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**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)**

## **ANNOUNCEMENT**

### **(1) H-SHARE APPRECIATION RIGHTS SCHEME**

### **(2) ADOPTION OF RULES OF PROCEDURES FOR THE SUPERVISORY COMMITTEE**

### **(3) AUTHORISATION TO THE BOARD TO FIX THE DIRECTORS' REMUNERATION FOR THE TWO YEARS ENDED 31 DECEMBER 2008**

The board of directors (the "Board") of China BlueChemical Ltd. (the "Company") resolved to propose to the Shareholders the following: (1) the approval of the H-Share Appreciation Rights Scheme; (2) the adoption of Rules of Procedures for the Supervisory Committee; and (3) authorisation to the Board to fix the Directors' remuneration for the two years ended 31 December 2008. The above proposals will be submitted for the approval of shareholders of the Company at the EGM to be held on Monday, 25 February 2008. The Company is in the process of preparing a circular (the "Circular") containing further details to the above together with the relevant reply slip and proxy form, and the same is expected to be despatched to the Shareholders on or about 11 January 2008.

The Board of the Company resolved to propose to the Shareholders the following: (1) the approval of the H-Share Appreciation Rights Scheme; (2) the adoption of Rules of Procedures for the Supervisory Committee of the Company; and (3) authorisation to the Board to fix the Directors' remuneration for the two years ended 31 December 2008. Details of the proposals are set out below:

#### **(1) PROPOSED APPROVAL OF H-SHARE APPRECIATION RIGHTS SCHEME**

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.

The recipients of share appreciation rights will be entitled to exercise their rights in tranches during the Exercisable periods, subject to the fulfillment of certain conditions precedents relating to the performance of the Company including, for the financial years 2007 and 2008: (i) the average return on equity is not lower than 14%; and (ii) the average year-on-year increase in net profit of the Company being not lower than 10%. Due exercise of the share appreciation rights is also subject to the satisfactory review of the grantee's performance, and

any exercise of the rights is also subject to the Company's audited return on equity for the financial year immediately prior to the proposed exercise being not lower than the average or the median of the industry.

The quantity of share appreciation rights to be granted will be calculated based on the internationally-recognised Black-Scholes model and the following formula:

$$\text{Number of share appreciation rights to be granted} = \frac{\text{Maximum monetary value of share appreciation rights to be granted as determined by the remuneration committee}}{\text{Value of the share appreciation rights calculated based on the Black-Scholes model}}$$

The Remuneration Committee considers that the above formula represents a fair basis for calculating the number of share appreciation rights to be granted.

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 therefore does not fall within the ambit of, and is not subject to, the regulation of Chapter 17 of the Listing Rules.

Under the Scheme, share appreciation rights will be granted to the Directors (not including independent non-executive Directors) and senior management staff of the Company. Eligibility will be linked to certain benchmarks of the individual employee's working performance and responsibilities in the Group.

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 million H Shares, representing approximately 0.1385% of the total issued share capital of the Company as at the date of this announcement.

Under the Scheme, the grantees may not exercise their share appreciation rights in the 2 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 6<sup>th</sup> 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. The quantity of the share appreciation rights exercisable during any relevant period may also be subject to deduction, based on the table set out below, 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.

<b>Excess of the Exercise Price over the Granting Price of the share appreciation rights</b>	<b>Quantity exercisable as a percentage of the entitlement exercisable each year</b>
below HK\$1.115	100%
above HK\$1.115, and lower than HK\$1.50	50%
above HK\$1.50, and lower than HK\$2.00	30%
above HK\$2.00, and lower than HK\$2.50	20%
above HK\$2.50	15%

The Granting Price of the share appreciation rights is determined at the higher of:

1. the closing price as at the grant date of the share appreciation rights; and
2. the average closing price of the five trading days immediately preceding the date of grant of share appreciation rights.

The Scheme will be administered by the Remuneration Committee and when necessary, to engage professional parties to assist it in discharge of its duties. As a majority of the members of the Remuneration Committee are independent non-executive Directors, and the relevant Director and his/her associates are required to abstain from voting in the relevant meeting in which a grant of share appreciation rights to that particular Director is to be discussed, the Directors consider that connected persons will not be treated favourably under the Scheme.

Initially, the Company proposes that share appreciation rights be granted to 9 people, comprising the Chairman, Executive Directors and members of the senior management staff, namely:

<u>Names of grantees</u>	<u>Positions of grantees</u>	<u>Number of share appreciation rights to be granted</u>
WU Mengfei	Chairman and Non-executive Director	1,053,000
YANG, Yexin	Executive Director and Chief Executive Officer and President	891,000
FANG, Yong	Executive Director and Executive Vice President	681,000
CHEN, Kai	Executive Director and Executive Vice President	681,000
ZHOU, Fan	Executive Vice President	454,000
QUAN, Changsheng	Vice President, Chief Financial Officer and Board Secretary	616,000
HONG, Junlian	Vice President	616,000
LIANG, Mingchu	Vice President	616,000
MIAO, Qian	Vice President	616,000

The Company recognizes the Scheme as a cash-settled share-based payment transaction.

The cost of cash-settled transactions is measured initially at fair value at the grant date using a Black-Scholes model. The share appreciation rights, together with a corresponding liability are recognized when the services are received during the period. Until the liability settled or the unexercised rights have lapsed, the fair value of the liability is remeasured using the Black-Scholes model at each balance sheet date up to and including the settlement date with any changes in fair value recognized in profit or loss for the period.

Where pursuant to any adjustment to the issued share capital of the Company, including any merger, spin-off, or the payment of dividend or for any other reason, an adjustment to the quantity of the share appreciation rights entitled and their Granting Price is necessary in the Board's opinion, such adjustment shall be made subject to obtaining Shareholders' approval.

The Scheme is subject to the PRC laws and regulations, and the rules and regulations promulgated by SASAC, including but not limited to the Interim Measures on the Implementation of Incentive Stock Scheme for State-owned Holding Companies Listed Overseas.

The Scheme was approved by SASAC on 3 December 2007 and shall take effect upon the approval by the Shareholders at the EGM.

## **(2) PROPOSED ADOPTION OF RULES OF PROCEDURES FOR SUPERVISORY COMMITTEE OF THE COMPANY**

Pursuant to the relevant laws, rules and regulations, the Board proposes to adopt the “Rules of Procedures for Supervisory Committee of the Company” so as to lay down procedural rules to regulate the proceedings of the Supervisory Committee of the Company. The PRC legal advisers to the Company confirm that the proposed “Rules of Procedures for Supervisory Committee of the Company” comply with the relevant PRC laws and regulations, which shall come into effect upon approval by Shareholders at the EGM.

## **(3) AUTHORISATION TO THE BOARD TO FIX THE DIRECTORS’ REMUNERATION FOR THE TWO YEARS ENDED 31 DECEMBER 2008**

In accordance with Article 59 of the Articles of Association of the Company, the remuneration of the Directors is subject to the approval by the Shareholders of the Company. An ordinary resolution will be put forward at the EGM to seek Shareholders’ authorization to the Board (having due consideration of the recommendations of the remuneration committee of the Company) to fix the remuneration of the Directors for the two years ended 31 December 2008.

A circular containing, among other things, details of the proposed approval of H-Share Appreciation Rights Scheme, the proposed adoption of Rules of Procedures for Supervisory Committee of the Company, the authorisation to the Board to fix the Directors’ remuneration for the two years ended 31 December 2008, and the notice of the EGM will be despatched to the Shareholders on or about 11 January 2008.

## **DEFINITIONS**

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

<b>“Directors”</b>	the directors of the Company;
<b>“Domestic Shares”</b>	domestic share(s) of nominal value of RMB1.00 each in the capital of the Company;
<b>“Exercise Price”</b>	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;
<b>“Granting Price”</b>	being the higher of: (1) the closing price as at the grant date of the share appreciation rights; and (2) the average closing price of the five trading days immediately preceding the date of grant of share appreciation rights;
<b>“Group”</b>	the Company and its subsidiaries;

<b>“EGM”</b>	the extraordinary general meeting of the Company to be held at the Conference Room, 3rd Floor, CNOOC Office Building-B, No. 98 Guanhai Road, Longhua District, Haikou, Hainan Province, the People’s Republic of China on Monday, 25 February 2008 at 10:00 a.m.;
<b>“Exercisable period”</b>	the first six months of the 3rd, 4th, 5th and 6th financial years of the Company, commencing on the year whereby Shareholders’ approval is obtained for the Scheme;
<b>“H Shares”</b>	overseas listed foreign share(s) of nominal value of RMB1.00 each in the capital of the Company which are listed on the Stock Exchange;
<b>“Hong Kong”</b>	The Hong Kong Special Administrative Region of the PRC;
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time);
<b>“PRC”</b>	the People’s Republic of China, which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and the Taiwan region;
<b>“Remuneration Committee”</b>	the remuneration committee of the Company;
<b>“SASAC”</b>	the State-owned Assets Supervision and Administration Commission of the State Council;
<b>“Scheme”</b>	the H-Share Appreciation Rights Scheme, details of which are set out in the paragraph headed “H-Share Appreciation Rights Scheme” in the section headed “Letter from the Board” of this announcement;
<b>“Shares”</b>	Domestic Shares, H Shares and Unlisted Foreign Shares;
<b>“Shareholder(s)”</b>	registered holders of Shares;
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Ltd.;
<b>“Supervisors”</b>	supervisors of the Company;
<b>“Supervisory Committee”</b>	supervisory committee of the Company;
<b>“Total Annual Remuneration”</b>	the annual remuneration together with the entitlement under the Scheme for that particular year;

**“Unlisted Foreign  
Shares”**

ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and fully paid up in foreign currency by non-PRC nationals and/or non-PRC incorporated entities and are not listed on any stock exchange.

By Order of the Board  
**China BlueChemical Ltd.\***  
**Quan Changsheng**  
*Company Secretary*

Haikou, the People's Republic of China,  
9 January 2008

*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.*