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

**(Stock code: 3983)**

## **DEPOSIT SERVICES AS CONTINUING CONNECTED TRANSACTIONS**

Under the Financial Services Agreement, the Group has been placing deposits with CNOOC Finance. The Stock Exchange has granted the Company a waiver from compliance with the announcement and independent shareholders' approval requirements for one calendar year commencing on the listing date of the Company (i.e. 29 September 2006) subject to the maximum Daily Outstanding Balance during that calendar year will not exceed RMB300,000,000.

Upon the expiry of the Stock Exchange's waiver, the Group will continue to place deposits with CNOOC Finance with a maximum Daily Outstanding Balance of RMB228,788,000, until and unless subsequently announced, during the period from 29 September 2007 to 31 December 2008. Pursuant to Rule 14A.34 of the Listing Rules, as each of the percentage ratios applicable to the cap is on an annual basis less than 2.5%, such provision of deposits services by CNOOC Finance as continuing connected transactions would only be subject to reporting and announcement requirements and is exempt from the independent shareholders' approval requirements.

### **Financial Services Agreement**

As described in the Prospectus, the Company entered into the Financial Services Agreement with CNOOC Finance on 1 September 2006, pursuant to which CNOOC Finance will provide the Group a range of financial services including the following:

- (a) provision of loans to the Group which do not include entrustment loans referred to in Category (c2) below;
- (b) deposit services;
- (c1) bank notes discounting services;
- (c2) arrangement of entrustment loans amongst 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 on one hand and CNOOC and its subsidiaries on the other hand.

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: 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 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.

For further details of the Financial Services Agreement, please refer to the continuing connected transactions of Category 9 set out in the section headed “Connected Transactions” in the Prospectus.

The term of the Financial Services Agreement commenced on 1 September 2006 and would expire one year after the listing date of the Company in respect of the deposit services and on 31 December 2008 in respect of other services.

CNOOC Finance and the Company entered into a supplemental agreement on 18 September 2007 to extend the term of the Financial Services Agreement in respect of the deposit services to 31 December 2008.

### **Connected person**

CNOOC is a controlling shareholder (as defined in the Listing Rules) of the Company. CNOOC Finance is a subsidiary of CNOOC and is therefore an Associate of CNOOC. Hence, CNOOC Finance is regarded as a connected person (as defined in the Listing Rules) of the Company. Continuing transactions between the Group and CNOOC Finance will therefore constitute continuing connected transactions of the Company under the Listing Rules.

## **Stock Exchange's waiver**

In respect of the Group's deposits placed with CNOOC Finance, the Stock Exchange has granted the Company a waiver from compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules for one calendar year commencing on the listing date of the Company (i.e. 29 September 2006) subject to the maximum Daily Outstanding Balance during that calendar year will not exceed RMB300,000,000. The waiver will expire on 28 September 2007. Since 29 September 2006 up to the date of this announcement, the maximum Daily Outstanding Balance has not exceeded such a cap.

## **Future intentions**

Upon the expiry of the Stock Exchange's waiver, the Group will continue to place deposits with CNOOC Finance with its maximum Daily Outstanding Balance of RMB228,788,000, until and unless subsequently announced, during the period from 29 September 2007 to 31 December 2008. Pursuant to Rule 14A.34 of the Listing Rules, as each of the percentage ratios applicable to the cap is on an annual basis less than 2.5%, such provision of deposits services by CNOOC Finance as continuing connected transactions would only be subject to reporting and announcement requirements and is exempt from the independent shareholders' approval requirements. This cap amount was calculated on the basis of several factors including the historical daily outstanding balance of the deposits maintained with CNOOC Finance under the Financial Services Agreement, and the Directors, including the independent non-executive Directors, are of the view that the same is fair and reasonable and sufficient for the Group's purposes.

## **Reasons for, and benefits of, the continuing connected transactions**

Although the interest rates provided by CNOOC Finance are the same as those offered by independent commercial banks as such rates are regulated by the PBOC, CNOOC Finance provides an added value to the Group by assisting the Group to formulate a beneficial deposit mix comprising different types of deposits such as current deposits, call deposits and fixed deposits, which allows the Group to increase its return on funds and retain sufficient working capital flexibility. Further, the use of financial services provided by CNOOC Finance allows the Group to conduct treasury management in a more focused fashion compared with making deposits with different commercial banks.

CNOOC Finance is rated A- by The Standard & Poor's and A2 by Moody's. The Directors believe that such credit ratings are among the highest ratings assigned by these rating agencies to PRC financial institutions, including commercial banks. Since the publication of the Prospectus, there has not been any material change in the asset size and banking credits of CNOOC Finance.

The Directors believe that CNOOC Finance, with its credit ratings, asset size and banking credits, will be able to fulfil its obligations under the Financial Services Agreement. The Directors also believe that the risk profile of CNOOC Finance, as a provider of financial services to the Company, is not any greater than those of independent commercial banks in China because:

- CNOOC Finance is regulated by the PBOC and the China Banking Regulatory Commission and it provides its services in full compliance with the relevant rules and operational requirements including capital risks guidelines and requisite capital adequacy ratios, of those regulatory authorities.

- As far as the Directors are aware, CNOOC Finance has not defaulted on any of its credit obligations or breached any rules or operations requirements of such regulatory authorities.

The Company has set out on pages 148 to 149 of the Prospectus certain internal control procedures and corporate governance measures in relation to the Group's utilization of CNOOC Finance's services. Those procedures and measures are still in place and there has been no adverse change in such procedures and measures since the publication of the Prospectus.

### **Opinion of the Directors**

The Directors (including independent non-executive Directors) believe that such transactions were entered into in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and are of the view that the terms of the transactions were fair and reasonable so far as the shareholders of the Company are concerned. In implementing the transactions, the Company will fully consider the opinions of the independent non-executive Directors, as the Company has always in the past, in order to protect the interests of its shareholders as a whole.

### **General**

The Company is principally engaged in the production and sale of urea (the most commonly used nitrogenous fertilizer) and methanol in China and are expanding into the production of high valued synthetic chemical products.

CNOOC Finance is a non-bank financial institution established in June 2002 with the approval of the PBOC. It is primarily engaged in providing financial services (such as provision of loans, receiving deposits, arrangement of entrustment loans and providing settlement services) to members of the CNOOC group (including the Group).

## Definitions

In this announcement, the following words and expressions shall, unless the context otherwise requires, have the following respective meanings:

“Associates”	has the meaning ascribed thereto under the Listing Rules
“CNOOC”	China National Offshore Oil Corporation (中國海洋石油總公司)
“CNOOC Finance”	CNOOC Finance Corporation Limited (中海石油財務有限責任公司)
“Company”	China BlueChemical Ltd.
“Daily Outstanding Balance”	the daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance excluding the deposits for the purpose of extended entrustment loans
“Director”	a director of the Company
“Financial Services Agreement”	the financial services framework agreement entered into between the Company and CNOOC Finance on 1 September 2006
“Group”	the Company and its subsidiaries and jointly controlled entities from time to time
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“PBOC”	People’s Bank of China (中國人民銀行)
“Prospectus”	the prospectus dated 18 September 2006 issued by the Company in connection with the initial public offering of the Company’s H shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the board of Directors of  
**China BlueChemical Ltd.\***  
**Quan Changsheng**  
*Company Secretary*

Haikou, the People’s Republic of China  
25 September 2007

*As at the date of this announcement, the executive Directors are Mr. Yang Yexin, Mr. Fang Yong and Mr. Chen Kai, the non-executive Director is Mr. Wu Mengfei, and the independent non-executive Directors are Mr. Wang Wenshan, Mr. Zhang Xinzhi, Mr. Wu Xiaohua and Mr. Tsui Yiu Wa, Alec.*

\* *for identification purpose only*