



中海石油化学股份有限公司 China BlueChemical Ltd.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 3983)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

FINANCIAL HIGHLIGHTS

- 1. Revenue increased 43.26% to RMB2,312.0 million**
- 2. Gross profit increased 60.42% to RMB995.9 million**
- 3. Net profit attributable to equity holders of the parent comparing with RMB507.20 million for the same period in 2006 (after excluding the one-time gain of excess over the cost of a business combination relating to the acquisition of Tianye Chemical in 2006 of approximately RMB577.6 million) increased 62.96% to RMB826.53 million**
- 4. Basic earnings per share was RMB17.93 fen**

(I) UNAUDITED FINANCIAL STATEMENTS**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT***For the six months ended 30 June 2007**(All amounts expressed in thousands of Renminbi, except per share data)*

		Six months ended 30 June	
	<i>Notes</i>	2007	2006
		(Unaudited)	(Unaudited)
REVENUE	5	2,312,027	1,613,833
Cost of sales		(1,316,102)	(993,012)
Gross profit		995,925	620,821
Other income and gains	5	37,672	118,321
Excess over the cost of a business combination	6	—	577,619
Selling and distribution costs		(42,134)	(10,073)
Administrative expenses		(88,606)	(92,046)
Other expenses		(24,424)	(22,642)
Finance revenue		14,133	11,805
Finance costs		(11,586)	(27,909)
Exchange gain/(loss), net		13,193	(12,547)
Share of profits and losses of associates		1,220	1,137
PROFIT BEFORE TAX		895,393	1,164,486
Income tax expense	7	(43,250)	(55,953)
PROFIT FOR THE PERIOD		852,143	1,108,533
Attributable to:			
Equity holders of the parent		826,528	1,084,821
Minority interests		25,615	23,712
		852,143	1,108,533
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (<i>RMB fen</i>)	8	17.93	36.16

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

(All amounts expressed in thousands of Renminbi)

	30 June 2007 (Unaudited)	31 December 2006 (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	5,656,525	5,854,898
Prepaid land lease payments	414,148	413,862
Intangible assets	14,640	16,425
Investments in associates	9,038	8,646
Available-for-sale investments	600	9,465
Deferred tax assets	25,450	27,819
	<u>6,120,401</u>	<u>6,331,115</u>
CURRENT ASSETS		
Inventories	338,662	332,684
Trade receivables	85,460	133,557
Bills receivable	34,195	20,850
Prepayments, deposits and other receivables	129,400	86,153
Available-for-sale investments	197,385	—
Pledged bank deposits	4,927	10,904
Cash and cash equivalents	2,241,110	2,195,619
	<u>3,031,139</u>	<u>2,779,767</u>
CURRENT LIABILITIES		
Trade payables	90,366	94,686
Other payables and accruals	649,152	849,963
Derivative financial instruments	22,680	25,641
Interest-bearing bank and other borrowings	138,696	476,579
Income tax payable	44,263	51,276
	<u>945,157</u>	<u>1,498,145</u>
NET CURRENT ASSETS	<u>2,085,982</u>	<u>1,281,622</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>8,206,383</u>	<u>7,612,737</u>

		30 June 2007 (Unaudited)	31 December 2006 (Audited)
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Benefits liability		84,181	79,958
Interest-bearing bank and other borrowings		202,596	384,793
Other long-term liabilities		43,268	38,057
Deferred tax liabilities		46,374	61,017
		376,419	563,825
NET ASSETS			
		7,829,964	7,048,912
EQUITY			
Equity attributable to equity holders of the parent			
Paid-up capital		4,610,000	4,610,000
Reserves		2,854,304	2,029,717
Proposed final dividend	9	—	69,150
		7,464,304	6,708,867
Minority interests		365,660	340,045
Total equity		7,829,964	7,048,912

(II) NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

(All amounts expressed in Renminbi unless otherwise stated)

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the manufacture and sale of fertilisers and methanol.

In the opinion of the directors, the ultimate holding company of the Company is China National Offshore Oil Corporation (“CNOOC”), a state-owned enterprise established in the PRC.

As at 30 June 2007, particulars of the principal subsidiaries, jointly-controlled entity and associates are as follows:

Name	Place and date of establishment	Registered capital <i>RMB'000</i>	Percentage of equity interest attributable to the Company		Principal activities
<i>Subsidiaries:</i>					
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	463,000	Direct Indirect	100.00 —	Manufacture and sale of fertilisers
Hainan CNOOC Plastic Company Limited (海南中海石油塑編有限公司)	PRC 28 April 2002	12,716	Direct Indirect	100.00 —	Manufacture and sale of woven plastic bags
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	5,000	Direct Indirect	— 65.25	Provision of transportation services
CNOOC (Hainan) E&P Gas Limited (中海石油 (海南) 環保氣體有限公司)	PRC 8 November 2004	6,900	Direct Indirect	100.00 —	Manufacture and sale of liquid carbon dioxide
Hainan CNOOC Complex Fertiliser Co., Ltd. (海南富島複合肥有限公司)	PRC 19 May 2000	7,500	Direct Indirect	100.00 —	Manufacture and sale of compound fertilisers
Hainan Basuo Port Limited (海南八所港務有限責任公司)	PRC 25 April 2005	518,356	Direct Indirect	72.50 —	Port operation

Name	Place and date of establishment	Registered capital RMB'000	Percentage of equity interest attributable to the Company	Principal activities
Shanghai Qionghua Trading Co., Ltd. (上海瓊化經貿有限公司)	PRC 7 January 2002	1,000	Direct Indirect	— 51.00 Trading of fertilisers
Inner Mongolia Tianye Chemical Industry Limited (內蒙古天野化工(集團)有限責任公司)	PRC 4 October 1991	1,981,690	Direct Indirect	90.00 — Manufacture and sale of fertilisers and methanol
Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	3,297	Direct Indirect	— 63.54 Manufacture and sale of woven plastic bags
<i>Jointly-controlled entity:</i>				
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
<i>Associates:</i>				
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	11,800	Direct Indirect	— 30.00 Trading of fertilisers
China Basuo Oversea Shipping Agency Co., Ltd. (中國八所運輸代理有限公司)	PRC 24 May 2000	1,800	Direct Indirect	— 36.25 Provision of overseas shipping services

2. REORGANISATION

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

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

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

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

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

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

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

- (c) Pursuant to the Promoter Agreement entered into among Zhejiang AMP Incorporation, Guangdong Agricultural Means of Production Corporation, Shanghai Municipal Agricultural Means of Production Corporation and Transammonia Inc., (together the “Other Four Promoters”) and CNOOC in relation to the reorganisation of the Company into a joint stock limited company dated 18 March 2006, each of the Other Four Promoters transferred their entire shareholding of 3.24% in CNOOC Fudao Limited (“Fudao”) to the Company in exchange for a 0.83% equity interest each in the Company upon its reorganisation into a joint stock limited company. Upon the completion of the exchange of shares, Fudao became a wholly-owned subsidiary of the Company.
- (d) Pursuant to an approval document Guo Zi Gai Ge [2006] No. 462 issued by the State-owned Assets Supervision and Administration Commission of the State Council on 24 April 2006, the Company was reorganised into a joint stock limited company with a registered share capital of RMB3,000,000,000 on 25 April 2006.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

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

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

Significant accounting policies

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

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

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

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

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

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

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

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

4. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. No geographical analysis is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue and profit information for the Group's business segments for the six months ended 30 June 2007 and 2006:

	Fertilisers <i>RMB'000</i>	Methanol <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)					
Six months ended 30 June 2007					
Segment revenue:					
Sales to external customers	1,615,150	604,927	91,950	—	2,312,027
Intersegment sales	—	9,414	40,832	(50,246)	—
Other income	3,138	3	600	—	3,741
	<u>1,618,288</u>	<u>614,344</u>	<u>133,382</u>	<u>(50,246)</u>	<u>2,315,768</u>
Total	1,618,288	614,344	133,382	(50,246)	2,315,768
Segment results	597,069	301,598	4,748	—	903,415
Interest and dividend income and unallocated gains					48,064
Corporate and other unallocated expenses					(58,913)
Finance costs					(11,586)
Exchange gain, net					13,193
Share of profits and losses of associates	1,220				1,220
Profit before tax					895,393
Income tax expense					(43,250)
Profit for the period					<u>852,143</u>
(Unaudited)					
Six months ended 30 June 2006					
Segment revenue:					
Sales to external customers	1,477,849	55,332	80,652	—	1,613,833
Intersegment sales	—	—	39,757	(39,757)	—
Other income	92,347	—	411	—	92,758
	<u>1,570,196</u>	<u>55,332</u>	<u>120,820</u>	<u>(39,757)</u>	<u>1,706,591</u>
Total	1,570,196	55,332	120,820	(39,757)	1,706,591
Segment results	622,273	(3,538)	6,567	—	625,302
Interest and dividend income and unallocated gains					37,368
Corporate and other unallocated expenses					(36,484)
Finance costs					(27,909)
Exchange loss, net					(12,547)
Share of profits and losses of associates	1,137				1,137
Excess over the cost of a business combination					577,619
Profit before tax					1,164,486
Income tax expense					(55,953)
Profit for the period					<u>1,108,533</u>

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT"), after allowances for returns and discounts; and the value of services rendered, net of business taxes and surcharges.

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	2,224,013	1,536,562
Rendering of services	88,014	77,271
	2,312,027	1,613,883
Other income and gains		
Dividend income from listed investments	—	135
Realised gain on disposal of available-for-sale investments	31,180	—
Subsidy income	—	89,259
Fair value gain on derivative financial instruments	2,961	24,697
Gain on dissolution of a subsidiary	—	586
Income from the sale of other materials	2,509	2,942
Gross rental income	64	64
Others	958	638
	37,672	118,321

6. EXCESS OVER THE COST OF A BUSINESS COMBINATION

The amount represents the excess of fair values of assets and liabilities acquired over the consideration paid in relation to the acquisition of Tianye Chemical in January 2006.

7. INCOME TAX EXPENSE

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

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

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

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

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

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2007.

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

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

	<i>RMB’000</i>
Decrease in income tax expenses	13,220
Decrease in deferred tax assets	1,572
Decrease in deferred tax liabilities	14,792

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

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

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

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

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

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

9. DIVIDENDS

Pursuant to the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting principles and financial regulations; and (ii) the net profit determined in accordance with IFRSs.

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

(3) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

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

Urea

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

Methanol

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

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

Note 2: CNOOC Jiantao's data were based on consolidation of 60% interest; total output and sales of methanol were 310,549 tonnes and 319,688 tonnes respectively in the first half of 2007;

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

2. Financial Review

Revenue and gross profit

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

Other income and gains

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

The Group's other income and gains in the first half of 2007 were approximately RMB37.7 million, representing a decrease of approximately RMB80.6 million from RMB118.3 million in the corresponding period of 2006. Such decrease was mainly because: (1) the Group recorded a subsidy income, being a refund of value-added-tax ("VAT"), of RMB89.3 million in the first half of 2006 but recorded no such refund in the first half of 2007. The VAT refund represented a refund of 50% of the net VAT paid by the Group on its urea sale from 1 January 2004 to 30 June 2005. From 1 July 2005 onwards, the sale of urea by urea manufacturers in Mainland China were no longer entitled to receive a refund of 50% of the net VAT paid on the urea sale as they are

exempted from VAT with effect from 1 July 2005 and; (2) to partially offset the risks arising from fluctuations in the exchange rates of the Japanese Yen, the Group entered into a cross currency interest rate swap contract (“Swap”) with Bank of China, Hainan Branch, which will be expired on 20 June 2008. The change in fair value of the Swap in the first half of 2007 was RMB3.0 million, representing a decrease of RMB21.7 million from RMB24.7 million in the corresponding period of 2006.

Selling and distribution costs

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

Administrative expenses

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

Finance costs

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

Exchange gain/(loss), net

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

Income tax expense

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

Profit for the period

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

Dividend

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

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

Capital expenditure

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

Market risk

The major market risks that the Group is exposed to include changes in the selling prices of key products, changes in the cost of raw materials and fluctuations in interest and exchange rates.

Commodity price risk

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

Interest rate risk

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

Foreign exchange risk

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

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

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

Inflation and currency risk

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

Post balance sheet events and contingent liabilities

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

3. Industry Review and Outlook

Urea Industry

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

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

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

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

Methanol Industry

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

Since July 2007, domestic methanol selling price bound up attributable to strong domestic demand driven by the development of DME industry. Meanwhile, once the PRC further promotes the research and development on methanol fuel, the demand for method will substantially increase. Therefore, we forecast the methanol price to keep at reasonably high level in the second half of 2007.

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

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

(4) SUPPLEMENTAL INFORMATION

Audit Committee

The Audit Committee, together with the management, has reviewed the accounting principles and standards adopted by the Group and discussed the internal control and reporting matters. The interim results for the six months ended 30 June 2007 have not been audited but have been reviewed by Ernst and Young in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2007.

Compliance with the Code on Corporate Governance Practices and the Model Code for Securities Transactions by Directors of Listed Issuer

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

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

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

Purchase, Sales or Redemption of the Listed Securities of the Company

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

Material Litigation and Arbitration

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

Disclosure on the Website of The Stock Exchange of Hong Kong Limited

Information required to be disclosed under paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and on the website of the Company (<http://www.chinabluechem.com.cn/>) in due course.

By order of the Board
China BlueChemical Ltd.*
WU Mengfei
Chairman

Haikou, the PRC, 26 August 2007

As at the date of this announcement, the executive directors of China BlueChemical are Mr. YANG Yexin, Mr. FANG Yong and Mr. CHEN Kai; non-executive director is Mr. WU Mengfei; independent non-executive directors are Mr. WANG Wenshan, Mr. ZHANG Xinzhì, Mr. WU Xiaohua and Mr. TSUI Yiu Wa, Alec.

* *for identification purpose only*