exposed to commodity price risk arising from fluctuations in product sale prices and costs of raw materials and fuel.

Interest rate risk

The major market interest rate risk that the Group is exposed to includes the Group's long-term debt obligations which are subject to floating interest rates.

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. In 2008, Renminbi appreciated by 6.9% against the US dollar. The appreciation of Renminbi against the US dollar may have produced a double effect. The Group's revenue from sales of products may have declined as a result of the depreciation of the US dollar against Renminbi, the cost of import for equipments and raw materials may also have been reduced. In addition, the appreciation of Renminbi may have reduced the Group's indebtedness denominated in foreign currencies. As at 31 December 2008, the Group had repaid all of its Japanese Yen loan and was free of the foreign exchange risk resulting from the Japanese Yen against Renminbi.

Inflation and currency risk

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC increased by 5.9% in 2008. Such inflation in the PRC did not have a significant effect on the Group's operating results.

Liquidity risk

The Group monitors its risk exposure to shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables 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 2008, RMB77.8 million (2007 : RMB101.0 million), or 27% (2007 : 36%) 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.

Derivative financial instruments

In 2001, the Company entered into a cross currency interest rate swap contract with a financial institution to sell US dollars in exchange for Japanese Yen in order to partially offset the potential fluctuation in future repayments of certain Japanese Yen denominated loans and their related interest payments in US dollar equivalent.

Changes in the fair values of this non-hedging cross currency interest rate swap contract had been reported as other income and gains or other expenses in the consolidated income statement for the years ended 31 December 2008 and 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 2008 was nil as the outstanding Japanese Yen loan amounts were fully repaid during the year.

Post balance sheet events and contingent liabilities

As at 12 December 2008, the Company entered into an acquisition agreement with CNOOC under which the Company had agreed to purchase, and CNOOC had agreed to sell the 83.17% equity interest of Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") at a cash consideration of RMB1,081.0 million and the 100% equity interest of ZHJ Mining Company Limited ("ZHJ Mining") at a cash consideration of RMB181.8 million.

DYK Chemical is a company established in the PRC with limited liability in August 2005. It is principally engaged in phosphate mining and processing, and the sale and production of MAP and DAP fertiliser.

ZHJ Mining is a limited liability company established in the PRC in July 2006. Its main business activity is mining and sale of phosphate.

On 24 March 2009, the Industrial and Commercial Administration Bureau of Hubei Province approved the acquisition of DYK Chemical and ZHJ Mining and issued the company change notification, whereby the Company obtained control over DYK Chemical and ZHJ Mining.

In addition, the Group fully repaid its US dollar loan amounting to RMB280.4 million on 20 January 2009, including RMB212.0 million and RMB68.4 million stated as non-current bank loan and current bank loan respectively.

As at 31 December 2008, the Group has no material contingent liabilities.

Material litigation and arbitration

As at 31 December 2008, the Group was not involved in any material litigation or arbitration.

Material acquisition and disposal to the Company's subsidiaries

On 29 April 2008, the Company obtained approval from the Ministry of Commerce of the PRC with regard to the revisions of the Memorandum and Articles of Association for CNOOC Jiantao. CNOOC Jiantao had been accounted for as a jointly-controlled entity, because minority veto rights existed that kept the Company from controlling CNOOC Jiantao in which the Company holds 60% of the equity interest. As the minority veto rights lapsed through the revision of the Memorandum and Articles of Association, the Company obtained control over CNOOC Jiantao without transferring consideration with effect from 29 April 2008.

Other than the aforementioned acquisition of CNOOC Jiantao, the Group did not acquire or dispose any other subsidiaries during the year ended 31 December 2008.

Outlook

In 2009, the global financial crisis will not only bring challenges to the business operations of the Company, but will also present it with development opportunities. The Company will, after careful analysis and research on the current business environment, focus mainly on the following:

1. Carefully manage and ensure its existing principal production plants to operate safely and steadily for long continuing cycles, so as to successfully accomplish the annual business targets of the Group;

2. Advance the construction of the Hainan Methanol Project and the Inner Mongolia POM Project, and ensure that the constructions will progress as planned;

3. Complete the acquisition of the equity interest in Hubei Dayukou Chemical Ltd. and ZHJ Mining Company Limited, further promote the exploration of phosphorus resources of China Bluechem Yichang Mining Ltd. and conduct subsequent development planning and research, and based on such work, implement research and proposals in relation to the integration and the expansion of capacity of the above enterprises;

4. Advance the Shanxi coal-based urea project and the preliminary work in relation to other coal-based urea projects and its ancillary coal resources, and actively seek cooperation opportunities in areas such as coal, potash and phosphorus resources and further strengthen the resource base for the Group's business development;

5. Strictly implement cash, assets and liabilities management and satisfy the capital needs in line with the development of the Company; and

6. Consolidate the sales and distribution network of the Company and adopt unified sales management.

Quality, Health, Safety and Environmental Protection

In 2008, the Company continued to adhere to the philosophy of "safety first, focus on prevention". During the year, it enhanced quanlity control and improved the management of heath, safety and envionmental protection. As a result, the Company simultaneously enhanced safety, occupational health, environmental protection and economic efficiency.

Quality control

The Company ensured that it reached its quality standards by strictly implementing its quality control system.

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

Health, Safety and Environmental Protection (HSE)

In 2008, the Company regarded the continuous improvement of the health, safety and environmental protection system as its important task. During the year, the Company carried out the internal audit and management review on the operation conditions of the HSE system to ensure that relevant documents are up-to-date and in compliance with applicable standards. In addition, the Company improved the Provisions on Safety Management for Contractors to raise the level of safety management for contractors.

The Company published health knowledge on its internal website and held occupational health and first aid seminars so as to enhance the employees' health awareness and crisis management ability.

The Company strengthened production safety, enhanced examination and prevention of hidden hazards and thus guaranteed the safe and stable operation of production installations. The Company also established the safety management information system to promptly provide accurate and reliable guidance for decision-making.

The Company attaches great importance to environmental protection and devotes its efforts to establishing itself as a resource-conserving and environment-friendly enterprise. The "Clean Product Audit" was first carried out on the two urea production plants in Hainan Province, which created favorable conditions for the application for the title of "National Environment-Friendly Enterprise in the PRC". Further, the Company implemented projects such as re-cycling of processed waste water and comprehensive upgrade of production facilities in accordance with environmental protection, which not only reduced pollution, but also utilized resources more efficiently.

In 2008, the Company achieved excellent HSE management results. No major accident or incident involving occupational hazards occurred during the reporting period. The OSHA index of recordable incident was 0.23.

Human Resources

Adhering to the philosophy of "Staff Oriented, Caring for Employees", the Company values the development of human resources and cultivation of talents. The Company provided every employee with a favorable growth environment, fair opportunities and conditions which encourage realisation of performance goals. During the year, based on its development strategy and objective, the Company further enhanced the development of management, technology and operation personnel and cultivated a batch of professionals with good professional ethics and common values.

Remuneration and Welfare

The Company adopts an effective remuneration package policy and a systematic welfare plan as well as an effective performance evaluation system to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, capability and performance.

Performance Appraisal

In order to further improve the performance management system and establish a scientific performance appraisal scheme and to form an effective incentive mechanism, the Company organized and launched the appraisal system for all staff. Through the appraisal, the Company retained a batch of personnel with growth potential in preparation for the Company's development.

Training Management

In 2008, the Company set up a comprehensive training system and established various training courses for management, technology and operation personnel. During the year, the Company continued to develop and utilize groups and teams and further strengthened the training for junior staff, resulting in the continual improvement of staff quality. The Company is especially proud that in 2008, the Company received one gold award, two silver awards and one bronze award in the Central Enterprise Staff Skill Contest. The Company also held training courses for senior and middle management personnel to update them in modern management philosophy.

As at the end of 2008, the Company held 1,385 training courses with the participation of 29,449 staff, and the total number of training hours amounted to 257,018 hours.

Corporate Governance Report

During the reporting period, the Company strove to improve standard of corporate governance practices to enure transparency and safeguard shareholders' best interests. Save as disclosed below, the Company strictly complied with the relevant provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Code provision E.1.2 of the Corporate Governance Code provides that the Chairman of the Board should attend the annual general meeting of the Company. Due to other business commitments, Mr. Wu Mengfei, the Chairman of the Board of the Company, was unable to attend the annual general meeting of the Company held on 13 June 2008 (the "AGM") and delegated Mr. Yang Yexin, an executive director, the CEO and President of the Company, to preside over the meeting. Mr. Wu Mengfei was also contactable at all times during the AGM to answer questions where necessary.

The Company has established a modern and balanced corporate governance structure which comprises a number of independenly operated bodies including shareholders in general meeting, the Board, the Supervisory Committee and senior management in accordance with the Company Law of the People's Republic of China (the "PRC Company Law"), regulations and guidelines issued by domestic and overseas regulatory bodies, the Listing Rules and the provisions in the Corporate Governance Code.

Subordinate to the board of directors of the Company (the "Board") are the Nomination Committee, the Remuneration Committee, the Audit Committee and the Investment Review Committee, whose main responsibilities are to provide assistance to the Board in decision-making.

So as to safeguard interests of the shareholders and bring into full play of the roles of the Board in decision-making and of Supervisory Committee in supervision, the Company attaches great importance to standardized, efficient corporate governance structure. In 2008, the Company improved its corporate governance structure through amending the Articles of Association and formulating the rules of procedures of the Supervisory Committee.

The Company adopts the following corporate governance practices.

1 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 and is responsible for leading and supervising the Company, jointly formulating business strategies and overseeing the affairs of the Company.

Duties of the Board

The Board is jointly responsible for formulating business strategies and policies, business plans and investment proposals, establishing management objectives, reviewing its own performance, evaluating the effectiveness of management strategies, formulating the Company's proposals for profit distribution and recovery of losses, deciding on the establishment of the Company's internal management structure, formulating the Company's basic management systems, and exercising proprietary powers. It delegates powers and responsibilities to management for the purposes of implementing business strategies and managing daily business operations of the Group, including:

- Formulating long-term objectives and strategies;
- Approving strategies, and operational and financial plans;
- Approving publication of financial reports and announcements;
- Formulating dividend policies; and
- Conducting significant acquisitions and disposals, establishing joint-venture enterprises and conducting capital transactions.

In addition, the Articles of Association of the Company (the "Articles") set out the responsibilities and powers of the Board.

Directors

The personal details of the directors of the Company (the "Directors") are set out on page 30 to page 33 of this Annual Report. No relationship (including financial, business, family or other significant or relevant relationship) exists between the members of the Board. The structure of the Board is balanced with each Director having the appropriate level of knowledge, experience and expertise in connection with the business operation and development of the Group. All Directors are aware of their joint and respective accountability to the shareholders.

The Board consists of seven directors as of 31 December 2008, including three executive Directors, one non-executive Director, and three independent non-executive Directors.

The Board complied with the Listing Rules by appointing at least three independent non-executive Directors, and the qualifications of the three independent non-executive Directors of the Company were in compliance with 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 under the meaning of the Listing Rules. The independent non-executive Directors of the Company have no business or financial interests in either the Company or its subsidiaries, nor do they hold administrative posts in the Company. Independent non-executive Directors owe a fiduciary duty to the Company and its shareholders, and in particular, are entrusted with the duty to safeguard the interests of minority shareholders. They are a vital balancing function in the decision-making process of the Board and play a key role in corporate governance practices. At board meetings, in 2008, the independent non-executive Directors expressed their views on matters concerning the interests of shareholders and of the Company as a whole.

Each non-executive Director and each independent non-executive Director entered into a service contract with the Company for a term of three years effective as of 25 April 2006 (except Mr. Wu Xiaohua whose term of office started on 3 July 2006 and who resigned on 5 December 2008). In accordance with the service contract, their terms of office start on 25 April 2006 and expire when new non-executive directors and independent non-executive directors are elected at the general meeting held in the year when their terms of office expire. If, however, non-executive directors and independent non-executive directors are not re-elected promptly when their terms of office expire, the existing non-executive Directors and independent non-executive Directors shall, in accordance with the provisions of the laws, regulations, and the Articles perform their duties as non-executive directors and independent non-executive directors prior to the general meeting held in the year when their terms of office expire.

The members of the current Board are 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
TSUI Yiu Wa, Alec	Independent Non-executive Director	25 April 2006

Note: The service contract for each Director is for a term of three years. Each Director is eligible for re-election at a general meeting when his term of office expires.

Meetings

During the reporting period, the Board convened and held four physical meetings. All such meetings were held in compliance with relevant laws and regulations and the Articles. The agendas were set after consultation with the Board. The Directors must declare their direct and indirect interests (if any) in relation to the issues discussed at board meetings. The Directors with such interests must abstain from voting at such meetings and shall not be counted in the quorum. The minutes of board meetings are retained by the Board Secretary.

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

Attendance rate of Board members at board meetings during 2008

Director	Attendance/Number of meetings	Attendance rate (%)
WU Mengfei	4/4	100
YANG Yexin	4/4	100
FANG Yong	4/4	100
CHEN Kai	4/4	100
WU Xiaohua (Note)	3/3	100
TSUI Yiu Wa, Alec	4/4	100
ZHANG Xinzhi	4/4	100
WANG Wenshan	4/4	100

Note: Mr. WU Xiaohua resigned on 5 December 2008. Three board meetings were held in total from 1 January 2008 to 5 December 2008.

2 Committees under the Board

The Board has several committees subordinated to it, including the Audit Committee, Remuneration Committee, Nomination Committee and Investment Review Committee. Each committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Each committee has adequate resources to perform its duties, reports to the Board regularly, presents major issues and findings, and provides valuable recommendations to assist the Board in making decisions.

Audit Committee

Mr. Wang Wenshan was appointed as member of the Audit Committee to fill the position previously occupied by Mr. Wu Xiaohua after his resignation on 5 December 2008. Currently the Audit Committee consists of three independent non-executive directors, namely TSUI Yiu Wa, Alec, ZHANG Xinzhi and WANG Wenshan. Mr. TSUI Yiu Wa, Alec is the Chairman.

Information on the current terms of reference of the Audit Committee are published on the website of the Company. The primary duty of the Audit Committee is to review and supervise the financial reporting process. The Audit Committee is also responsible for the appointment of auditors, remuneration of auditors, and any issues in connection with the appointment and dismissal of auditors. In addition, the Audit Committee is also responsible for reviewing the effectiveness of the internal control system of the Company to ensure efficiency of business operation and fulfillment of the Company's corporate objectives and strategies. The scope of review and examination includes finance, operation, compliance, and risk management. The Audit Committee also examines internal audit proposals of the Company and submits the relevant reports, deliberations and recommendations to the Board.

The Audit Committee held three meetings in 2008. At these meetings, the Audit Committee performed the following work:

- To review the Financial Report for 2007 and Interim Financial Report for 2008, particularly focusing on compliance with accounting standards, Listing Rules and other regulations, and providing recommendations to the Board;
- To review external auditors statutory audit plan and the nature and scope of audit prior to the commencement of the audit;
- To discuss with external auditors and the management on the possible accounting risks;
- To review the internal audit findings and recommendations for 2008 and approve the internal audit plan for 2009.
- To review the effectiveness of the internal control system of the Company;
- To approve the audit fees and the terms of engagement of the external auditor; and
- To confirm the independence of the external auditor and provide recommendations to the Board on reappointment of the external auditor.

Attendance rate of members at Audit Committee meetings during 2008

Audit Committee member	Attendance/Number of meetings	Attendance rate (%)
TSUI Yiu Wa, Alec	3/3	100
ZHANG Xinzhi	3/3	100
WU Xiaohua (Note 1)	1/2	50
WANG Wenshan (Note 2)	1/1	100

Notes:

(1) Mr. WU Xiaohua resigned on 5 December 2008. Two Audit Committee meetings were held in total from 1 January 2008 to 5 December 2008.

(2) Mr. WANG Wenshan was appointed as member of the Audit Committee on 5 December 2008. One Audit Committee meeting was held in total from 5 December 2008 to 31 December 2008.

Remuneration Committee

The Remuneration Committee has adopted the terms of reference suggested in the Corporate Governance Code. The current terms of reference of the Remuneration Committee are published on the website of the Company.

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

In discharge of its functions, the Remuneration Committee may consult the Chairman, the CEO and other executive directors of the Company.

Remuneration policy for executive directors: the remuneration package policy for executive directors is designed to link executive directors' remuneration and their performance with the Company's corporate objectives and operating results, while taking into account market conditions, providing performance incentives and encouraging re-election.

Remuneration policy for non-executive directors: remuneration of non-executive directors is subject to approval by the Company's general meeting. The remuneration of non-executive directors is mainly determined after taking into consideration their duties and the complexity of the matters to be handled by them. 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 their duties (including attendance at meetings of the Company).

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

The Remuneration Committee held two meetings in 2008, mainly dealing with the annual review of the remuneration packages for directors and senior management and determining the details of such packages.

Attendance rate of members at Remuneration Committee meetings during 2008

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

The directors are not entitled to determine or approve their own remuneration. The annual remuneration of each director for the year 31 December 2008 is set out in the Note 9 to the financial statements.

Nomination Committee

The Nomination Committee has adopted the terms of reference suggested in the Corporate Governance Code. The current terms of reference of the Nomination Committee are published on the website of the Company.

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 to the Board. The Nomination Committee assesses the independence of each independent non-executive director, and makes recommendations to the Board on matters in connection with the appointment, reappointment and plans of succession of the directors.

The Remuneration Committee consists of three members, including an executive Director, YANG Yexin and two independent non-executive Directors, namely WANG Wenshan and ZHANG Xinzhi. Mr. YANG Yexin is the Chairman.

The Nomination Committee held one meeting in 2008, at which the Committee discussed the nomination of the Company's independent non-executive Director Mr. WANG Wenshan as member of the Audit Committee, examined the resignation of the Company's independent non-executive Director WU Xiaohua as member of the Audit Committee and provided the relevant opinions.

Nomination Committee member	Attendance/Number of meetings	Attendance rate (%)
YANG Yexin	1/1	100
ZHANG Xinzhi	1/1	100
WANG Wenshan	1/1	100

Investment Review Committee

The Investment Review Committee is mainly responsible for reviewing the investment proposals above a certain threshold which are beyond the decision-making authority of senior management and making the relevant recommendations to the Board. The Investment Review Committee consists of four members, including two independent non-executive Directors, namely ZHANG Xinzhi and TSUI Yiu Wa, Alec, one non-executive Director, WU Mengfei and one executive Director YANG Yexin. Mr. ZHANG Xinzhi is the Chairman.

The Investment Review Committee held seven meetings in 2008. During the meetings it reviewed the major investment projects of the Company in 2008 and reported their opinions to the Board.

Attendance rate of members at Investment Committee meetings during 2008

Investment review Committee member	Attendance/Number of meetings	Attendance rate (%)
ZHANG Xinzhi	7/7	100
TSUI Yiu Wa, Alec	7/7	100
WU Mengfei	7/7	100
YANG Yexin	7/7	100

3 Supervisory Committee

The Supervisory Committee reports to the general meeting and performs the following duties in accordance with applicable laws:

- To review the financial matters of the company;
- To oversee the performance of directors and senior management when discharging their duties for the Company and make recommendations of dismissal in cases of breaches of laws, administrative regulations and the Articles;
- To correct improper behavior of the directors, the president and other senior management that would damage the interests of the company;
- To examine financial materials such as financial reports, business reports and profit distribution proposals submitted by the Board to the general meeting, and to authorise a certified public accountant and an auditor for re-examination in the name of the Company in case of doubt;
- To propose the holding of extraordinary general meetings, and to organise and chair the general meeting when the Board fails to fulfill its responsibility to do so;
- To make proposals to the general meeting of shareholders;
- To lodge lawsuits against directors, the president and senior management of the Company in accordance with the PRC Company Law; and
- To perform other powers prescribed in the Articles.

The Supervisory Committee consists of three members at present, two of whom are external supervisors (one member is a shareholder's 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 organise and carry out operational and managerial activities in accordance with laws and regulations and the Articles and powers authorised by the Board, and exercises the following major responsibilities:

- To preside over production and operation management, and carry out resolutions of the Board;
- To organise the implementation of operation plans for the year and investment proposals;
- To formulate the structure internal management organisation plan;
- To formulate fundamental management system;
- To formulate basic rules and guidelines;
- To recommend appointment or dismissal of the Vice President or the Financial Controller;
- To appoint or dismiss personnel other than those required to be appointed or dismissed by the Board; and
- To perform other powers prescribed in the Articles and delegated by the board.

5 Securities Transactions by Directors and Supervisors

The Company adopts the Model Code set out in Appendix 10 to the Listing Rules as the model code (the "Model Code") for securities transactions by directors and supervisors. After specific inquiries to the directors and the supervisors of the Company, all Directors and Supervisors have confirmed that during the reporting period, they strictly complied with the requirements of 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 to safeguard shareholders' interests.

6 Chairman and President

In accordance with Article A.2.1 of the Corporate Governance Code, the roles of Chairman and President should be separated and should not be held by the same individual.

In order to ensure a balance of power and authority, the Chairman and the President have different duties. Mr. WU Mengfei and Mr. YANG Yexin act as the Chairman and the President of the Company respectively. The Chairman is responsible for ensuring effective management of the Board, while the President is responsible for the daily business operations of the Group. Their responsibilities are clearly defined.

7 Communications with Investors

The Board recognizes the importance of good and effective communication with shareholders as a whole. In addition to publication of materials, announcements and circulars, the Company also dedicates a section titled "Investors Relations" on its website www.Chinabluechem.com.cn for shareholders to obtain relevant information.

Pursuant to the provisions and requirements of regulatory bodies, the Company is proactive in maintaining a good relationship with investors and making proper information disclosure. Further, the Company endeavors to maintain continuous communication with shareholders, especially by encouraging shareholders to attend the annual general meetings and other general meetings.

The secretary office of the Board is responsible for communication of the Company with shareholders and other investors, including notifying shareholders of voting procedures regularly, and ensuring the voting procedures conform to the provisions of the Listing Rules and the Articles.

8 Internal Control

The Company is committed to establish and maintain a reliable internal control and risk management system which takes into account the practical circumstances of the Company and is in strict compliance with the Corporate Governance Code. During the year, the Company continued to develop and perfect the existing management and technical standards; organised the process of operational management of the Company and clearly defined its terms of reference and reponsibilities, enhanced the effectiveness of the internal control and monitoring procedures of the Company while taking into account the Company's operational efficiency; formulated the Business Authority Handbook of China Bluechemical Ltd., further specified the management scope, terms of reference and duties of all units of the Company and increased work efficiency.

During the year, the Company also actively advanced the Overall Risk Management Project, and through its implementation, a risk management concept and corporate risk management culture within the Company were established. This led to a more standardised and professional approach in internal control and risk management of the Company. So far, the project is making satisfactory progress.

Through the Audit Committee's review of the internal control system of the Company, every year the Company conducts an annual comprehensive review of the benefits of the internal control system of the Company and its subsidiaries as well as affiliated companies, covering all financial, operational and compliance control and risk management control. The Board has confirmed the effectiveness of the system of internal control of the Group.

9 Auditor and Fee

Ernst & Young is the external auditor of the Company. The audit fee for the year ended 31 December 2008 was RMB4,280,000, which has been approved by the Audit Committee.

For the year ended 31 December 2008, there was no non-audit service expense.

The Company's external auditor's responsibility statements on the consolidated financial statements are found on page 52 of this annual report.

10 The 2008 Annual Review on Non-Competition Agreement

On 7 September 2006, the Company and China National Offshore Oil Corporation ("CNOOC") signed a non-competition agreement, pursuant to which CNOOC (a) agreed that it will not, and it will procure its subsidiaries not to, directly or indirectly engage in businesses that compete or are likely to compete with the Company's core business in China or abroad; and (b) granted the Company the first transaction right, first option and pre-emptive right to acquire any competing businesses.

On 26 March 2009, the Company and CNOOC held the 2008 annual review on non-competition.

At the meeting, there was a review of the investment opportunities obtained in 2008 by CNOOC and its subsidiaries (not including the Group) which compete or are likely to compete with the Group's core businesses.

CNOOC and its subsidiaries (not including the Group) have made an annual declaration confirming that they have fully complied with such undertakings. The independent non-executive Directors of the Company have also reviewed whether CNOOC and its subsidiaries (not including the Group) have fully complied with the undertakings and they are satisfied that CNOOC and its subsidiaries (not including the Group) have fully complied with the undertakings.

11 Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for the Group's financial statements, and assess the Company's financial position, performance, cash flow status and prospects in a balanced, clear and comprehensive manner based on the timely and appropriate data provided by management. The Board promises that save as 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 has obtained a bachelor's degree and a master's degree from East China Petroleum Institute as well as a MBA degree from Massachusetts Institute of Technology. From 1 April 2006 till today, he has been the chief accountant of CNOOC, and at the same time, he is the non-executive director of the Company. In April 2006, Mr. Wu was appointed as a non-executive director of China Oilfield Services Limited ("COSL"). He was an executive director of COSL from May 2004 to March 2006. From July 2002 to March 2006 he became an executive vice president and the chief financial officer of COSL. From September 1999 to June 2002, Mr. Wu was a senior vice president and the chief financial officer of CNOOC Limited. From 1988 to 1999, he joined the CNOOC Group and served as the head of the planning office, a deputy director of the planning and financial department and the director of the planning and treasury department of CNOOC. From 1986 to 1988, he was a lecturer at the graduate division of East China Petroleum Institute. At present, Mr. Wu is the chairman of Aegon-CNOOC Life Insurance Co., Ltd., CNOOC Insurance Ltd. and CNOOC Investment Co., Ltd.

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 Shandong 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. From 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 Univeristy 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, an office director, and the Party secretory of CNOOC Nanhai West Corporation as well as the Party secretory of CNOOC Shipping Limited. 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 fertiliser 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 Xi'an 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. Mr. Wu Xiao Hua resigned as an independent non-executive Director of the Company on 5 December 2008.

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 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, he 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), Greentown China Holdings Limited (from June 2006), China Huiyuan Juice Group Limited (from August 2006), Pacific Online Limited, (from November 2007), and a Hong Kong GEM listed company, Vertex Communications and Technology Group Ltd. (from March 2002) as well as an independent non-executive director in companies listed on NASDAQ, including Melco PBL Limited, (from December 2006) and ATA Inc. (from January 2008). 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), Synergis Holdings Limited (from January 2005 to September 2008) 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 of the Company. He is a specialist of the State Council's special allowance. Mr. 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. He previously was 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. Now he is the dean of Hainan College of Economics and Business, 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. Mr. Huang was also a part-time professor at Russia State University of Management, China Centre for special economic zone research at Shenzhen University, Institute of Economic Development at Wuhan University as well as Liaoning University. He was appointed as an independent Supervisor of the Company in April 2006.

Senior Management

WANG Hui, born in 1964, as a senior economist with a master's degree, he is an executive vice president of the Company. He graduated from Jilin University with a major in international law in July 1987. From September 2002 to July 2004, he studied in the Graduate Class majoring in Business Administration of Tsinghua University. He joined China National Chemical Construction Corporation (CNCCC) as a salesman in the development division in August 1987. From June 1993 to October 1995, he was a salesman in the Representative Office of CNCCC located in Germany. From October 1995 to January 2000, he served as the project manager, deputy general manager and general manager of International Tendering Company of CNCCC. From February 2000 to March 2008, he was the general manager assisant, deputy general manager, general manager and the Party Secretary of CNCCC. In March 2008, he served as the Party Secretary of the Company as well as the general manager and the Party Secretary of CNCCC. He was appointed as the executive vice president of the Company in August 2008.

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 August 1983; and in December 2005 graduated from Management Science and Engineering Major of China University of Petroleum at Beijing with postgraduate degree of management; In August 1983, she joined in 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; from May, 1999 to September, 2002, as a vice-secretary of Communist Party, secretary of Discipline Committee and chairman of Labor Party of Zhanjiang Branch of CNOOC; 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 a 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 Board 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 junior college diploma by participating in self-study examination in Guangdong Province from 1986 to 1989. From 2005 to 2006, he graduated from Hainan University and obtained the degree of MBA. 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; from July 2002, he was served as a deputy general manager of the Company, Vice President, vice-secretary of Communist Party, secretary of Discipline Committee and Chairman of Labor Party 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. In April 2006, he was appointed as the Qualified Accountant employed on a full-time basis and a Joint Company Secretary of the Company.

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 2008.

Principal Activities

The Company is principally engaged in the manufacture and sales of mineral fertilisers (mainly urea) and chemical products (mainly methanol). 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 2008 and the Company's and the Group's financial position as at that date are set out on pages 53 to 62 of the financial statements.

Dividends

The Board recommends the payment of a final dividend of RMB0.095 per share in respect of the year, i.e. RMB438.0 million in total, to all shareholders. The proposed final dividend for the year is subject to the shareholders' approval in the forthcoming annual general meeting (the "AGM").

Dividends to shareholders of domestic shares will be paid in Renminbi whereas dividends 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 (the "PBOC") one week before the date of the declaration of the dividends.

Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2008 are 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.

Properties, Plants and Equipments

Details of movements in 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 2008, 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 per share, of which 2,813,999,878 were domestic shares, representing approximately 61.04% of the total number of shares in issue, 25,000,122 were non-listed foreign shares, representing approximately 0.54% of the total number of shares in issue, and the remaining 1,771,000,000 shares were H shares, representing approximately 38.42% of the total number of shares in issue.

Details of movements 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

As at 31 December 2008, the Company's reserves available for distribution was RMB2,751.4 million. Details of distributable reserves are set out in Note 31 to the financial statements.

Charitable Contribution

During the year, the Group made charitable contributions in RMB12.1 million in total, out of which RMB10.0 million was contributed to the Sichuan earthquake disaster relief efforts.

Major Customers and Suppliers

During the reporting period, sales to the Group's five largest customers accounted for 22.93% of the total sales for the year. Sales to the largest customer included therein amounted to 6.86%. Purchases from the Group's five largest suppliers accounted for 63.76% of the total purchase for the year. Purchases from the largest supplier accounted for 30.07% of the total purchase for the year.

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 any of 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 Directors:

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 (resigned on 5 December 2008)	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 Articles, all directors and supervisors are elected for a term of three years and may serve consecutive terms upon re-election. However, if the directors and supervisors are not re-elected promptly when their terms of office expire, the existing directors and supervisors shall perform their duties until new directors and supervisors of the Company are elected at the general shareholders' meeting of the Company to be held in the year in which their terms of office expire in accordance with the relevant laws, regulations and the Articles. Supervisors representing the Company's employees shall be elected by the Company's employee representatives.

The Company has received the annual confirmations of independence from each independent non-executive Director 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 30 to page 33 of this annual report.

Service Contracts of Directors and Supervisors

Each of the Directors and Supervisors entered into a service contract with the Company. The term of office of each of the Directors and Supervisors set out in their respective service contracts is 3 years. According to the service contracts of Directors and Supervisors (excluding Supervisor representing the employees of the Company), the commencement date of the term shall be the date of establishment of the Company (which is 25 April 2006) and the term shall last until new directors and supervisors (excluding Supervisor representing the employees of the Company) are elected at the general shareholders' meeting of the Company to be held in the year in which the term expires. All directors and supervisors may serve consecutive terms upon re-election. The terms of office of the Directors and Supervisors (excluding Supervisor representing the employees of the Company) have not expired at the date of publication of this annual report according to PRC laws, the Articles and the service contracts. As stated in the clarification announcement of the Company dated 12 March 2009, new directors and supervisors (excluding Supervisor representing the employees of the Company) are proposed to be elected at the AGM to be held on 12 June 2009.

None of the Directors and Supervisors proposed to be re-elected at the forthcoming AGM 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 Directors and Supervisors

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

Remuneration Policy

The remuneration of the Directors are determined with reference to their professional qualifications, responsibilities, experience, performance and the Company's operating results.

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.

H-share Appreciation Rights Scheme

According to the announcement published by the Company on 9 January 2008 and the circular issued to shareholders on 11 January 2008, the H-Share Appreciation Rights Scheme (the "Scheme") was approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") on 3 December 2007, and considered and approved by the extraordinary general meeting of the Company ("EGM") on 25 February 2008. The Scheme came into effect on 25 February 2008. Share appreciation rights will be granted to the Directors (not including independent non-executive Directors) and senior management staff of the Company.

The purpose of the Scheme is to provide long-term incentive to the senior management of the Company and to promote the success of the business of the Group. The term of the Scheme will be six years (commencing upon shareholders' approval of the Scheme, i.e. 25 February 2008). Under the Scheme, the share appreciation rights are not transferable, nor are there any voting rights attached. The operation of the Scheme does not involve any issue of new shares of the Company, and the exercise of any share appreciation rights will not create any dilution effect on the Company's shareholding structure. Upon the exercise of the share appreciation rights, a grantee will only be entitled to receive cash payments for the appreciation. The Scheme is not a scheme involving the grant of options over new securities of the Company.

It is estimated that the aggregate share appreciation rights to be granted during the first two years of the Scheme will be equivalent to approximately 6,386,000 H Shares.

Under the Scheme, the grantees may not exercise their share appreciation rights in the two years following the approval of the Scheme by shareholders, and may exercise their share appreciation rights by not more than 25% each year in the following four years. In each of the four years where grantees may exercise their rights, he or she is entitled to exercise the same only once during the relevant exercisable period. In other words, the 25% cap is an annual cap during the relevant years on the extent that the share appreciation rights may be exercised under the Scheme. Any share appreciation rights not exercised will expire by the end of the exercisable period by the 6th year. The cash payments as a result of the exercise of the share appreciation rights shall be deposited into a personal account of the relevant grantee. And in any event the total annual payment under the Scheme pursuant to each exercise of the share appreciation rights shall not be more than 50% of the total annual remuneration of the relevant grantee as at the time of the grant of those rights.

Under the Scheme, exercise price is based on the average closing price for the Company's H shares as traded on the Stock Exchange for the period commencing 30 days after announcement of the Company's results for the financial year before the immediate previous financial year, until the end of the immediate previous financial year of the Company.

As at 31 December 2008, the following Directors, Supervisors and senior management were granted the following share appreciation rights:

Names of directors	Capacity	Number of share appreciation rights granted (Share)	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
WU Mengfei	Chairman and Non-executive Director	1,053,000	0.06	0.02
YANG Yexin	Executive Director, Chief Executive Officer and President	891,000	0.05	0.02
FANG Yong	Executive Director and Executive Vice President	681,000	0.04	0.01
CHEN Kai	Executive Director and Executive Vice President	681,000	0.04	0.01
ZHOU Fan	Executive Vice President	454,000	0.03	0.01
QUAN Changsheng	Vice President, Chief Financial Officer and Board Secretary	616,000	0.03	0.01
HONG Junlian	Vice President	616,000	0.03	0.01
LIANG Mingchu	Vice President	616,000	0.03	0.01
MIAO Qian	Vice President	616,000	0.03	0.01

Directors', Supervisors' and Chief Exceutives' Interests in Shares and Short Positions

As at 31 December 2008, the interests or short positions of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (i) to be notified to the Company and HKEx pursuant to Divisions 7 & 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 (ii) which were required to be entered in the register pursuant to section 352 of the SFO; or (iii) pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, required to be notified to the Company and the HKEx are set out below:

Names of directors	Capacity	Number of approved granted share appreciation rights (Share)	class of shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
WU Mengfei	Beneficial owner	1,053,000(L)(Note 1)	H shares	0.06(L)	0.02(L)
YANG Yexin	Beneficial owner	891,000(L)(Note 2)	H shares	0.05(L)	0.02(L)
FANG Yong	Beneficial owner	681,000(L)(Note 3)	H shares	0.04(L)	0.01(L)
CHEN Kai	Beneficial owner	681,000(L)(Note 4)	H shares	0.04(L)	0.01(L)

Notes: (L) denotes long position.

(1) These shares represent interests in share appreciation rights of the Company, of which 263,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(2) These shares represent interests in share appreciation rights of the Company, of which 222,750 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(3) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(4) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

Substantial Shareholders' Interests

As at 31 December 2008, the register of substantial shareholder maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

Name of Substantial Shareholder	Capacity	Number of shares and nature of interests	Class of Shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
CNOOC (Note 1)	Beneficial owner; security interests in shares through a controlled corporation	2,813,999,878 (L) (Note 2)	Domestic Shares	100 (L)	61.04 (L)
Commonwealth Bank of Australia	Controlled Corporation Interests	213,580,000 (L) (Note 3)	H share	12.06 (L)	4.63 (L)
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	123,808,000 (L) (Note 4)	H share	6.99 (L)	2.69 (L)
Merrill Lynch & Co., Inc.	Controlled Corporation Interests	123,022,103 (L) (Note 5)	H share	6.95 (L)	2.67 (L)
Mondrian Investment Partners Ltd.	Investment Manager	89,964,000 (L)	H share	5.08 (L)	1.95 (L)

Notes: The letter "L" denotes long position

(1) The non-executive Director, Mr. Wu Mengfei, is the Chief Financial Officer of CNOOC. One of the supervisors of the Company, Mr. Yin Jihong, is also the Chairman of the Supervisory Committee of CNOOC.

(2) Out of the 2,813,999,878 domestic shares, 2,738,999,512 shares are held as beneficial owner and 75,000,366 shares are held as having security interests in shares through a controlled corporation, CNOOC Finance Corporation Limited.

(3) These shares are held by a series of controlled corporations of Commonwealth Bank of Australia. The controlled corporations that directly hold shares of the Company are First State Investments (Hong Kong) Ltd, First State Investment Management (UK) Limited, First State Investments International Ltd and First State Investments (Singapore).

(4) These shares are held by Hang Seng Bank Trustee International Limited, which are also deemed to be interested by each of Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Mr. Cheah Cheng Hye and Ms. To Hau Yin.

(5) These shares are held by a series of controlled corporations of Merrill Lynch & Co, Ltd. The controlled corporations that directly hold shares of the Company are Merrill Lynch International, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Blackrock Inc. (on behalf of discretionary clients).

Save as disclosed above and so far as the Directors are aware, as at 31 December 2008, 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 HKEx under section 336 of the SFO.

Management Contract

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

1. Continuing connected transactions

Connected Persons

CNOOC and its Associates

CNOOC is the controlling shareholder of the Company. As such, CNOOC and its associates (other than the Group) are connected persons of the Company pursuant to Rule 14A.11 of the Listing Rules.

China Oilfield Services Limited ("COSL") is a subsidiary of CNOOC and therefore an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules. COSL is the Company's connected person pursuant to Rule 14A.11(4) of the Listing Rules.

CNOOC Limited is a subsidiary of CNOOC and CNOOC China Limited ("CNOOC China") is a wholly-owned subsidiary of CNOOC Limited. Both CNOOC Limited and CNOOC China are associates of CNOOC pursuant to Rule 19A.04 of the Listing Rules and therefore connected persons of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

CNOOC Finance Corporation Limited ("CNOOC Finance") is a subsidiary of CNOOC and therefore an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules. It is also a connected person of the Company pursuant to Rule 14A.11(4) of the Listing Rules.

Hong Kong Kingboard and its Associates

The Company holds 60% of the shares of CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") while Kingboard Investment Limited ("Hong Kong Kingboard"), a subsidiary of the Kingboard Chemical Group, holds the remaining 40%. CNOOC Jiantao was previously a joint-controlled entity of the Company. From 29 April 2008, the Company gained control of CNOOC Jiantao, and it became a subsidiary of the Company, with Hong Kong Kingboard as its major shareholder. Therefore, pursuant to Listing Rules 1.01 and 14A.11(1), Hong Kong Kingboard and its associates (including the holding company of Hong Kong Kingboard, that is, the Kingboard Chemical Group) are also connected persons of the Company.

Continuing Connected Transactions

The continuing connected transactions of the Company with CNOOC and its associates and Hong Kong Kingboard and its associates already approved by independent shareholders are set out below:

1 The Group leases certain properties for general commercial business and ancillary uses from certain members of the CNOOC Group. The Company entered into a properties leasing agreement on 1 September 2006 with CNOOC (the "Properties Leasing Agreement"), the term of which commenced on 1 September 2006 and expired on 31 December 2008, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

   In 2008, the aggregate rental expenditure for the leases was RMB2,240,324.22.

2 The Group utilises ocean-going transportation services provided by COSL. The Company and COSL entered into a transportation services framework agreement on 1 September 2006 (the "COSL Transportation Agreement"), under which COSL may provide transportation services to the Group. The term of the COSL Transportation Agreement commenced on 1 September 2006 and expired on 31 December 2008.

   The transactions under the COSL Transportation Agreement are being conducted on normal commercial terms and conditions which shall not be less favorable than those offered to third parties and priced in accordance with the following pricing principles:

   (i) the price prescribed by the PRC Government;

   (ii) where there is no government-prescribed price but there is a government guidance price, a price not higher than the guidance price set by the PRC Government;

   (iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

   (iv) where none of the above is applicable, the price as agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

   Currently the transportation services covered by the COSL Transportation Agreement are not subject to any PRC Government prescribed or guidance price, but we consider it prudent to provide pricing principles (i) and (ii) in that agreement.

   The aggregate expenditure for the transportation services in 2008 was RMB19,981,632.31.

3 The Company entered into three long-term agreements with CNOOC China, which is a wholly-owned subsidiary of CNOOC (the three above-mentioned agreements are collectively referred to as the "Natural Gas Sale and Purchase Agreements").

(1) Dongfang 1-1 Offshore Gasfields Natural Gas Sale and Purchase Agreement between CNOOC China and the Company dated 28 July 2003, under which CNOOC China has committed to supply natural gas to the Company for Fudao Phase II at prices that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of this agreement commenced on 1 October 2003 and will expire on 30 September 2023.

(2) Dongfang 1-1 Offshore Gasfields Natural Gas Sale and Purchase Agreement between CNOOC China and CNOOC Jiantao dated 10 March 2005, under which CNOOC China has committed to supply natural gas to CNOOC Jiantao for CNOOC Jiantao Methanol Plant at prices that are subject to adjustments on a monthly basis by reference to the prices of four major types of crude oil in the international markets during the preceding month. The term of this agreement is of 20 years commencing on 15 October 2006 although the earliest time CNOOC China may provide natural gas to CNOOC Jiantao Methanol Plant is 9 May 2006.

(3) a natural gas sale and purchase framework agreement between the Company and CNOOC China dated 1 September 2006 which does not include the transactions conducted under the two agreements mentioned above. The framework agreement was intended to cover purchases of natural gas from CNOOC China for the Group's future plants. Under this framework agreement, CNOOC China will sell natural gas to the Group at a price which is determined on a fair and reasonable basis (including by reference to the prices of four major types of crude oil in the international markets) and in accordance with normal commercial customs. The term of the agreement is of 20 years commencing on the date of the agreement.

The four types of crude oil referred to in the Natural Gas Sale and Purchase Agreements are: West Texas Intermediate Crude Oil (西德薩斯中質原油), Tapis Crude Oil (塔皮斯原油), Brent Crude Oil (混合布倫特原油) and Minas Crude Oil (米納斯原油). The reference prices of these four types of crude oil are provided by Platts Crude Oil Marketwire.

The aggregate expenditure in 2008 of the Company on purchase of natural gas from CNOOC was RMB791,231,248.86.

4 The Company entered into a comprehensive services and product sales framework agreement with CNOOC on 1 September 2006 (the "Comprehensive Services and Product Sales Agreement"), pursuant to which:

(a) the CNOOC Group may provide services and supplies that the Group may require for the Group's business operation and production (such as telecommunication and computer network services, enterprise resources planning and office automation services, construction of production facilities and related construction project management and supervision, machines and vehicle rental and maintenance, production equipment rental and repair, transportation services, community services including catering, hospital and schooling, and training);

(b) the Group may provide to the CNOOC Group services and supplies (such as machines and vehicle rental, transportation services, business management services and catering); and

(c) the Group may sell to the CNOOC Group products produced by the Group (such as urea and methanol).

The term of the Comprehensive Services and Product Sales Agreement commenced on 1 September 2006 and will expire on 31 December 2008, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Comprehensive Services and Product Sales Agreement will be conducted on normal commercial terms and conditions which shall not be less favorable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the price prescribed by the PRC Government;

(ii) where there is no government-prescribed price but there is a government guidance price, a price not higher than the guidance price set by the PRC Government;

(iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

Currently, apart from certain products produced by us such as urea products that are subject to price controls imposed by the PRC Government, all services and supplies covered by the Comprehensive Services and Product Sales Agreement are not subject to any PRC Government prescribed or guidance prices. However, the Company considers it prudent to provide pricing principles (i) and (ii) in the Comprehensive Services and Product Sales Agreement.

The aggregate expenditure in 2008 of the Company on services and supplies from CNOOC was RMB107,650,430.64. Revenue in 2008 from services and supplies provided to CNOOC was RMB12,564,990.99. Aggregate revenue in 2008 of the Company from the sale of our products to CNOOC and its associates was RMB30,486,614.77.

5 The Group utilises from time to time financial services provided by CNOOC Finance and therefore entered into a financial services framework agreement with CNOOC Finance on 1 September 2006 (the "Financial Services Agreement"), pursuant to which CNOOC Finance will provide to the Group a range of financial services that the Group may require, including the following:

(a) provision of loans to the Group, which do not include entrustment loans referred to in Category (c2);

(b) deposit services;

(c1) bank notes discounting services;

(c2) arrangement of entrustment loans between the Company and its subsidiaries; and

(c3) settlement services which include settlement for transactions between the Company and its subsidiaries and for transactions between the Group and the CNOOC Group.

The term of the Financial Services Agreement commenced on the date of the agreement and expired one year after the listing date, that is, 29 September 2006, in respect of Category (b) services and expired on 31 December 2008 in respect of other services, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with. On 18 September 2007, the Company and CNOOC Finance entered into a supplemental agreement to the Financial Services Agreement to revise the expiration of the term in respect of Category (b) to 31 December 2008.

The fees and charges payable by the Group to CNOOC Finance under the Financial Services Agreement are determined on the following basis:

(a) provision of loans to the Group: the interest rates for such loans are determined in accordance with the standard rates promulgated by the PBOC from time to time, and may be reduced where the relevant laws and regulations allow;

(b) deposit services: the interest rates for such deposits are determined in accordance with the standard rates promulgated by the PBOC from time to time;

(c1) bank notes discounting services: the interest rates for discounting services are determined in accordance with the standard rates promulgated by the PBOC from time to time less discounts set out in the specific agreements; and the interest for bank notes discounting is borne by the relevant parties presenting the notes;

(c2) arrangement of entrustment loans between the Company and its subsidiaries: the annual service fee payable by the Group is set at a rate, such that the aggregate amount of service fee and loan interest together will not exceed the interest for securing a loan of the same term directly from independent commercial banks; and

(c3) settlement services: no service fee is charged.

Under the Financial Services Agreement, the Group shall have a unilateral right of set-off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group, the Group will be able to offset the amount due to the Group from CNOOC Finance against the amount outstanding from the Group to CNOOC Finance. CNOOC Finance shall not have any offset right.

In 2008, maximum daily credit balances provided by CNOOC Finance to the Company (including accrued interest) was nil. The maximum daily balance of the Company's deposits placed with CNOOC Finance (including accrued interest) was RMB228,502,558.64. Actual expenditure on category (c1) (c2) and (c3) services was RMB1,055,217.39.

6 The Company sells products manufactured by the Group to Hong Kong Kingboard and its associates and provides related services such as transportation. The Company entered into a product sales and related services framework agreement with Hong Kong Kingboard on 22 August 2006 (the "Kingboard Product Sales and Services Agreement"). The term of Kingboard Product Sales and Services Agreement commenced on 22 August 2006 and expired on 31 December 2008 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Kingboard Product Sales and Services Agreement will be conducted on normal commercial terms and conditions which shall not be less favorable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the price prescribed by the PRC Government;

(ii) where there is no government-prescribed price but there is a government guidance price, a price not higher than the guidance price set by the PRC Government;

(iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on the cost plus a margin of up to 15% of the cost.

Currently methanol products and related services covered by the Kingboard Product Sales and Services Agreement are not subject to any PRC Government prescribed or guidance prices, but the Company considers it prudent to provide pricing principles (i) and (ii) in that agreement.

The aggregate revenue of the Company in 2008 from the sale of products and provision of related services to Hong Kong Kingboard and its associates was RMB362,459,950.11.

The annual cap and the actual amount of each connected transaction of 2008 are set out below:

	Annual cap amount for 2008 RMB'000	Actual amount of transaction for 2008 RMB'000
A. Continuous connected transactions with CNOOC and its associates		
(1) Acquisition of property leasing services under the Properties Leasing Agreement (Note 1)	-	2,240
(2) Acquisition of transportation services under the COSL Transportation Agreement	48,000	19,982
(3) Purchase of natural gas under the Natural Gas Sale and Purchase Agreements	1,046,640	791,231
(4) Comprehensive services and sale of products under the Comprehensive Services and Product Services and Products Sales Agreement		
(a) Acquisition of comprehensive services and supplies from CNOOC Group	74,800	107,650
(b) Provision of services and supplies to CNOOC Group (Note 2)	20,000	12,565
(c) Sales of products to CNOOC Group (Note 3)	107,000	30,487
(5) Financial services under the Financial Services Agreement		
(a) Maximum daily credit balance (including accrued interest) granted by CNOOC Finance to the Company after the listing (Note 4)	600,000	0
(b) Maximum daily balance of deposits (including accrued interest) placed by the Company with CNOOC Finance after the listing (Note 4)	228,788	228,503
(c) Category (c1), (c2) and (c3) service accepted by the Company from CNOOC Finance after the listing (Note 1)	-	1,055
B. Continuous connected transactions with HK Kingboard and its associates		
Products and services provided to HK Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	730,000	362,460

Notes:

(1) No waiver has been granted by HKEx in respect of these transactions as the amounts of these transactions were below the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules and are therefore exempt from reporting, announcement and independent shareholders' approval requirements for connected transactions.

(2) On 20 August 2008, the Company announced that from 1 January 2008 to 30 June 2008, upon consolidating the transactions amount for services and supplies provided by the Group to the CNOOC Group pursuant to the Comprehensive Services and Product Sales Agreement, the Group became aware that during the Interim Period, the aggregate revenue generated from such transactions was RMB3,140,000, representing approximately 95.2% of the annual cap of RMB3,300,000 for 2008. In light of the ongoing and continued development of the business of the Group and the additional services offered and rendered by Hainan Basuo Port Limited (a subsidiary of the Company), the Company was of the view that the then existing annual cap was no longer sufficient for the year 2008 and accordingly revised the annual cap to RMB20,000,000. As the revised annual cap does not exceed 2.5% in respect of each of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules, transactions in this category will only be subject to reporting and announcement requirements, and are exempt from independent shareholders' approval requirements.

(3) No waiver has been granted by HKEx in respect of these transactions. In 2007, The Group sold methanol to the CNOOC Group Companies pursuant to the Comprehensive Services and Product Sales Agreement and the aggregate revenue generated from such transactions exceeded the de minimis threshold under Rule 14A.33(3) of the Listing Rules, but did not exceed 2.5% of it. Accordingly, these transactions constituted Connected Transactions under Rule 14A.34 of the Listing Rules which were therefore subject to the reporting and announcement requirements but exempted from independent shareholders' approval requirement. The Company made an announcement in respect of above transactions, in compliance with the announcement requirement of the Listing Rules, on 11 April 2007. Since the 2008 actual amount of these transactions was still within the threshold mentioned above, the Company did not make a separate announcement.

(4) The actual and annual cap figures refer to the Company's maximum daily balance in the relevant period after listing.

Other Substantial Disclosure

The Company announced on 6 March 2009 that the actual aggregate expenditure for the Group's acquisition of services and supplies from the CNOOC Group (see above A (4) (a)) was approximately RMB107,650,000 for 2008, exceeding the annual cap for 2008 of RMB74,800,000. The Directors consider that the following reasons led to an increase in the expenditure in acquiring the service and supplies from the CNOOC Group.

(a) certain projects of the Group were rescheduled and launched in 2008 rather than in 2006 and 2007 as initially planned. Such projects require design, construction and installation services and supplies from the CNOOC Group, resulting in an increase of the Group's expenditure for acquiring services and supplies from the CNOOC Group in 2008; and

(b) rapid development and expansion of the Group's business in recent years has increased the demand for other services and supplies from the CNOOC Group in 2008. Such services and supplies include computer networking and office automation, human resources management, equipment testing and repairing and logistic services.

Nevertheless, the 2008 expenditure in this regard had not exceeded 2.5% in respect of each applicable percentage ratio calculated under Rule 14.07 of the Listing Rules. As such, the Company is reporting these continuing connected transactions in order to comply with reporting requirements.

Independent non-executive directors have reviewed the above connected transactions and confirm as follows:

1 The transactions were conducted in the ordinary and usual course of business of the Group with connected persons or their connected persons (if applicable).

2 The transactions were conducted on normal commercial terms or terms which were no less favourable than those offered to or by third parties.

3 The transactions were conducted in accordance with the relevant governing agreements and all terms were fair and reasonable and were in the best interests of the shareholders.

The Company's auditors have reviewed the above connected transactions and confirmed to the Company by letter, stating the following:

1 The above transactions have been approved by the Board.

2 Where the above transactions were related to products and services provided by the Company, they were conducted according to the Company's pricing policy.

3 The above transactions were conducted according to the relevant governing agreements.

4 Save as disclosed in this section "Other Substantial Disclosure", the above transactions (if applicable) did not exceed the relevant annual cap as disclosed in previous announcements.

2. One-off Connected Transaction

On 12 December 2008,the Company entered into the agreement with CNOOC in connection with the acquisition of 83.17% interest in Hubei Dayukou Chemical Limited Liability Company ("DYK Chemical") and 100% interest in ZHJ Mining Co., Ltd. ("ZHJ Mining") (the "Acquisition Agreement"). Under the terms of the Acquisition Agreement, the Company has agreed to purchase and CNOOC has agreed to sell the above interests (the "Equity interests") for a cash consideration of RMB1,262,847,026 (approximately HK$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK$1,224,266,168) constitutes the consideration for the acquisition of 83.17% equity interest in DYK Chemical and RMB181,820,000 (equivalent to approximately HK$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining (the "Acquisition"). Upon Completion, the Company will be directly interested in the Equity Interests. As one of the applicable percentage ratios in respect of the Acquisition represents more than 25% but less than 100% for the Company while the other applicable percentage ratios represent less than 25%, the Acquisition constitutes a major transaction pursuant to Chapter 14 of the Listing Rules. Further, as CNOOC is a connected person of the Company, the Acquisition also constitutes a connected transaction under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. The Company published an announcement on 12 December 2008 and issued a circular on 31 December 2008.

According to the Acquisition Agreement, the acquisition is conditional upon the fulfilment of following conditions: (i) the approval of the Acquisition (including the method of the transfer of the Equity Interests) and the transactions contemplated in the Acquisition Agreement by the SASAC; (ii) the passing of all necessary resolutions by the independent shareholders approving the Acquisition Agreement and the transactions contemplated thereunder at the extraordinary general meeting in accordance with the Articles and the Listing Rules; and (iii) the approval from the Department of Commerce of Hubei Province (the "DCHP") in relation to the Acquisition. On 16 February 2009, the Acquisition Agreement and the transactions contemplated thereunder were approved at the extraordinary general meeting. On 5 March 2009, the SASAC gave the aforementioned approval. On 23 March 2009, the DCHP decided within its authority that the Acquisition did not need to obtain its approval, and as such, condition (iii) need not be fulfilled.

On 24 March 2009, the Industrial and Commercial Administration Bureau of Hubei Province approved the Acquisition and issued the Company's notice of change. The Company obtained control of DYK Chemical and ZHJ Mining.

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 45 to the financial statements.

Material Legal Proceedings

As at 31 December 2008, 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 2008 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 2008 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 to enhance transparency and safeguard shareholders' interests. As at 31 December 2008, save as disclosed below, the Company has strictly complied with the provisions in the Code on Corporate Governance Practices (the "Corporate Governance Code") in Appendix 14 of the Listing Rules.

The code provision E.1.2 of the Corporate Governance Code provides that the Chairman shall attend the annual general meeting of the Company. Due to other business commitments, Mr. Wu Mengfei, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 13 June 2008 and delegated Mr. Yang Yexin, an executive director, the CEO and President of the Company, to preside over the meeting. Mr. Wu Mengfei was also contactable at all times during the AGM to answer questions where necessary.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. After specific enquiries 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 AGM.

On behalf of the Board

WU Mengfei

Chairman

Haikou, Hainan, PRC, 26 March 2009

Report by the Supervisory Committee

In 2008, all the members of the Company's supervisory committee ("Supervisory Committee") earnestly performed their supervisory functions to safeguard the rights and interests of the Company and the shareholders in accordance with the PRC Company Law, the Articles and the relevant provisions in the Listing Rules.

1 Meetings of the Supervisory Committee

(1) On 28 March 2008, the Company held the 2008 first meeting of the Supervisory Committee in Shenzhen, Guangdong and the Supervisory Committee considered and approved the 2007 Work Report of the Supervisory Committee of China BlueChemical Ltd.

(2) On 25 August 2008, the Company held the 2008 second meeting of the Supervisory Committee in Shenzhen, Guangdong and the Supervisory Committee considered and approved the 2008 Interim Financial Report of the Company.

(3) On 29 December 2008, the Company held the 2008 third meeting of the Supervisory Committee in Haikou, Hainan, the Supervisory Committee reviewed the 2008 work and formulated the 2009 work plan of the Supervisory Committee.

2 Principal Inspection and Supervision Work of the Supervisory Committee in 2008

(1) Members of the Supervisory Committee carried out inspection and supervision on the Company's financial management system, financial position and other internal control systems, including scheduled inspection of the financial reports and non-scheduled review of the accounting documents and books of the Company.

(2) Members of the Supervisory Committee attended the annual general meeting, two extraordinary general meetings and four board meetings. They made recommendations to matters considered by the board meetings 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 the Board had faithfully implemented the resolutions approved by the shareholders.

3 Independent Opinions Issued by the Supervisory Committee on Relevant Matters

(1) The Company's operation and management

During the reporting period, despite the adverse effect on the Company's business caused by the global financial crisis, the Company still achieved satisfactory results in areas including production, business operation, cost control, etc, and the annual targets set on production and operations were achieved. The management of the Company further strengthened the internal control system, especially in the area of risk control, which has further enhanced the level of corporate governance.

The management of the Company faithfully fulfilled the duties as stipulated in the Articles and seriously implemented the resolutions approved by the Board.

(2) The Company's financial position

Members of the Supervisory Committee carried out inspection and review on the financial management system and financial position of the Company and reviewed and approved relevant financial information of the Company. The Supervisory Committee concluded that the Company has strictly complied with the relevant laws and regulations, and the financial management system is sound and has been implemented effectively. Its accounting treatment is in line with the consistency principles. The Company's financial reports have truly and fairly reflected the financial position and operating results of the Company.

The Supervisory Committee has reviewed the audited reports in respect of the financial position and operating results of the Company for 2008 audited by Ernst & Young Huaming, Certified Public Accountants and Ernst & 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 connected transactions between the Company and its connected persons were all complied with the Listing Rules. The pricing of the connected transactions was reasonable, open and fair and there has not been any approved connected transaction which was prejudicial to the interests of the Company or shareholders. In addition, during the reporting period, the Company and its connected persons concluded the supplementary agreements for 2009 to 2011 continuing connected transactions, and the Supervisory Committee believes that the entering into of such agreements complies with the laws, regulations and the Articles, and the transaction types involved in the agreements are necessary to daily business of the Company, the transaction principle and pricing mechanism of the agreements are fair and reasonable and in line with the interests of the Company and shareholders. In addition, among the 2008 connected transactions, there was one category of continuing connected transactions which has exceeded the approved cap of 2008 granted by the HKEx pursuant to a waiver application made at the time of listing of the Company's shares, the Company has promptly made disclosure in an announcement of such incident.

(5) Implementation of the resolutions of 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 has faithfully implemented the resolutions approved by the shareholders.

In 2008, the Supervisory Committee will continue to implement effective supervision on the Company, its Directors and the senior management personnel in accordance with the PRC Company Law and the Articles, as well as the Listing Rules 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 also closely monitor the production, operation and management of the Company and pay close attention to any significant development so as to facilitate the growth of the Company and to faithfully protect the interests of the Company and shareholders.

By Order of the Supervisory Committee

YIN Jihong

Chairman of the Supervisory Committee

Haikou, Hainan, PRC, 26 March 2009

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 53 to 138, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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 2008 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.

Ernst & Young

Certified Public Accountants
18/F, Two International Finance Centre,
8 Finance Street,
Central,
Hong Kong

26 March 2009

Consolidated income statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	5	**5,518,176**	4,340,427
Cost of sales		**(3,250,002)**	(2,552,162)
Gross profit		**2,268,174**	1,788,265
Other income and gains	5	**127,764**	74,029
Selling and distribution costs		**(82,537)**	(70,185)
Administrative expenses		**(280,756)**	(223,840)
Other expenses		**(28,666)**	(51,218)
Finance income	6	**25,507**	29,245
Finance costs	7	**(12,080)**	(18,291)
Exchange gains, net		**14,852**	14,434
Share of profits of associates		**4,742**	4,041
Profit before tax	8	**2,037,000**	1,546,480
Income tax expense	11	**(176,138)**	(67,116)
Profit for the year		**1,860,862**	1,479,364
Attributable to:			
Equity holders of the parent	12	**1,635,281**	1,448,334
Minority interests		**225,581**	31,030
		1,860,862	1,479,364
Dividends	13	**437,950**	368,800
Earnings per share attributable to ordinary equity holders of the parent			
- Basic for the year (RMB)	14	**0.35**	0.31

Consolidated balance sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**6,202,554**	5,508,827
Prepaid land lease payments	17	**395,388**	404,821
Intangible assets	18	**15,294**	12,494
Investments in associates	21	**12,839**	11,937
Available-for-sale investments	22	**600**	600
Deferred tax assets	23	**42,101**	47,299
		6,668,776	5,985,978
Current assets			
Inventories	24	**526,759**	401,299
Trade receivables	25	**48,305**	21,426
Bills receivable	26	**30,351**	44,960
Available-for-sale investments	22	**-**	304,113
Prepayments, deposits and other receivables	27	**233,854**	153,213
Pledged bank deposits	29	**14,246**	5,774
Cash and cash equivalents	29	**4,177,279**	2,780,762
		5,030,794	3,711,547
Total assets		**11,699,570**	9,697,525

continued/…

Consolidated balance sheet (continued)

As at 31 December 2008

	Notes	2008 RMB'000	2007 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	**4,377,276**	3,107,310
Proposed dividend	31	**437,950**	368,800
		9,425,226	8,086,110
Minority interests		**901,595**	396,430
Total equity		**10,326,821**	8,482,540
Non-current liabilities			
Benefits liability	32	**66,413**	72,426
Interest-bearing bank and other borrowings	33	**212,009**	180,041
Other long-term liabilities	34	**55,029**	50,840
Deferred tax liabilities	23	**76,564**	49,076
		410,015	352,383
Current liabilities			
Trade payables	35	**107,709**	26,985
Other payables and accruals	36	**757,576**	683,369
Derivative financial instruments	37	**-**	6,136
Interest-bearing bank and other borrowings	33	**77,775**	101,015
Income tax payable		**19,674**	45,097
		962,734	862,602
Total liabilities		**1,372,749**	1,214,985
Total equity and liabilities		**11,699,570**	9,697,525

YANG Yexin
Director

FANG Yong
Director

Consolidated statement of changes in equity

Year ended 31 December 2008

	Notes	Attributable to equity holders of the parent		
		Paid-up capital	Statutory surplus reserve	Capital reserve
		RMB'000	RMB'000	RMB'000
As at 1 January 2008		**4,610,000**	**181,738**	**1,109,635**
Profit for the year		-	-	-
Total income and expense for the year		-	-	-
Dividends paid to minority shareholders		-	-	-
Capital contribution by minority shareholders		-	-	-
Capital reduction by a minority shareholder		-	-	-
2007 final dividend declared		-	-	-
Proposed 2008 final dividend		-	-	-
Acquisition of a subsidiary	40	-	-	**72,635**
Transfer from retained profits to statutory reserve		-	**112,194**	-
As at 31 December 2008		**4,610,000**	**293,932***	**1,182,270***

* These reserve accounts comprise the consolidated reserves of RMB4,377,276,000(2007: RMB3,107,310,000) in the consolidated balance sheet.

Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
1,815,937	**368,800**	**8,086,110**	**396,430**	**8,482,540**
1,635,281	**-**	**1,635,281**	**225,581**	**1,860,862**
1,635,281	**-**	**1,635,281**	**225,581**	**1,860,862**
-	**-**	**-**	**(178,509)**	**(178,509)**
-	**-**	**-**	**50,048**	**50,048**
-	**-**	**-**	**(4,323)**	**(4,323)**
-	**(368,800)**	**(368,800)**	**-**	**(368,800)**
(437,950)	**437,950**	**-**	**-**	**-**
-	**-**	**72,635**	**412,368**	**485,003**
(112,194)	**-**	**-**	**-**	**-**
2,901,074*	**437,950**	**9,425,226**	**901,595**	**10,326,821**

continued/…

Consolidated statement of changes in equity (continued)

Year ended 31 December 2008

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

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 cash flow statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Profit before tax		**2,037,000**	1,546,480
Adjustments for:			
Finance costs	7	**12,080**	18,291
Exchange gains, net		**(14,852)**	(14,434)
Share of profits of associates		**(4,742)**	(4,041)
Finance income		**(25,507)**	(29,245)
Gain on disposal of listed investments		**-**	(28,763)
Gain on disposal of unlisted investments		**(105,740)**	(18,540)
Loss on disposal of items of property, plant and equipment		**3,470**	10,230
Depreciation		**600,292**	573,578
Amortisation of a trademark		**329**	328
Amortisation of other intangible assets		**4,404**	3,603
Amortisation of prepaid land lease payments		**9,430**	9,409
Write-back of impairment of items of property, plant and equipment		**-**	(13)
Changes in fair value of derivative financial instruments		**(6,136)**	(19,546)
Write-back of provision for bad and doubtful receivables		**(369)**	(2,387)
Write-back of provision for defined benefit plans	32	**(1,735)**	(4,622)
Write-down of inventories to net realisable value		**4,564**	924
		2,512,488	2,041,252
Increase in inventories		**(94,665)**	(69,539)
Decrease in trade and bills receivables, prepayments, deposits and other receivables		**42,834**	24,793
Increase/(decrease) in trade payables, other payables and accruals and other long-term liabilities		**155,022**	(126,272)
Cash generated from operations		**2,615,679**	1,870,234
Defined benefits paid	32	**(4,278)**	(2,910)
Income tax paid		**(211,735)**	(104,717)
Net cash flows from operating activities		**2,399,666**	1,762,607

continued/…

Consolidated cash flow statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from investing activities			
Interest received		**25,507**	28,658
Dividends received		**3,840**	1,590
Purchases of items of property, plant and equipment		**(707,506)**	(347,420)
Proceeds from disposal of items of property, plant and equipment		**2,297**	8,147
Additions to prepaid land lease payments		**-**	(1,226)
Additions to intangible assets	18	**(7,603)**	-
Proceeds from disposal of intangible assets	18	**2,088**	-
Prepayment for acquisition of mining rights		**(113,840)**	-
Purchase of unlisted investments		**(15,391,053)**	(304,113)
Increase of investment in an associate		**-**	(840)
Disposal of unlisted investments		**15,824,981**	56,168
Cash inflows from acquisition of a subsidiary	40	**126,064**	-
(Increase) / decrease in pledged bank deposits		**(7,750)**	5,130
Decrease in non-pledged time deposits with original maturity of three months or more when acquired		**-**	146,160
Net cash flows used in investing activities		**(242,975)**	(407,746)
Cash flows from financing activities			
Capital contributions by minority shareholders		**50,048**	40,000
New bank and other borrowings		**-**	16,248
Repayment of bank and other borrowings		**(113,837)**	(580,947)
Repayment of finance lease obligations		**(511)**	(1,183)
Interest paid	7	**(12,080)**	(16,526)
Dividends paid		**(368,800)**	(69,150)
Dividends paid to minority shareholders		**(178,509)**	(12,000)
Dividends paid to the shareholder of a previously jointly-controlled entity		**(136,485)**	-
Net cash flows used in financing activities		**(760,174)**	(623,558)
Net increase in cash and cash equivalents		**1,396,517**	731,303
Cash and cash equivalents at 1 January		**2,780,762**	2,049,459
Cash and cash equivalents at 31 December		**4,177,279**	2,780,762
Analysis of balances of cash and cash equivalents			
Cash and bank balances	29	**4,177,279**	2,780,762

Balance sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**1,640,122**	1,594,108
Investment properties	16	**16,239**	16,441
Prepaid land lease payments	17	**39,311**	40,535
Intangible assets	18	**4,142**	12,165
Interests in subsidiaries	19	**2,993,354**	2,368,154
Investment in a jointly-controlled entity	20	-	300,000
Deferred tax assets	23	**5,603**	4,750
		4,698,771	4,336,153
Current assets			
Inventories	24	**182,245**	114,425
Trade receivables	25	**1,238**	2,275
Bills receivable	26	**8,519**	-
Prepayments, deposits and other receivables	27	**75,043**	94,915
Available-for-sale investment	22	-	250,000
Loans receivable	28	**266,000**	310,000
Pledged bank deposits	29	-	2,191
Cash and cash equivalents	29	**2,880,997**	1,944,070
		3,414,042	2,717,876
Total assets		**8,112,813**	7,054,029
Equity and liabilities			
Equity			
Paid-up capital	30	**4,610,000**	4,610,000
Reserves	31	**2,751,366**	1,826,693
Proposed dividend	31	**437,950**	368,800
Total equity		**7,799,316**	6,805,493
Non-current liabilities			
Other long-term liabilities	34	**17,641**	19,323
		17,641	19,323
Current liabilities			
Trade payables	35	**32,694**	2,624
Other payables and accruals	36	**250,794**	142,561
Derivative financial instruments	37	-	6,136
Interest-bearing bank and other borrowings	33	-	71,284
Income tax payable		**12,368**	6,608
		295,856	229,213
Total liabilities		**313,497**	248,536
Total equity and liabilities		**8,112,813**	7,054,029

YANG Yexin
Director

FANG Yong
Director

Notes to the financial statements

Year ended 31 December 2008

1 Corporate information

China BlueChemical Ltd. (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. (中海石油化學股份有限公司) on 25 April 2006. The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, 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, which 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.

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, 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 are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and previously jointly-controlled entity for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated units until the date that such control ceases.

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

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 Impact of new and revised IFRS

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures–Reclassification of Financial Assets*
IFRIC 11	IFRS 2–*Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	IAS 19–*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

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 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements–Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment Vesting Conditions and Cancellations* [1]
IFRS 3 (Revised)	*Business Combinations* [2]
IFRS 8	*Operating Segments* [1]
IAS 1 (Revised)	*Presentation of Financial Statements* [1]
IAS 23 (Revised)	*Borrowing Costs* [1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements–Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
IFRIC 13	*Customer Loyalty Programmes* [3]
IFRIC 15	*Agreements for the Construction of Real Estate* [1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation* [4]
IFRIC 17	*Distribution of Non-cash Assets to Owners* [2]
IFRIC 18	*Transfers of Assets from Customers* [2]

Apart from the above, the IASB has also issued *Improvements to IFRSs** which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 July 2008

[4] Effective for annual periods beginning on or after 1 October 2008

* Improvements to IFRSs contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

2.3 Impact of issued but not yet effective IFRS (continued)

Further information about those changes that are expected to significantly affect the Group is as follows:

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 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt IAS 1 (Revised) 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.

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.

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, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

The result of the jointly-controlled entity is 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 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 Summary of significant accounting policies (continued)

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 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 an impairment loss is credited to the consolidated income statement in the period in which it arises.

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.

2.4 Summary of significant accounting policies (continued)

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 where 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	1.80% 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 least 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.

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. Such properties are measured 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.

2.4 Summary of significant accounting policies (continued)

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 financial assets at fair value through profit or loss, loans and receivables, and 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 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 as 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 consolidated 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 consolidated 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. Such 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 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 consolidated 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. The related interest expense is recognised within "finance costs" in the consolidated income statement.

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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; 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 between 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. Such 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 stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions 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, 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 consolidate 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 in the same or a different period directly in equity.

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.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted (note 39). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the consolidated income statement.

2.4 Summary of significant accounting policies (continued)

Employee benefits

Retirement benefits

The Group, its previously jointly-controlled entity and associates participate in a government–regulated defined contribution pension scheme, under which the Group, its previously 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 ("CNOOC Tianye"), the Group'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.

Medical benefit costs

The Group, its previously jointly-controlled entity and associates participate in government–organised defined contribution medical benefit plans, under which the Group, its previously 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.

2.4 Summary of significant accounting policies (continued)

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 previously 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 previously 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 estimates

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

The 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 an impact on the carrying amounts of the inventories and the write-down charge/write-back in the period in which these estimates have 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 an impact on the carrying amounts of the receivables and doubtful debt expenses/write-back in the period in which these estimates have 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 a 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 50 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.

Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

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 2008					
Segment revenue:					
Sales to external customers	3,647,134	1,646,711	224,331	-	5,518,176
Intersegment sales	-	25,116	101,058	(126,174)	-
Other income	7,874	251	332	-	8,457
Total	3,655,008	1,672,078	325,721	(126,174)	5,526,633
Segment results	1,282,297	738,547	17,624	-	2,038,468
Interest, dividend income and unallocated gains					144,814
Corporate and other unallocated expenses					(153,796)
Finance costs					(12,080)
Exchange gains, net					14,852
Share of profits of associates	4,650	-	92	-	4,742
Profit before tax					2,037,000
Income tax expense					(176,138)
Profit for the year					1,860,862
As at 31 December 2008					
Segment assets	5,785,378	2,427,802	1,706,055	(31,575)	9,887,660
Investments in associates	11,915	-	924	-	12,839
Corporate and other unallocated assets					1,799,071
Total assets					11,699,570
Segment liabilities	440,437	482,899	678,635	(454,685)	1,147,286
Corporate and other unallocated liabilities					225,463
Total liabilities					1,372,749
Other segment information:					
Depreciation and amortisation	441,649	145,801	27,005	-	614,455
Other non-cash expenses	1,811	2,384	-	-	4,195
Capital expenditure	120,570	182,559	474,302	-	777,431

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 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, dividend income and unallocated gains					96,094
Corporate and other unallocated expenses					(134,933)
Finance costs					(18,291)
Exchange gains, net					14,434
Share of profits of associates	4,041	-	-	-	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)

Geographical segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2008 and 2007:

	2008 RMB'000	2007 RMB'000
Sales to external customers:		
- PRC	**5,144,009**	4,113,695
- Others	**374,167**	226,732
	5,518,176	4,340,427

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:

	2008 RMB'000	2007 RMB'000
Revenue		
Sale of goods	**5,309,427**	4,189,294
Rendering of services	**208,749**	151,133
	5,518,176	4,340,427
Other income and gains		
Gain on disposal of unlisted investments	**105,740**	18,540
Gain on disposal of listed investments	-	28,763
Fair value gains on derivative financial instruments	**6,136**	19,546
Income from the sale of other materials	**5,901**	3,262
Income from rendering of other services	**1,428**	1,304
Payables waived	**3,611**	-
Indemnities received	**1,350**	-
Others	**3,598**	2,614
	127,764	74,029

6 Finance income

Finance income represents interest income earned for the years ended 31 December 2008 and 2007.

7 Finance costs

	2008 RMB'000	2007 RMB'000
Interest on bank loans and other loans wholly repayable within five years	**12,080**	5,130
Interest on other loans	-	13,161
	12,080	18,291

8 Profit before tax

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

	2008 RMB'000	2007 RMB'000
Cost of inventories sold	**3,060,024**	2,416,933
Cost of services provided	**189,978**	135,228
Depreciation	**600,292**	573,578
Amortisation of a trademark	**329**	328
Amortisation of other intangible assets	**4,404**	3,603
Amortisation of prepaid land lease payments	**9,430**	9,409
Write-down of inventories to net realisable value	**4,564**	924
Auditors' remuneration	**4,280**	2,680
Employee benefits expense (including directors' and supervisors' remuneration – note 9):		
Wages and salaries	**288,639**	251,905
Defined contribution pension scheme (note (i))	**45,440**	42,450
Early retirement benefits and post-employment allowances (note (ii))	**(1,735)**	(4,622)
Medical benefit costs (note (iii))	**13,581**	12,507
Cash-settled share option expense	**884**	-
Housing fund (note (iv))	**13,555**	10,478
	360,364	312,718
Provision for bad and doubtful debts of trade receivables *	**-**	21
Provision for bad and doubtful debts of other receivables *	**124**	864
Write-back of provision for bad and doubtful debts of trade receivables *	**(493)**	(1,248)
Write-back of provision for bad and doubtful debts of other receivables *	**-**	(2,024)
Write-back of impairment of items of property, plant and equipment *	**-**	(13)
Loss on disposal of items of property, plant and equipment *	**3,470**	10,230

* 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 2008 and 2007. 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

CNOOC Tianye, the Group's 90%-owned subsidiary, pays 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 Hong Kong Companies Ordinance are as follows:

	Directors	
	2008	2007
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**1,076**	1,122
Discretionary bonuses	**861**	803
Cash-settled share option expense	**471**	-
Pension scheme contributions	**91**	91
	2,499	2,016

	Supervisors	
	2008	2007
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**169**	153
Discretionary bonuses	**155**	151
Pension scheme contributions	**16**	16
	340	320

9 Directors' and supervisors' remuneration (continued)

The remuneration of each of the directors and supervisors of the Company for the year ended 31 December 2008 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Employee share option benefits	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Non-executive director					
Wu Mengfei	35	-	150	-	185
Executive directors					
Yang Yexin	228	315	127	35	705
Fang Yong	160	257	97	23	537
Chen Kai	210	289	97	33	629
	598	861	321	91	1,871
Independent non-executive directors					
Zhang Xinzhi	113	-	-	-	113
Wu Xiaohua *	60	-	-	-	60
Tsui Yiu Wa, Alec	195	-	-	-	195
Wang Wenshan	75	-	-	-	75
	443	-	-	-	443
	1,076	**861**	**471**	**91**	**2,499**
Supervisors					
Yin Jihong	16	-	-	-	16
Qu Bin	112	155	-	16	283
Huang Jinggui	41	-	-	-	41
	169	**155**	**-**	**16**	**340**

* Resigned on 5 December 2008.

9 Directors' and supervisors' remuneration (continued)

The remuneration 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	Discretionary bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	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**

10 Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2008 and 2007 are analysed as follows:

	2008	2007
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 2008 and 2007 are as follows:

	2008 RMB'000	2007 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**351**	270
Discretionary bonuses	**530**	461
Cash-settled share option expense	**152**	-
Pension scheme contributions	**54**	44
	1,087	775

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 2008 and 2007.

During the year, certain directors were granted share options in respect of their services to the Group, further details of which are included in the disclosures in note 39 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors and highest paid employees' remuneration disclosures.

11 Income tax expense

Major components of income tax expense for the years ended 31 December 2008 and 2007 are as follows:

	2008 RMB'000	2007 RMB'000
Current – PRC		
Charge for the year	**172,331**	98,537
Deferred (note 23)	**3,807**	(31,421)
Total tax charge for the year	**176,138**	67,116

11 Income tax expense (continued)

(a) Corporate income tax ("CIT")

During the 5th Session of the 10th National People's Congress, which 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%.

According to the document Finance Taxes [2008] No. 21 issued by the Ministry of Finance and the State Administration of Taxation on 20 February 2008, the Company, its subsidiaries and its associates registered in Hainan Province or Pudong New Area, Shanghai, PRC, are entitled transitional CIT rates of 18%, 20%, 22% and 24% for the years 2008, 2009, 2010 and 2011 respectively, and 25% from 2012.

The Company is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. This is the third year for the Company to be entitled to the 50% reduction of the applicable CIT rate.

Hainan CNOOC Complex Fertiliser Co., Ltd. is entitled to a transitional CIT rate of 18% for the current year.

Hainan CNOOC Plastic Company Limited ("CNOOC Plastic") is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. This is the third year for CNOOC Plastics to be entitled to the 50% reduction of the applicable CIT rate.

CNOOC Fudao Limited is entitled to a preferential tax rate of 15% for the three years ending 31 December 2010 after being assessed as a high new technology entity.

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 CIT rate for the five years ending 31 December 2014 as it is engaged in infrastructure development and operations. This is the fourth year for Hainan Basuo to be entitled to the exemption from CIT.

CNOOC Kingboard Chemical Limited ("CNOOC Kingboard") 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 CIT rate for the subsequent three years. CNOOC Kingboard has elected to benefit from the tax holiday starting from the year ended 31 December 2007. This is the second year for CNOOC Kingboard to be entitled to the exemption from CIT.

CNOOC Tianye finished its last tax exemption year in 2007. With effect from 1 January 2008, a CIT rate of 25% applies to CNOOC Tianye.

(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 2008 and 2007.

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 is domiciled to the income tax expense at the effective tax rates is as follows:

	2008 RMB'000	2007 RMB'000
Profit before tax	**2,037,000**	1,546,480
Tax at the statutory tax rate of 25% (2007:33%)	**509,250**	510,338
Lower tax rate for specific provinces / districts or concessions	**(341,793)**	(413,762)
Underprovision / (overprovision) of income tax expense in prior years	**4,040**	(4,478)
Profits attributable to associates	**(698)**	(640)
Income not subject to tax	**(1,229)**	(592)
Expenses not deductible for tax	**3,844**	5,583
Effect of changes in tax rates	-	(31,258)
Tax losses not recognised	**(322)**	374
Others	**3,046**	1,551
Income tax expense reported in the consolidated income statement	**176,138**	67,116
The Group's effective income tax rate	**8.6%**	4.3%

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 2008 includes a profit of RMB1,362,623,000 (2007: RMB1,014,440,000) dealt with in the financial statements of the Company (note 31).

13 Dividends

	2008 RMB'000	2007 RMB'000
Proposed final – RMB0.095 (2007: RMB0.08) per ordinary share	**437,950**	368,800

The proposed 2007 final dividend was approved at the annual general meeting on 13 June 2008. The proposed 2008 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2008 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 Chinese Accounting Standards for Business Enterprises ("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

	2008 RMB'000	2007 RMB'000
Earnings		
Profit for the year attributable to equity holders of the parent	**1,635,281**	1,448,334

	Number of shares '000	'000
Shares		
Number of shares in issue during the year	**4,610,000**	4,610,000

Diluted earnings per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during these years.

15 Property, plant and equipment

Group

	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 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
Cost as at 1 January 2008, net of accumulated depreciation and impairment	**1,622,305**	**3,652,370**	**28,758**	**55,974**	**13,761**	**135,659**	**5,508,827**
Additions	**993**	**22,016**	**4,631**	**6,051**	**3,325**	**732,812**	**769,828**
Acquisition of a subsidiary	**8,983**	**520,168**	**247**	**557**	**3**	**-**	**529,958**
Other transfers	**-**	**(287)**	**59**	**350**	**(122)**	**-**	**-**
Disposals	**(684)**	**(5,018)**	**(16)**	**(18)**	**(31)**	**-**	**(5,767)**
Transfers	**28,640**	**56,542**	**25,878**	**15,632**	**905**	**(127,597)**	**-**
Depreciation for the year	**(104,109)**	**(469,705)**	**(8,515)**	**(14,207)**	**(3,756)**	**-**	**(600,292)**
Cost as at 31 December 2008, net of accumulated depreciation and impairment	**1,556,128**	**3,776,086**	**51,042**	**64,339**	**14,085**	**740,874**	**6,202,554**
As at 31 December 2008:							
Cost	**2,568,008**	**7,172,049**	**112,096**	**364,853**	**50,371**	**740,874**	**11,008,251**
Accumulated depreciation and impairment	**(1,011,880)**	**(3,395,963)**	**(61,054)**	**(300,514)**	**(36,286)**	**-**	**(4,805,697)**
Net carrying amount	**1,556,128**	**3,776,086**	**51,042**	**64,339**	**14,085**	**740,874**	**6,202,554**

15 Property, plant and equipment (continued)

Group (continued)

	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 impairment	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

As at 31 December 2008, the net book value of the Group's property, plant and equipment held under finance leases amounted to RMB2,339,000 (2007: RMB2,471,000).

As at 31 December 2008, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB18,776,000(2007: RMB11,729,000).

15 Property, plant and equipment (continued)

Company

	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 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
Cost as at 1 January 2008, net of accumulated depreciation	**359,380**	**1,192,047**	**4,088**	**10,032**	**110**	**28,451**	**1,594,108**
Additions	-	**246**	**2,529**	**1,302**	-	**190,169**	**194,246**
Disposals	-	**(1,763)**	-	**(33)**	-	-	**(1,796)**
Transfers	**410**	**4,442**	-	**1,979**	-	**(7,337)**	**(506)**
Depreciation for the year	**(28,429)**	**(110,918)**	**(1,939)**	**(4,606)**	**(38)**	-	**(145,930)**
Cost as at 31 December 2008, net of accumulated depreciation	**331,361**	**1,084,054**	**4,678**	**8,674**	**72**	**211,283**	**1,640,122**
As at 31 December 2008:							
Cost	**494,562**	**1,656,628**	**20,199**	**24,186**	**1,793**	**211,283**	**2,408,651**
Accumulated depreciation	**(163,201)**	**(572,574)**	**(15,521)**	**(15,512)**	**(1,721)**	-	**(768,529)**
Net carrying amount	**331,361**	**1,084,054**	**4,678**	**8,674**	**72**	**211,283**	**1,640,122**
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)	-	-
Depreciation for the year	(27,986)	(111,473)	(2,377)	(4,721)	(38)	-	(146,595)
Cost as at 31 December 2007, net of accumulated depreciation	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

16 Investment properties

Company

	2008 RMB'000	2007 RMB'000
Carrying amount at 31 December	**16,239**	16,441

Included in the Company's investment properties are buildings situated in the PRC, which are leased to its subsidiaries under operating leases.

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

	2008 RMB'000	2007 RMB'000
Carrying amount as at 1 January	**414,248**	422,431
Additions	-	1,226
Amortisation for the year	**(9,430)**	(9,409)
Carrying amount as at 31 December	**404,818**	414,248
Current portion included in prepayments,deposits and other receivables	**(9,430)**	(9,427)
Non-current portion	**395,388**	404,821

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

	RMB'000
Long-term leases	39,600
Medium-term leases	365,218
	404,818

17 Prepaid land lease payments (continued)

Company

	2008 RMB'000	2007 RMB'000
Carrying amount as at 1 January	**41,759**	42,983
Amortisation for the year	**(1,224)**	(1,224)
Carrying amount as at 31 December	**40,535**	41,759
Current portion included in prepayments, deposits and other receivables	**(1,224)**	(1,224)
Non-current portion	**39,311**	40,535

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

	RMB'000
Long-term leases	8,391
Medium-term leases	32,144
	40,535

18 Intangible assets

Group

	Computer software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Total RMB'000
Cost as at 1 January 2008, net of accumulated amortisation and impairment	**12,165**	**-**	**329**	**12,494**
Additions	**7,603**	**-**	**-**	**7,603**
Acquisition of a subsidiary	**2,018**	**-**	**-**	**2,018**
Disposal	**(2,088)**	**-**	**-**	**(2,088)**
Amortisation for the year	**(4,404)**	**-**	**(329)**	**(4,733)**
Cost as at 31 December 2008, net of accumulated amortisation and impairment	**15,294**	**-**	**-**	**15,294**
As at 31 December 2008:				
Cost	**23,810**	**253**	**329**	**24,392**
Accumulated amortisation and impairment	**(8,516)**	**(253)**	**(329)**	**(9,098)**
Net carrying amount	**15,294**	**-**	**-**	**15,294**

	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 and impairment	15,768	-	657	16,425
Amortisation for the year	(3,603)	-	(328)	(3,931)
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)

Company

	Computer software RMB'000
Cost as at 1 January 2008, net of accumulated amortisation	**12,165**
Transfers	**(5,219)**
Amortisation for the year	**(2,804)**
Cost as at 31 December 2008, net of accumulated amortisation	**4,142**
As at 31 December 2008:	
Cost	**10,988**
Accumulated amortisation	**(6,846)**
Net carrying amount	**4,142**
Cost as at 1 January 2007, net of accumulated amortisation	15,768
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

19 Interests in subsidiaries

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	**2,838,354**	2,326,154
Loans to subsidiaries	**155,000**	42,000
	2,993,354	2,368,154

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

The loans to subsidiaries included in interests in subsidiaries above are unsecured, bear variable interest rates subject to adjustments based on the People's Bank of China's baseline lending rate, and are repayable on 24 October 2011.

19 Interests in subsidiaries (continued)

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

Company name	Place and date of establishment and operation	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	- 67.26	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	514,034	Direct Indirect	73.11 -	Port operation
CNOOC Tianye Chemical Limited (中海石油天野化工股份有限公司)	PRC 18 December 2000	1,780,000	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
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
China BlueChemical Yichang Mining Ltd (中海石油化學宜昌礦業有限公司)	PRC 7 August 2008	50,000	Direct Indirect	51.00 -	Exploration of phosphate mine, mining, mineral processing and sales of phosphate ore
Shanghai Qionghua Trading Co., Ltd (上海瓊化經貿有限公司)	PRC 7 January 2002	27,000	Direct Indirect	- 90.93	Sale of fertilisers
China BlueChemical Baotou Coal Chemical Industry Co., Ltd (中海石油化學包頭煤化工有限公司)	PRC 11 September 2008	100,000	Direct Indirect	100.00 -	Sale and development of fertilisers and chemical products
China Basuo Ocean Shipping Tally Co., Ltd (八所中理外輪理貨有限公司)	PRC 9 May 2008	300	Direct Indirect	- 61.41	Provision of overseas shipping services

19 Interests in subsidiaries (continued)

The subsidiaries of the Company listed in the above table are all limited companies which, in the opinion of the management, principally affect 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

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	-	300,000

On 29 April 2008, the Company obtained approval from the Ministry of Commerce of the PRC with regard to the revisions of the Memorandum and Articles of Association for CNOOC Kingboard which had been previously accounted for as a jointly-controlled entity.

As the minority veto rights lapsed through the revision of the Memorandum and Articles of Association, the Company obtained control over CNOOC Kingboard effective from 29 April 2008 and CNOOC Kingboard became the Company's subsidiary accordingly.

Share of the jointly-controlled entity's results:

	2008* RMB'000	2007 RMB'000
Revenue	**331,241**	797,071
Other income	**11**	892
	331,252	797,963
Total expenses	**(127,899)**	(359,153)
Tax	-	(602)
Profit after tax	**203,353**	438,208

* Reflecting the share of results of CNOOC Kingboard from 1 January 2008 to 29 April 2008.

21 Investments in associates

Group

	2008 RMB'000	2007 RMB'000
Share of net assets	**12,839**	11,937

The Group's trade receivable, other receivable and other payable balances with its associates are disclosed in notes 25, 27 and 36 to the financial statements respectively.

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

Company name	Place and date 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	20,000	Direct Indirect	- 30.00	Trading of fertilisers
China Basuo Overseas Shipping Agency Co., Ltd. (中國八所外輪代理有限公司)	PRC 24 May 2000	1,800	Direct Indirect	- 36.56	Provision of overseas shipping services

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

	2008 RMB'000	2007 RMB'000
Assets	**194,559**	121,212
Liabilities	**155,383**	83,452
Revenue	**657,747**	615,359
Profit	**15,684**	14,329

22 Available-for-sale investments

Group

	2008 RMB'000	2007 RMB'000
Current		
Unlisted investments, at cost	-	304,113
Non-current		
Unlisted equity investments, at cost	**600**	600
	600	304,713

Company

	2008 RMB'000	2007 RMB'000
Current		
Unlisted investment, 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 2008 and 2007 are as follows:

Group

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies	Provision for impairment of assets	Wages and salaries	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2008	**12,789**	**12,755**	**19,088**	**2,667**	**47,299**
Acquisition of a subsidiary (note 40)	**424**	-	-	-	**424**
Credited/(charged) to the consolidated income statement (note 11)	**(3,612)**	**1,322**	**(2,606)**	**(726)**	**(5,622)**
As at 31 December 2008	**9,601**	**14,077**	**16,482**	**1,941**	**42,101**
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

23 Deferred taxation (continued)

Group (continued)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Total RMB'000
As at 1 January 2008	**46,225**	**2,851**	**49,076**
Acquisition of a subsidiary (note 40)	**29,303**	-	**29,303**
Credited to the consolidated income statement (note 11)	**(1,556)**	**(259)**	**(1,815)**
As at 31 December 2008	**73,972**	**2,592**	**76,564**
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

Company

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies RMB'000	Provision for impairment of assets RMB'000	Total RMB'000
As at 1 January 2008	**4,680**	**70**	**4,750**
Credited to the income statement	**690**	**163**	**853**
As at 31 December 2008	**5,370**	**233**	**5,603**
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

24 Inventories

Group

	2008 RMB'000	2007 RMB'000
Raw materials and spare parts	**350,094**	311,318
Work in progress	**60,487**	55,914
Finished goods	**116,178**	34,067
	526,759	401,299

Company

	2008 RMB'000	2007 RMB'000
Raw materials and spare parts	**104,717**	89,931
Work in progress	**34,458**	24,426
Finished goods	**43,070**	68
	182,245	114,425

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. 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

	2008 RMB'000	2007 RMB'000
Within six months	**46,136**	13,624
Over six months but within one year	**2,020**	7,642
Over one year but within two years	**149**	160
	48,305	21,426

The movements in provision for impairment of trade receivables are as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**1,799**	3,026
Impairment losses recognised (note 8)	-	21
Amount written off as uncollectible	**(31)**	-
Impairment losses reversed	**(493)**	(1,248)
	1,275	1,799

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,275,000(2007: RMB1,799,000) with a carrying amount of RMB nil (2007: RMB nil). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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.

25 Trade receivables (continued)

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 2008, the amount due from CNOOC Group companies included in the above trade receivable balances was RMB3,515,000 (2007: RMB126,000). The amount due from an associate included in the above trade receivable balances was RMB106,000 (2007: RMB1,934,000). 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

	2008 RMB'000	2007 RMB'000
Within six months	**1,232**	2,275
Over six months but within one year	**6**	-
	1,238	2,275

As at 31 December 2008, the amounts due from subsidiaries of the Company included in the above trade receivable balances were RMB1,029,000 (2007: RMB2,248,000). 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 and the Company as at 31 December 2008 and 2007 all mature within six months.

27 Prepayments, deposits and other receivables

Group

	2008 RMB'000	2007 RMB'000
Prepayments	**179,374**	70,947
Deposits and other receivables	**54,480**	82,266
	233,854	153,213

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 the ultimate holding company, CNOOC group companies, an associate, and a jointly-controlled entity included in the above can be analysed as follows:

	2008 RMB'000	2007 RMB'000
Ultimate holding company	**374**	-
CNOOC group companies	**15,370**	6,686
An associate	**110**	-
A jointly-controlled entity	**-**	7,536
	15,854	14,222

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

Company

	2008 RMB'000	2007 RMB'000
Prepayments	**12,622**	7,694
Deposits and other receivables	**62,421**	87,221
	75,043	94,915

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

	2008 RMB'000	2007 RMB'000
Ultimate holding company	**374**	-
CNOOC group companies	**11,280**	5,725
A jointly-controlled entity	**-**	13,255
Subsidiaries	**22,581**	17,852
	34,235	36,832

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

28 Loans receivable

As at 31 December 2008, loans receivable of the Company represented the following:

- Entrusted loan with an amount of RMB240,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 5.913% per annum and is repayable on 15 June 2009;
- Entrusted loan with an amount of RMB15,000,000 which was provided to CNOOC Plastic during the year and is unsecured, bears interest at a rate of 2.70% per annum and is repayable on 27 April 2009;
- Entrusted loan with an amount of RMB11,000,000 which was provided to CNOOC (Hainan) E&P Gas Limited during the year and is unsecured, bears interest at a rate of 2.70% per annum and is repayable on 27 April 2009.

As at 31 December 2007, loans receivable represented an entrusted loan with an amount of RMB310,000,000 which was provided to CNOOC Tianye and was unsecured, bore interest at a rate of 5.27% per annum.

29 Cash and cash equivalents and pledged bank deposits

Group

	2008 RMB'000	2007 RMB'000
Cash and bank balances	**4,191,525**	2,786,536
Less: Pledged bank deposits	**(14,246)**	(5,774)
Cash and cash equivalents in the consolidated balance sheet and cash flow statements	**4,177,279**	2,780,762

As at 31 December 2008, the Group's pledged bank deposits of RMB14,246,000 (2007: RMB5,774,000) were deposited with banks mainly for issuing letters of credit and guarantees in relation to the purchase of machinery and equipment.

The Group's cash and bank balances are denominated in RMB as at 31 December 2008 and 2007, except for amounts of RMB59,937,000 (2007: RMB8,577,000) which is translated from USD8,770,000 (2007: USD1,174,000); RMB Nil(2007: RMB13,279,000) which is translated from JPY (2007: JPY207,156,000); and RMB2,584,000 (2007: RMB2,800) which is translated from HKD2,930,000 (2007: HKD3,000).

29 Cash and cash equivalents and pledged bank deposits (continued)

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 2008, included in the Group's cash and cash equivalents was RMB206,835,000 (2007: RMB184,346,000) deposited in CNOOC Finance Corporation Limited ("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.

Company

	2008 RMB'000	2007 RMB'000
Cash and bank balances	**2,880,997**	1,946,261
Less: Pledged bank deposits	-	(2,191)
	2,880,997	1,944,070

As at 31 December 2007, the Company's pledged bank deposits of RMB2,191,000 were deposited with 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 2008 and 2007, except for amounts of RMB6,224,000 (2007: RMB299,000) which is translated from USD911,000 (2007: USD41,000); RMB Nil (2007: RMB13,279,000) which is translated from JPY (2007: JPY207,156,300); and RMB2,560,000 (2007: RMB2,800) which is translated from HKD2,903,000 (2007: HKD3,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2008, included in the Company's cash and cash equivalents was RMB43,362,000 (2007: RMB69,705,000) 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.

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 2008	4,610,000	4,610,000

31 Reserves

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2008 and 2007 are presented in the consolidated statement of changes in equity set out on pages 56 to 59 of the financial statements.

31 Reserves (continued)

Company

	Notes	Statutory surplus reserve RMB'000 *	Capital reserve RMB'000	Retained profits RMB'000 *	Proposed dividend RMB'000	Total RMB'000
As at 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 and 1 January 2008		**181,738**	**1,109,635**	**535,320**	**368,800**	**2,195,493**
Profit for the year	12	-	-	**1,362,623**	-	**1,362,623**
Transfer from retained profits		**112,194**	-	**(112,194)**	-	-
2007 final dividend paid		-	-	-	**(368,800)**	**(368,800)**
Proposed 2008 final dividend		-	-	**(437,950)**	**437,950**	-
As at 31 December 2008		**293,932**	**1,109,635**	**1,347,799**	**437,950**	**3,189,316**

* In accordance with the articles of association of the Company approved by 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.

31 Reserves (continued)

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.

32 Benefits liability

CNOOC Tianye, 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 2008 and 2007 are as follows:

Group

	2008		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	**-**	**239**	**239**
Interest cost on benefits obligation	**923**	**637**	**1,560**
Net actuarial gain recognised for the year	**(2,153)**	**(1,381)**	**(3,534)**
Net benefits expense	**(1,230)**	**(505)**	**(1,735)**

32 Benefits liability (continued)

	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)

The details of the benefits liability by each type of benefit as at 31 December 2008 and 2007 are as follows:

	2008		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	**17,476**	**16,476**	**33,952**
Unrecognised net actuarial gain	**30,725**	**1,736**	**32,461**
Benefits liability	**48,201**	**18,212**	**66,413**

	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)

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	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
As at 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
Amortisation of prior year's service cost	325	-	325
Amortisation 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 and 1 January 2008	**53,193**	**19,233**	**72,426**
Current service cost	-	**239**	**239**
Interest cost on benefit obligation	**923**	**637**	**1,560**
Write off of benefit liability	**(2,153)**	**(1,381)**	**(3,534)**
Benefits paid	**(3,762)**	**(516)**	**(4,278)**
As at 31 December 2008	**48,201**	**18,212**	**66,413**

The group expects to contribute RMB400,000 to its defined benefit pension plans in 2009.

The principal assumptions used in determining the early retirement benefits obligation and post-employment allowances of the Group as at 31 December 2008 are shown below:

	2008
Discount rate	3.25 %
Early retirement rate	0.00 %
Inflation rate	2.00 %

The management has reviewed the actuarial valuation as at 31 December 2008 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 was adequate for the year ended 31 December 2008.

33 Interest-bearing bank and other borrowings

Group

	Effective interest rate (%)	Maturity	2008 RMB'000	2007 RMB'000
Current				
Bank loans				
- Unsecured				
- Yen loan	LIBOR+0.60	2008	-	71,284
- USD loan	LIBOR+0.85	2008	-	16,073
- USD loan	LIBOR+0.65	2009	**68,347**	13,147
			68,347	100,504
Other loans				
- Obligations under finance lease (note 38)	6.03-6.57	2009	**259**	511
- Unsecured	2.48-2.60	2009	**9,169**	-
			9,428	511
			77,775	101,015
Non-current				
Bank loans				
- Unsecured				
- USD loan	LIBOR+0.65	2013	**212,009**	179,782
Other loans				
- Obligations under finance lease (note 38)	6.57	2009	-	259
			212,009	180,041
			289,784	281,056

33 Interest-bearing bank and other borrowings (continued)

Group (continued)

	2008 RMB'000	2007 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**68,347**	100,504
In the second year	**68,347**	43,829
In the third to fifth years, inclusive	**143,662**	131,483
Beyond five years	**-**	4,470
	280,356	280,286
Other loans repayable:		
Within one year or on demand	**9,428**	511
In the second year	**-**	259
	9,428	770
	289,784	281,056

Company

	Effective interest rate (%)	Maturity	2008 RMB'000	2007 RMB'000
Current				
Unsecured bank loans	LIBOR+0.60	2008	-	71,284

34 Other long-term liabilities

Group

As at 31 December 2008, other long-term liabilities of the Group mainly represented a government grant of RMB48,870,000 (2007: RMB38,480,000) received by Hainan Basuo from the Ministry of Transport of the PRC. The government grant is received specifically for the future renovation of the port facilities operated by Hainan Basuo.

Company

As at 31 December 2008, other long-term liabilities of the Company mainly represented deferred rental income of RMB16,744,000 (2007: RMB18,426,000) received from its subsidiaries.

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

	2008 RMB'000	2007 RMB'000
Within six months	**101,153**	26,070
Over six months but within one year	**457**	-
Over one year but within two years	**5,289**	690
Over two years but within three years	**626**	-
Over three years	**184**	225
	107,709	26,985

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

As at 31 December 2008, the amounts due to CNOOC group companies included in the above trade payable balances were RMB74,001,000 (2007: RMB2,047,000).

Company

	2008 RMB'000	2007 RMB'000
Within six months	**32,694**	2,624

As at 31 December 2008, the amounts due to CNOOC group companies included in the above trade payable balances were RMB27,593,000 (2007: RMB165,000).

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

36 Other payables and accruals

Group

	2008 RMB'000	2007 RMB'000
Advances from customers	**183,759**	83,883
Accruals	**5,452**	4,887
Accrued payroll	**189,575**	226,942
Cash-settled share options	**884**	-
Tax payables	**18,898**	10,239
Other payables	**42,293**	25,140
Port construction fees payable	**164,656**	163,805
Safety costs	-	21,139
Payables in relation to the construction and purchase of items of property, plant and equipment	**113,057**	115,993
Due to the ultimate holding company	**2,448**	8,480
Due to CNOOC group companies	**29,946**	22,281
Due to an associate	**6,608**	448
Due to a jointly-controlled entity	-	132
	757,576	683,369

Company

	2008 RMB'000	2007 RMB'000
Advances from customers	**84,991**	14,579
Accruals	-	36
Accrued payroll	**26,940**	30,298
Cash-settled share options	**884**	-
Tax payables	**2,337**	1,285
Other payables	**6,784**	16,482
Safety costs	-	6,945
Payables in relation to the construction and purchase of items of property, plant and equipment	**46,769**	49,662
Due to the ultimate holding company	**2,448**	8,480
Due to CNOOC group companies	**9,060**	8,925
Due to subsidiaries	**70,581**	5,538
Due to a jointly-controlled entity	-	331
	250,794	142,561

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 0.60% 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 2008 and 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 2008 was nil as the outstanding Japanese Yen loan amounts were fully repaid during the year.

38 Obligations under finance lease

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

As at 31 December 2008, 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)	259	241
Future finance charges	(18)	
Total net finance lease payables	241	

39 Share Option Scheme

On 25 February 2008, 6,224,000 share appreciation rights ("the SARs") were granted to senior executives, which can only be settled in cash. The exercise price of the SARs of HKD5.10 was equal to the market price of the shares on the date of grant. The SARs vest if and when (i) the average return on equity for the financial years 2007 and 2008 is not lower than 14%; and (ii) the average year-on-year increase in net profit of the Company is not lower than 10% for the financial years 2007 and 2008. If these increases are not met, the SARs lapse. If the SARs vest, the recipients are entitled to exercise once in each year from 2010 to 2014, to the extent of 25% of total SARs granted.

The fair value of the SARs is estimated at the date of grant using the Black-Scholes pricing model taking into account the terms and conditions under which the SARs were granted. The annual payment upon the exercise shall not be more than 50% of the total annual remuneration of the recipients of the SARs as at the time of the grant. The services received and a liability to pay for those services is recognised over the expected vesting period. Until the liability is settled it is re-measured at each reporting date with change in fair value recognised in profit or loss.

The fair value of the SARs granted as at 31 December 2008 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	2.69
Expected volatility (%)	58.93
Risk-free interest rate (%)	1.53
Expected life (years)	4.00
Weighted average share price (HKD)	4.84

The carrying amount of the liability relating to the SARs as at 31 December 2008 is RMB884,000. No SARs had vested as at 31 December 2008.

40 Business combination

On 29 April 2008, the Company obtained approval from the Ministry of Commerce of the PRC with regard to the revisions of the Memorandum and Articles of Association for CNOOC Kingboard. CNOOC Kingboard had been accounted for as a jointly-controlled entity, because minority veto rights existed that kept the Company from controlling CNOOC Kingboard in which the Company holds 60% of the equity interest.

As the minority veto rights lapsed through the revision of the Memorandum and Articles of Association, the Company obtained control over CNOOC Kingboard without transferring consideration with effect from 29 April 2008.

40 Business combination (continued)

The fair values of the identifiable assets and liabilities of CNOOC Kingboard as of the date of acquisition (29 April 2008) and the corresponding carrying amounts immediately before the acquisition were as follows:

		As of 29 April 2008	
	Notes	Fair value recognised on acquisition	Carrying amount*
		RMB'000	RMB'000
Property, plant and equipment	15	1,125,782	993,040
Prepaid land lease payment		14,025	14,025
Intangible assets	18	5,045	5,045
Deferred tax assets	23	1,059	1,059
Available-for-sale investments		60,188	60,188
Inventories		61,971	44,352
Trade receivables		62,394	62,394
Prepayments and other receivables		2,255	2,255
Cash and bank balances		315,160	315,160
Pledged bank deposits		1,804	1,804
Trade payables		(70,447)	(70,447)
Accruals and other payables		(211,322)	(211,322)
Interest bearing bank and other borrowings		(307,691)	(307,691)
Deferred tax liabilities	23	(29,303)	-
Minority interest		(412,368)	-
Net assets		618,552	909,862
Carrying amounts proportionally consolidated (60%) before acquisition		(545,917)	
Net assets acquired		72,635	
Revaluation surplus recognised in equity		(72,635)	
Total consideration		-	
Cash acquired (40% of the cash and bank balances)		126,064	
Net cash inflow from acquisition		126,064	

* The carrying amount represents 100% of carrying amount of CNOOC Kingboard amount as of the acquisition date The Company had been proportionately consolidating 60% of CNOOC Kingboard's assets and liabilities before the acquisition date.

Since the acquisition, CNOOC Kingboard contributed RMB950,098,000 to the Group's turnover and RMB533,045,000 to the consolidated profit of the Group for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the consolidated profit of the Group for the year would have been RMB5,732,201,000 and RMB1,996,430,000, respectively.

41 Operating lease arrangements

(i) As lessor

Group

As at 31 December 2008 and 2007, 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 2008 and 2007, the Company had total future minimum lease receivables from the subsidiaries of the Company under non-cancellable operating leases falling due as follows:

	2008 RMB'000	2007 RMB'000
Within one year	**551**	551
In the second to fifth years, inclusive	**2,205**	2,205
After five years	**4,202**	4,753
	6,958	7,509

(ii) As lessee

As at 31 December 2008 and 2007, the Group and the Company had no significant future minimum lease payments under non-cancellable operating leases.

42 Commitments and contingent liabilities

Capital commitments

Group

	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
- Acquisition of land and buildings	**196**	8,458
- Acquisition of plant and machinery	**1,408,979**	108,282
	1,409,175	116,740
Authorised, but not contracted for:		
- Acquisition of land and buildings	**41,010**	5,993
- Acquisition of plant and machinery	**2,291,189**	1,513,142
	2,332,199	1,519,135
	3,741,374	1,635,875

42 Commitments and contingent liabilities (continued)

Company

	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
- Acquisition of land and buildings	-	272
- Acquisition of plant and machinery	**335,501**	72,594
	335,501	72,866
Authorised, but not contracted for:		
- Acquisition of land and buildings	**41,010**	1,485
- Acquisition of plant and machinery	**1,846,587**	65,921
	1,887,597	67,406
	2,223,098	140,272

	2008 RMB'000	2007 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- A subsidiary	**168,214**	-
- A jointly-controlled entity	-	179,781
	168,214	179,781

43 Related party transactions

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

(1) Recurring

	Notes	2008 RMB'000	2007 RMB'000
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	**30,487**	28,432
Provision of transportation services	(ii)	**4,025**	3,068
Provision of packaging and assembling services	(iii)	**9,774**	474
Provision of logistics services	(iii)	**679**	-
Provision of rental services	(iii)	**100**	-
(b) Associates			
Sale of goods	(i)	**396,108**	251,154
Provision of transportation services	(ii)	**14,979**	-
Provision of packaging and assembling services	(iii)	**293**	-
(c) A jointly-controlled entity			
Sale of raw materials	(iii)	**1,418**	4,553
Provision of transportation services	(ii)	**1,560**	2,697
Provision of packaging and assembling services	(iii)	**2,243**	5,393
Provision of logistics services	(iii)	**86**	3,527
Provision of rental services	(iii)	**44**	132

43 Related party transactions (continued)

(1) Recurring (continued)

	Notes	2008 RMB'000	2007 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)	**802,158**	558,754
Transportation services	(ii)	**19,982**	21,188
Lease of offices	(iv)	**2,912**	3,398
Construction and installation services	(v)	**44,574**	55,348
Labour services	(vi)	**41,845**	20,835
Network services	(vi)	**7,517**	4,081
Logistics services	(vi)	**2,948**	620
(c) Associates			
Purchase of raw materials	(i)	-	10,391
(d) A jointly-controlled entity			
Purchase of raw materials	(i)	**4,096**	10,956
(C) Included in finance income/costs			
CNOOC Finance			
Finance income	(vii)	**4,173**	4,721
Finance costs	(vii)	-	629

43 Related party transactions (continued)

(1) Recurring (continued)

Notes:

(i) These transactions were conducted in accordance with terms agreed among 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) Finance income/costs were based on mutually agreed terms with reference to the market rate for corresponding amounts and periods.

The amounts of the 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 for 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	2008 RMB'000	2007 RMB'000
Provision of utilities to CNOOC group companies	(i)	**1,452**	684
Fees and charges paid to CNOOC group companies	(ii)	**1,055**	657

Notes:

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

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

43 Related party transactions (continued)

(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, 35 and 36 to the financial statements.

Group

	Due from related parties		Due to related parties	
	31 December 2008 RMB'000	31 December 2007 RMB'000	31 December 2008 RMB'000	31 December 2007 RMB'000
The ultimate holding company	**374**	-	**2,448**	8,480
CNOOC group companies				
(excluding CNOOC Finance)	**18,885**	6,812	**103,947**	24,328
Associates	**216**	1,934	**6,608**	448
A jointly-controlled entity	-	7,536	-	5,654

Company

	Due from related parties		Due to related parties	
	31 December 2008 RMB'000	31 December 2007 RMB'000	31 December 2008 RMB'000	31 December 2007 RMB'000
The ultimate holding company	**374**	-	**2,448**	8,480
CNOOC group companies				
(excluding CNOOC Finance)	**11,280**	5,725	**36,653**	9,090
A jointly-controlled entity	-	13,255	-	14,136

As at 31 December 2008, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	31 December 2008 RMB'000	31 December 2007 RMB'000
Deposits placed by the Group with CNOOC Finance	**206,835**	184,346

43 Related party transactions (continued)

(3) Balances with related parties (continued)

Company

	31 December 2008 RMB'000	31 December 2007 RMB'000
Deposit placed by the Company with CNOOC Finance	**43,362**	69,705

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

(4) Compensation of key management personnel of the Group

	2008 RMB'000	2007 RMB'000
Short-term employee benefits	**4,563**	3,528
Post-employment benefits	**235**	213
Total compensation paid to key management personnel	**4,798**	3,741

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.

44 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.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

(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.

As at 31 December 2008, the Group's bank and other borrowings bearing interest of variable rates amounted to RMB280,356,000 (2007: RMB209,002,000), or approximately 97% (2007: 74%) of the Group's total 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

Foreign 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 7% (2007: 5%) 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 was exposed to foreign currency risk arising from the changes in the exchange rates of JPY and USD against RMB.

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.

44 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 recoverables 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% (2007: 0%) and 0% (2007: 0%) 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 receivables 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 2008, RMB77,775,000 (2007:RMB101,015,000), or 27% (2007: 36%) 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.

44 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 for managing capital in 2008 and 2007. 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.

	2008 RMB'000	2007 RMB'000
Interest-bearing loans and borrowings	**289,784**	281,056
Equity attributable to equity holders	**9,408,405**	8,086,110
Total capital	**10,326,821**	8,482,540
Capital and net debt	**10,616,605**	8,763,596
Gearing ratio	**2.7%**	3.2%

45 Post balance sheet events

(i) Acquisition of subsidiaries

On 12 December 2008, the Company entered into an acquisition agreement with CNOOC ("the Acquisition Agreement") under which the Company had agreed to purchase, and CNOOC had agreed to sell the 83.17% equity interest of Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") at the cash consideration of RMB 1,081,027,026 and the 100% equity interest of ZHJ Mining Company Limited ("ZHJ Mining") at the cash consideration of RMB 181,820,000.

45 Post balance sheet events (continued)

(i) Acquisition of subsidiaries (continued)

DYK Chemical is a company established in the PRC with limited liability in August 2005. It is principally engaged in phosphate mining and processing, and the sale and production of MAP and DAP fertiliser.

ZHJ Mining is a limited liability company established in the PRC in July 2006. Its main business activity is phosphate mining.

On 24 March 2009, the Industrial and Commercial Administration Bureau of Hubei province approved the acquisition of DYK Chemical and ZHJ Mining and issued the company change notification, whereby the Company obtained control over DYK Chemical and ZHJ Mining.

(ii) Repayment of USD loans

The Group fully repaid its USD dollar loan amounting to RMB280,356,000 on 20 January 2009, including RMB212,009,000 stated as non-current bank loan as of 31 December 2008, and RMB68,347,000 stated as current bank loan as of 31 December 2008.

46 Approval of the financial statements

The financial statements were approved and authorised for issuance by the board of directors on 26 March 2009.

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 fertilisers and a wide variety of nitrogen-containing organic and inorganic chemicals;
BB fertilisers	Bulk blended fertilisers, according to the PRC national standard being a chemical compound containing at least two primary plant nutrients among N, P and K;
Compound fertilisers	Chemically obtained fertiliser, composed of at least two primary plant nutrients, also contained secondary nutrients.
DAP	di-ammonium phosphate, $(NH_4)_2HPO_4$, a type of phosphate fertiliser;
Formaldehyde	CH_2O, a colorless, poisonous gas, made by the oxidation of methanol;
MAP	mono-ammonium phosphate, $NH_4H_2PO_4$, a type of phosphate fertiliser;
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 fertiliser or phosphate-based fertiliser	a fertiliser containing phosphorus (P) as the main nutrient, common examples include MAP and DAP;
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 fertiliser formed by reacting ammonia with carbon dioxide at high pressure (containing 46% nitrogen);
Utilisation 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)
Authorised 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 authorised 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
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