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

(Stock code: 3983)

CONTINUING CONNECTED TRANSACTIONS

The current waiver granted by the Stock Exchange from compliance with announcement and (where applicable) independent shareholders' approval requirements in respect of certain continuing connected transactions generally will expire on 31 December 2008. Upon such expiration, the continuing connected transactions, if carried on by the Group from 1 January 2009 onwards, would be subject to reporting, announcement and/or independent shareholders' approval requirements under the Listing Rules.

As those transactions will be continued and carried out in the ordinary and usual course of the Group's business on normal commercial terms and on terms that are fair and reasonable as far as the Shareholders as a whole are concerned, the Directors considered that it would not be practical to make disclosure and/or, if necessary, seek Independent Shareholders' approval for each transaction every time as it arises. Therefore, for those continuing connected transactions that are expected by the Board to be subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirements, the Company makes this announcement on its plans for 2009 to 2011 with respect to those transactions to fulfil its announcement obligation. For the continuing connected transactions that are expected by the Board to be subject to also independent shareholders' approval requirements, the Directors will convene an EGM to obtain the approval of Independent Shareholders on, among other things, (1) the entering into of the supplemental agreements in respect of certain continuing connected transactions agreements and (2) the Proposed Caps for the certain types of continuing connected transactions.

BACKGROUND

In the listing application process, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with announcement and (where applicable) independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules in respect of certain continuing connected transactions, subject to the annual value of such continuing connected transactions for each financial year not exceeding the relevant cap amounts as stated in the Prospectus. The Stock Exchange waiver generally will expire on 31 December 2008. Upon such expiration, the continuing connected transactions, if carried on by the Group from 1 January 2009 onwards, would be subject to reporting, announcement and/or independent shareholders' approval requirements under the Listing Rules.

As those transactions will be continued and carried out in the ordinary and usual course of the Group's business on normal commercial terms and on terms that are fair and reasonable as far as the Shareholders as a whole are concerned, the Directors considered that it would not be practical to make disclosure and/or, if necessary, seek Independent Shareholders' approval for each transaction every time as it arises. Therefore, for those continuing connected transactions that are expected by the Board to be subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirements, the Company makes this announcement on its plans for 2009 to 2011 with respect to those transactions to fulfil its announcement obligation. For the continuing connected transactions that are expected by the Board to be subject to also independent shareholders' approval requirements, the Directors will convene an EGM to obtain the approval of Independent Shareholders on, among other things, (1) the entering into of the supplemental agreements in respect of certain continuing connected transactions agreements and (2) the Proposed Caps for the certain types of continuing connected transactions.

INFORMATION RELATING TO CONNECTED PERSONS

CNOOC and its Associates

CNOOC is the controlling shareholder of the Company. CNOOC and its Associates (other than the Group) are the Company's connected persons under Rule 14A.11 of the Listing Rules. CNOOC is one of largest state-owned oil companies in the PRC specializing in exploration of oil and gas in the PRC with its headquarter in Beijing. It is the largest offshore oil and gas producer in the PRC. Since its establishment, it has sustained continuous developments and had advanced from a company engaging only in exploitation of oil and gas to an integrated conglomerate with a complete production chain including upstream petroleum businesses (such as exploration, development, production and sales of oil and gas), downstream petroleum businesses (such as the natural gas, power generation, chemicals and fertilizer production), refining, natural gas and power generation, financial services, logistic service and new energies development.

COSL is a subsidiary of CNOOC and therefore an Associate of CNOOC under Rule 19A.04 of the Listing Rules. COSL is the Company's connected person pursuant to Rule 14A.11(4) of the Listing Rules. COSL principally engages in the provision of oilfield services including drilling services, well services, marine support and transportation services, and geophysical services.

CNOOC Limited is a subsidiary of CNOOC and CNOOC China Limited is a wholly-owned subsidiary of CNOOC Limited. Both CNOOC Limited and CNOOC China Limited are Associates of CNOOC pursuant to Rule 19A.04 of the Listing Rules and therefore connected

persons of the Company under Rule 14A.11(4) of the Listing Rules. CNOOC Limited and its subsidiaries mainly engage in offshore oil and natural gas exploration, development, production and sales.

CNOOC Finance is a subsidiary of CNOOC and therefore an Associate of CNOOC under Rule 19A.04 of the Listing Rules. It is also the Company's connected person pursuant to Rule 14A.11(4) of the Listing Rules. CNOOC Finance is a non-bank financial institution with the approval of the PBOC. It is subject to the supervision of the China Banking Regulatory Commission. It has been providing financial services to members of the CNOOC Group (including the Company) as an intra-group service provider.

Hong Kong Kingboard and its Associates

CNOOC Jiantao is held as to 60% by the Company and as to 40% by Hong Kong Kingboard which is in turn a subsidiary of Kingboard Chemical. Hong Kong Kingboard is a substantial shareholder of CNOOC Jiantao, one of the Company's subsidiaries, and therefore it and its Associates (including Kingboard Chemical which is the parent company of Hong Kong Kingboard) are connected persons of the Company according to Rules 1.01 and 14A.11(1) of the Listing Rules. The principal activities of Kingboard Chemical and its subsidiaries are the manufacturing of laminates, copper foil, glass fabric, glass yam, bleached kraft paper, printed circuit boards, chemicals, liquid crystal displays and magnetic products.

EXISTING CONTINUING CONNECTED TRANSACTIONS

The connected transactions agreements listed below refer to the existing continuing connected transactions that will be continued beyond 31 December 2008 and will not be qualified as de minimis transactions and thus will not be fully exempt from reporting, announcement and independent shareholders' requirements under the Listing Rules.

Continuing connected transactions with CNOOC and its Associates

A1. Properties Leasing Agreement

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") to ascertain the terms and conditions for the leases of such properties.

The term of the Properties Leasing Agreement shall 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 rent and property management fee for each lease are agreed by the relevant parties taking into account such factors as the location and the state of the properties and shall not be higher than the market rental rates and property management rates of similar properties.

A2. COSL Transportation Agreement

The Group has been utilizing ocean-going transportation services provided by COSL for the Group's products including those produced by CNOOC Jiantao Methanol Plant, as COSL operates a fleet of vessels that are readily available to provide the Group with ocean-going transportation services at competitive rates. To regulate the provision of such

services, 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 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 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) price prescribed by the PRC Government;
- (ii) where there is no government-prescribed price but there is a government guidance price, at 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 will be agreed between the relevant parties based on the cost plus a margin of up to 10% on cost.

The margin of 10% was determined on the basis of arm’s length negotiations between the Company and COSL and was expected to reflect reasonable profits for COSL in providing the relevant services under the COSL Transportation Agreement.

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services, terms and conditions of providing such services according to the principles laid down by the COSL Transportation Agreement.

A3. Natural Gas Sale and Purchase Agreements

CNOOC Limited and its subsidiaries mainly engage in offshore oil and natural gas exploration, development, production and sales. The Group sources natural gas pipelined from gasfield(s) operated by CNOOC Limited as the principal raw material. Such gasfield(s) are situated near the Group’s Hainan production facilities. For that purpose, the Company entered into three long-term agreements with CNOOC China Limited, a wholly-owned subsidiary of CNOOC Limited:

- (1) Dongfang 1-1 Offshore Gasfields Natural Gas Sale and Purchase Agreement between CNOOC China Limited and the Company dated 28 July 2003, under which CNOOC China Limited 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 Limited and CNOOC Jiantao dated 10 March 2005, under which CNOOC China Limited 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 Limited 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 Limited 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 Limited for the Group's future plants. Under this framework agreement, CNOOC China Limited 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. CNOOC China Limited and the Company or its relevant subsidiaries will enter into separate agreements which will set out the specific terms and conditions for natural gas sales and purchases according to the principles laid down by this framework agreement.

The three above-mentioned agreements are collectively referred to as the "Natural Gas Sale and Purchase Agreements".

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.

A4. Comprehensive Services and Product Sales Agreement

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) price prescribed by the PRC Government;
- (ii) where there is no government-prescribed price but there is a government guidance price, at 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 will be agreed between the relevant parties based on the cost plus a margin of up to 10% on cost.

The margin of 10% was determined on the basis of arm's length negotiations between the Company and CNOOC and was expected to reflect reasonable profits for the two parties in selling the subject matters under the Comprehensive Services and Product Sales Agreement.

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services, terms and conditions of providing such services according to the principles laid down by the Comprehensive Services and Product Sales Agreement.

A5. Financial Services Agreement

The Group utilizes 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 in respect of Category (b) services and will expire 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 amounts outstanding from the Group to CNOOC Finance. CNOOC Finance shall not have any offset right.

The Board believes that CNOOC Finance, with its credit ratings, asset size, banking credits and corporate governance practice, will be able to fulfil its obligations under the Financial Services Agreement. As CNOOC Finance is regulated by the PBOC and the China Banking Regulatory Commission, the Board also believes that, in such misuse or default situations, the Group will still be able to recover in full all outstanding amount due to the Group from CNOOC Finance even if such amount exceeds the amount due from the Group to CNOOC Finance for the Group to exercise the set-off right.

CNOOC Finance and the Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services, terms and conditions of providing such financial services according to the principles laid down by the Financial Services Agreement.

Continuing connected transactions with Hong Kong Kingboard and its Associates

B1. Kingboard Product Sales and Services Agreement

The Company entered into with Hong Kong Kingboard a product sales and related services framework agreement on 22 August 2006 (the “Kingboard Product Sales and Services Agreement”), pursuant to which the Company agreed to sell products produced by the Group and to provide related services such as transportation services to Hong Kong Kingboard and its Associates.

The term of Kingboard Product Sales and Services Agreement commenced on 22 August 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 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) price prescribed by the PRC Government;
- (ii) where there is no government-prescribed price but there is a government guidance price, at 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 will be agreed between the relevant parties based on the cost plus a margin of up to 15% on cost.

The margin of 15% was determined on the basis of arm’s length negotiations between the Company and Hong Kong Kingboard and was expected to reflect reasonable profits for the Group in providing the relevant products and services under the Kingboard Product Sales and Services Agreement.

Hong Kong Kingboard (and/or its Associates) and the Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific products and scope of services, terms and conditions of selling products or providing services according to the principles laid down by the Kingboard Product Sales and Services Agreement.

HISTORICAL TRANSACTION FIGURES WITH RESPECT TO EXISTING CONTINUING CONNECTED TRANSACTIONS

Set out below are (a) the historical amounts of each category of the existing continuing connected transactions for the two previous financial years ended 31 December 2006 and 2007 and the six months ended 30 June 2008; and (b) the caps for the two previous financial years ended 31 December 2006 and 2007 and the year ending 31 December 2008.

Category of existing continuing connected transactions			<i>Amounts in RMB'000</i>		
			Year ended 31 December 2006	Year ended 31 December 2007	2008
A1.	Properties Leasing Agreement: Leases of properties by the Group from the CNOOC Group	Actual	1,895	2,639	1,455 (for the six months ended 30 June 2008)
A2.	COSL Transportation Agreement: Provision of transportation services by COSL to the Group	Actual	7,177	21,188	8,430 (for the six months ended 30 June 2008)
		Cap (<i>Note 1</i>)	13,000	45,000	48,000 (for the whole year of 2008)
A3.	Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited	Actual	416,861	539,954	356,176 (for the six months ended 30 June 2008)
		Cap (<i>Note 1</i>)	510,300	657,090	1,046,640 (for the whole year of 2008)

Amounts in RMB'000

Category of existing continuing connected transactions			Year ended 31 December 2006	Year ended 31 December 2007	2008
A4.	Comprehensive Services and Product Sales Agreement:				
A4(a).	Provision of services and supplies by the CNOOC Group to the Group	Actual	129,358	99,684	32,106 (for the six months ended 30 June 2008)
		Cap (<i>Note 1</i>)	278,520	102,300	74,800 (for the whole year of 2008)
A4(b).	Provision of services and supplies by the Group to the CNOOC Group	Actual	903	3,542	3,142 (for the six months ended 30 June 2008)
		Cap (<i>Note 2</i>)	4,400	4,400	20,000 (for the whole year of 2008)
A4(c).	Sale of products by the Group to the CNOOC Group	Actual (<i>Note 3</i>)	14,360	28,432	15,473 (for the six months ended 30 June 2008)
		Cap (<i>Note 3</i>)			107,000 (for the whole year of 2008)
A5.	Financial Services Agreement (<i>Note 4</i>)				
A5(a).	Loans granted by CNOOC Finance to the Group	Actual (<i>Note 5</i>)	62,298	63,346	0 (for the six months ended 30 June 2008)
		Cap (<i>Note 5</i>)	400,000	500,000	600,000 (for the whole year of 2008)

Amounts in RMB'000

Category of existing continuing connected transactions			Year ended 31 December 2006	Year ended 31 December 2007	2008
A5(b). Deposits placed by the Group with CNOOC Finance	Actual (<i>Note 5</i>)		293,839 (within one calendar year from the Listing Date)	228,503 (from 29 September 2007 to 30 June 2008)	
	Cap (<i>Note 6</i>)		300,000 (applicable for one calendar year from the Listing Date)	228,788 (from 29 September 2007 to 31 December 2008)	
B1. Kingboard Product Sales and Services Agreement: Sale of products and provision of services by the Group to Hong Kong Kingboard and/or its Associates	Actual		117,834	252,374	190,926 (for the six months ended 30 June 2008)
	Cap (<i>Note 1</i>)		220,000	730,000	730,000 (for the whole year of 2008)

Notes:

- These caps are part of the Stock Exchange waiver mentioned above.
- These caps for 2006 and 2007 are part of the Stock Exchange waiver mentioned above. The Company announced on 20 August 2008 that due to the additional services offered and rendered by Hainan Basuo to the CNOOC Group, the Company has revised the annual cap of this category for the year ending 31 December 2008 from RMB3,300,000 to RMB20,000,000. This type of continuing connected transactions were conducted with the annual transaction amounts within the threshold of 2.5% of the applicable percentage ratios and are accordingly qualified under Rule 14A.34(1) of the Listing Rules and are exempt from independent shareholders' approval requirements.
- As of the latest practical date of the Prospectus (11 September 2006), the Group had not sold its products to the CNOOC Group and therefore the Company did not set out caps or forecast transaction figures in the Prospectus. This type of continuing connected transactions were conducted with the annual transaction amounts within the threshold of 2.5% of the applicable percentage ratios and are accordingly qualified under Rule 14A.34(1) of the Listing Rules and are exempt from independent shareholders' approval requirements. This type of transactions had been further announced by the Company on 11 April 2007. The cap for 2008 (RMB107,000,000) is within the threshold of 2.5% for each of the applicable percentage ratios.
- Bank notes discounting services (Category A5(c1)), arrangement of entrustment loans (Category A5(c2)) and settlement services (Category A5(c3)) were conducted with annual transaction amounts within the threshold of 0.1% of the applicable percentage ratios and are accordingly qualified under Rule 14A.33(3) of the Listing Rules as de minimis transactions that are exempt from reporting, announcement and independent shareholders' approval requirements.
- These actual and cap figures refer to the maximum daily outstanding balance after listing of the Company during the relevant period.

6. The cap figure of RMB300,000,000 was part of the Stock Exchange waiver as mentioned above and was applicable for one calendar year from the Listing Date. On 25 September 2007, the Company announced that the Group will continue to place deposits with CNOOC Finance with a maximum daily outstanding balance of RMB228,788,000 during the period from 29 September 2007 to 31 December 2008. Pursuant to Rule 14A.34(1) of the Listing Rules, as each of the percentage ratios applicable to such cap is less than 2.5%, such provision of deposits services by CNOOC Finance to the Group shall be exempt from independent shareholders' approval requirements.

FUTURE PLANS WITH RESPECT TO EXISTING CONTINUING CONNECTED TRANSACTIONS

A1. Properties Leasing Agreement

The Group will continue to lease properties from the CNOOC Group under the terms and conditions of the Properties Leasing Agreement. Therefore the Company entered into a supplemental agreement to the Properties Leasing Agreement on 5 November 2008, under which the term of the Properties Leasing Agreement will be extended to commence on 1 January 2009 and expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

As the business expansion requires, the Company intends to lease more properties from members of the CNOOC Group for the Group's office use in Beijing. The proposed rental in respect of such additional properties for the financial years 2009, 2010 and 2011 are RMB10,430,000, RMB12,830,000 and RMB12,830,000 respectively. The new lease agreements, when entered into, will be subject to the terms and conditions of the Properties Leasing Agreement.

The continuing connected transactions under the Properties Leasing Agreement will be conducted with the annual transaction amounts within the threshold of 2.5% of the applicable percentage ratios. Such transactions are accordingly qualified under Rule 14A.34(1) of the Listing Rules and they, together with the entering into of the supplemental agreement and the above-mentioned new leases, are exempt from independent shareholders' approval requirements.

A2. COSL Transportation Agreement

The Group will continue to use the transportation services of COSL under the terms and conditions of the COSL Transportation Agreement and therefore the Company entered into a supplemental agreement to the COSL Transportation Agreement on 5 November 2008 (such supplemental agreement will become effective upon approval of the Independent Shareholders), under which the term of the COSL Transportation Agreement will be extended to commence on 1 January 2009 and expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with. As the continuing connected transactions under the COSL Transportation Agreement are expected to be subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules, the entering into of the supplemental agreement will also be subject to the approval of the Independent Shareholders at the EGM.

A3. Natural Gas Sale and Purchase Agreements

The Group will continue to purchase natural gas under the Natural Gas Sale and Purchase Agreements.

A4. Comprehensive Services and Product Sales Agreement

The Group will continue to enter into transactions with the CNOOC Group under the terms and conditions of the Comprehensive Services and Product Sales Agreement. Therefore the Company entered into a supplemental agreement to the Comprehensive Services and Product Sales Agreement on 5 November 2008 (such supplemental agreement will become effective upon approval of the Independent Shareholders), under which the term of the Comprehensive Services and Product Sales Agreement will be extended to commence on 1 January 2009 and expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

Further, the Company also proposes to add a new category — purchases of products by the Group from the CNOOC Group — in the supplemental agreement to the Comprehensive Services and Product Sales Agreement. This category of continuing connected transactions will be conducted with the annual transaction amounts within the threshold of 0.1% applicable percentage ratios and are accordingly qualified under Rule 14A.33(3) of the Listing Rules as de minimis transactions exempt from reporting, announcement and independent shareholders' approval requirements.

As certain continuing connected transactions under the Comprehensive Services and Product Sales Agreement are expected to be subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules, the entering into of the supplemental agreement will also be subject to the approval of the Independent Shareholders at the EGM.

A5. Financial Services Agreement

The Group will continue with the financial transactions with CNOOC Finance under the terms and conditions of the Financial Services Agreement. Therefore the Company entered into a supplemental agreement to the Financial Services Agreement on 3 November 2008 (such supplemental agreement will become effective upon approval of the Independent Shareholders), under which the term of the Financial Services Agreement will be extended to commence on 1 January 2009 and expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with. As the continuing connected transactions under the Financial Services Agreement categorized as A5(a) and A5(b) are expected to be subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules, the entering into of the supplemental agreement will also be subject to the approval of the Independent Shareholders at the EGM. The other continuing connected transactions under the same agreement categorized as A5(c1), A5(c2) and A5(c3) will be conducted with the annual transaction amounts within the threshold of 0.1% of the applicable percentage ratios and are accordingly qualified under Rule 14A.33(3) of the Listing Rules as de minimis transactions exempt from reporting, announcement and independent shareholders' approval requirements.

B1. Kingboard Product Sales and Services Agreement

The Group will continue to enter into transactions with Hong Kong Kingboard and its Associates under the terms and conditions of the Kingboard Product Sales and Services Agreement. Therefore the Company entered into a supplemental agreement to the Kingboard Product Sales and Services Agreement on 5 November 2008 (such supplemental agreement will become effective upon approval of the Independent Shareholders), under which the term of the Kingboard Product Sales and Services Agreement will be extended to commence on 1 January 2009 and expire on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with. As the continuing connected transactions under the Kingboard Product Sales and Services Agreement are expected to be subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules, the entering into of the supplemental agreement will also be subject to the approval of the Independent Shareholders at the EGM.

PROPOSED CAPS IN RELATION TO EXISTING CONTINUING CONNECTED TRANSACTIONS

The table below set out the caps for the continuing connected transactions:

Category of continuing connected transactions	<i>Amount in RMB'000</i>			
	Year ending 31 December 2009 <i>(Note 1)</i>	Year ending 31 December 2010 <i>(Note 1)</i>	Year ending 31 December 2011 <i>(Note 1)</i>	
A1. Properties Leasing Agreement: Leases of properties by the Group from the CNOOC Group <i>(Note 5)</i>	Caps <i>(Note 2)</i>	13,325	15,845	15,845
A2. COSL Transportation Agreement: Provision of transportation services by COSL to the Group <i>(Note 6)</i>	Proposed Caps <i>(Note 3)</i>	50,400	67,200	117,600
A3. Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited <i>(Note 7)</i>	Proposed Caps <i>(Note 3)</i>	1,138,011	1,540,198	2,544,416
A4. Comprehensive Services and Product Sales Agreement:				
A4(a). Provision of services and supplies by the CNOOC Group to the Group <i>(Note 8)</i>	Proposed Caps <i>(Note 3)</i>	285,970	318,899	338,872

Amount in RMB'000

Category of continuing connected transactions		Year ending 31 December 2009 (Note 1)	Year ending 31 December 2010 (Note 1)	Year ending 31 December 2011 (Note 1)
A4(b). Provision of services and supplies by the Group to the CNOOC Group (Note 9)	Proposed Caps (Note 3)	114,503	196,229	286,415
A4(c). Sale of products by the Group to the CNOOC Group (Note 10)	Proposed Caps (Note 3)	395,563	426,147	447,147
A5. Financial Services Agreement:				
A5(a). Loans granted by CNOOC Finance to the Group (Note 11)	Proposed Caps (Notes 3 and 4)	600,000	600,000	600,000
A5(b). Deposits placed by the Group with CNOOC Finance (Note 12)	Proposed Caps (Notes 3 and 4)	400,000	500,000	500,000
B1. Kingboard Product Sales and Services Agreement: Sale of products and provision of services by the Group to Hong Kong Kingboard and/or its Associates (Note 13)	Proposed Caps (Note 3)	630,000	877,800	1,597,400

Notes:

1. In respect of all continuing connected transactions, the Directors have estimated the annual transaction figures for the coming three financial years ending 31 December 2011 on the following basis:
 - (a) the continuing connected transactions will continue to be entered into on the terms and conditions set out in the relevant agreements (as may be supplemented);
 - (b) the continuing connected transactions will continue to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms;
 - (c) references have been made to the historical amounts for the two financial years ended 31 December 2007 and the six months ended 30 June 2008 as well as the estimated amounts for the year ending 31 December 2008; and
 - (d) there will not be any material adverse changes to the state of the PRC economy and the level of prices and demand for the Group's products and the materials and services needed by the Group for its operation.
2. These figures refer to continuing connected transactions which are expected to be exempt from independent shareholders' approval requirements under Rule 14A.34(1) of the Listing Rules because the applicable percentage ratios are expected to be kept at below 2.5%. The caps refer to the maximum annual transaction figures within which each relevant type of transactions will be conducted in the corresponding year. If the actual transaction amount exceeds the cap but is within the threshold of 2.5% of the applicable percentage ratios, the Company will make an announcement pursuant to Rule 14A.35(3) of the Listing Rules. If the

actual transaction amount is expected to exceed the threshold of 2.5% of the applicable percentage ratios, the Company will seek prior approval of independent shareholders under Rule 14A.35(4) of the Listing Rules.

The proposed caps for Category A1 transactions are the sums of the expected rental expenses of the existing leases that will be renewed and the expected rental expenses of the new leases.

3. The Proposed Caps are subject to Independent Shareholders' approval at the EGM.
4. These Proposed Caps refer to the maximum daily outstanding balance during the relevant period.
5. **A1. Properties Leasing Agreement:** The expected increase in annual rental expenditure for the leases subject to the Properties Leasing Agreement is mainly due to the proposed leasing of new offices in Beijing. Due to the expansion of the Group's business, part of the Group's management functions will move their offices to Beijing. The aggregate floor area of such offices in Beijing is substantially larger than the offices leased from the CNOOC Group in 2006 to 2008 to justify the increase in the overall rental expenditure of the Group under the Properties Leasing Agreement (as may be supplemented) for the years 2009 to 2011.
6. **A2. COSL Transportation Agreement:** When the Group's new methanol plant in Hainan Province (with an annual designed production capacity of 800,000 tonnes of methanol) is expected to commence production in 2010 and to reach its full productivity in 2011, transportation expenditure will significantly increase by then.
7. **A3. Natural Gas Sale and Purchase Agreements:** The proposed increase in the Proposed Caps compared with historical transaction figures is mainly due to the following reasons: (1) the price of natural gas to be supplied for Fudao Phase II and CNOOC Jiantao Methanol Plant is expected to increase; (2) as the Ledong 15-1 and Ledong 22-1 gasfields of CNOOC Limited will commence production at the end of 2008, the amount of natural gas supplied to Fudao Phase I, Fudao Phase II and CNOOC Jiantao Methanol Plant will significantly rise and (3) when the Group's Hainan 800,000-tonne methanol plant commences production in 2010, its demand for natural gas will grow considerably.
8. **A4(a). Comprehensive Services and Product Sales Agreement: Provision of services and supplies by the CNOOC Group to the Group:** In view of the construction of the Group's Hainan methanol plant, the extension of the deepwater seaport owned and operated by Hainan Basuo and construction of the polyoxymethylene production facility of Tianye Chemical, the Group's demand for the construction services from the CNOOC Group is expected to significantly increase from 2009 to 2011. The demand for human resources and networking services required by the Group from the CNOOC Group is also expected to rise.
9. **A4(b). Comprehensive Services and Product Sales Agreement: Provision of services and supplies by the Group to the CNOOC Group:** The demand for the provision of services and supplies to be provided by the Group is expected to significantly increase due to the commencement of the construction of certain chemical products manufacturing plants to be operated by the CNOOC Group. In addition, after the Group's Hainan methanol plant commences operation and after Hainan Basuo's port extension project has completed, the Group's provision of services and supplies to the CNOOC Group will also rise accordingly.
10. **A4(c). Comprehensive Services and Product Sales Agreement: Sale of products by the Group to the CNOOC Group:** The increase in the Proposed Caps compared with historical transaction figures is mainly due to the following reasons: (1) the expected increase in demand for methanol with the commencement in production of the above-mentioned new chemical products plants operated by the CNOOC Group; and (2) the reconstruction expected to be completed in 2009 with respect of a PRC entity (in which CNOOC currently has an equity interest of less than 30%) such that CNOOC will hold more than 30% of its equity interest and therefore the existing transactions between the Group and such entity will then become continuing connected transactions.
11. **A5(a). Financial Services Agreement: Loans granted by CNOOC Finance to the Group:** In view of PBOC's liquidity regulation policies over domestic banks in the PRC, it is very important for the Group to be able to secure timely and sufficient financings from CNOOC Finance. There are two types of loans granted by CNOOC Finance to the Group: (1) loans as part of the Group's project financing where security over the Group's assets will be created in favour of CNOOC Finance and (2) loans to finance the Group's working capital where no security over the assets of the Group will be created in favour of CNOOC Finance.

For type (1), the Company estimates that the loans granted by CNOOC Finance to finance the construction of the Group's Hainan methanol plant will be approximately RMB600 million for the three financial years of 2009, 2010 and 2011. As described on page 103 of the Prospectus, the funding for the construction would be from borrowings and cash generated from the Group's operating activities, and not from the proceeds of the Company's global offering conducted in September 2006. Further, the Board initially contemplated that construction could commence in early 2007 and mass production would start in 2008. However, as the necessary governmental approvals and permits were not obtained in 2007, the earliest time when debt financing for the construction (including financing from CNOOC Finance) is required will be after 2008.

For type (2), such loans constitute financial assistance provided by CNOOC Finance which will be fully exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. Therefore, the Proposed Caps only refer to type (1) loans.

12. **A5(b). Financial Services Agreement: Deposits placed by the Group with CNOOC Finance:** As part of its plans to develop its business, the Company will establish subsidiaries and joint venture companies in different locations of China and will continue to acquire suitable PRC entities. With the expected addition of new members to the Group, the Company proposes to increase the annual maximum daily deposits balances in order to achieve a more efficient accounts settlement mechanism and capital management.
13. **B1. Kingboard Product Sales and Services Agreement: Sale of products and provision of services by the Group to Hong Kong Kingboard and/or its Associates:** Sale of products to Hong Kong Kingboard and/or its Associates will significantly increase from 2010 with the commencement of production of the Hainan methanol plant.

REASONS AND BENEFITS OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS

As mentioned in the Prospectus, the existing continuing connected transaction agreements were entered into for the business needs and benefits of the Group. The Company is one of the major subsidiaries of CNOOC which is one of the largest petroleum companies in China. In view of the extensive resources and experience of the CNOOC Group, it is desirable for the Group to seek supports and maintain business relationships with the CNOOC Group.

Hong Kong Kingboard is the business partner of the Company with respect to CNOOC Jiantao. It, together with its parent company Kingboard Chemical and its other Associates, also maintains close business relationship with the Group in terms of product sale and purchase. It is beneficial for the Group to enter into commercial arrangements and transactions with Hong Kong Kingboard and its Associates.

The existing continuing connected transactions are or will be entered into in the ordinary and usual course of business of the Group on normal commercial terms and the Board is of the general view that it is in the interests of the Company and the Shareholders as a whole to carry on the existing continuing connected transactions as those transactions have facilitated and will continue to facilitate the operation of the Group's business. The executive Directors and non-executive Directors are of the view that the terms and caps of those transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

With respect to the continuing connected transactions that are exempt from independent shareholders' approval requirements under the Listing Rules (Categories A1 and A5(c1), (c2) and (c3) transactions), the Directors (including the independent non-executive Directors) are of the opinion that such transactions have been entered into, and will be carried out, in the ordinary and usual course of the Group's business, on an arm's length basis and on normal commercial terms, and that the terms (and, for Categories A1 transactions, the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION RELATING TO THE GROUP

The Group's current core business is the production and sale of urea (the most commonly used nitrogenous fertilizer in the PRC) and chemical products (primarily methanol).

EGM

The Board will convene an EGM to obtain the approval of Independent Shareholders for, among other things:

- (1) the entering into of the supplemental agreements in relation to (a) the COSL Transportation Agreement, (b) the Comprehensive Services and Product Sales Agreement, (c) the Financial Services Agreement and (d) the Kingboard Product Sales and Services Agreement; and
- (2) the Proposed Caps for each relevant type of continuing connected transactions under Categories A2, A3, A4(a), A4(b), A4(c), A5(a), A5(b) and B1.

At the EGM, CNOOC and its Associates will abstain from voting with respect to continuing connected transactions with the CNOOC Group and Hong Kong Kingboard and its Associates will abstain from voting with respect to continuing connected transactions with Hong Kong Kingboard and its Associates.

For the purpose of the EGM, the Board has established the Independent Board Committee to consider and advise the Independent Shareholders with respect to (1) the entering into of the supplemental agreements in relation to (i) the COSL Transportation Agreement, (ii) the Comprehensive Services and Product Sales Agreement with respect to transactions under Categories A4(a), A4(b) and A4(c), (iii) the Financial Services Agreement with respect to transactions under Categories A5(a) and A5(b) and (iv) the Kingboard Product Sales and Services Agreement and (2) the Proposed Caps for each relevant type of continuing connected transactions under Categories A2, A3, A4(a), A4(b), A4(c), A5(a), A5(b) and B1. The Company has also appointed the Independent Financial Adviser to advise the Independent Board Committee on those aspects of the continuing connected transactions.

A circular containing further information on the continuing connected transactions, the recommendation of the Independent Board Committee, the advice of the Independent Financial Adviser and a notice convening the EGM will be issued by the Company and despatched to the Shareholders in due course. Pursuant to the Listing Rules, the Company is required to despatch such circular within 21 days from the publication of this announcement.

Upon approval of the continuing connected transactions which require independent shareholders' approval, the Company will comply with the requirements specified under Rules 14A.35(1), 14A.35(2), 14A.37 to 14A.40 of the Listing Rules in respect of the conduct of such continuing connected transactions.

DEFINITIONS

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

- | | |
|----------------|--|
| “Associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |

“CNOOC”	中國海洋石油總公司 (China National Offshore Oil Corporation*), a state-owned company established in China which is also the controlling shareholder of the Company holding approximately 59.41% of all of the shares of the Company in issue as at the date of this announcement
“CNOOC Finance”	中海石油財務有限責任公司 (CNOOC Finance Corporation Limited*), a company established in China which is a subsidiary of CNOOC
“CNOOC Group”	CNOOC and its Associates presented as a group, excluding the Group, CNOOC Limited (which is listed on the Stock Exchange) and COSL (which is listed on the Stock Exchange and on the Shanghai Stock Exchange) and Offshore Oil Engineering Co., Ltd., (which is listed on the Shanghai Stock Exchange)
“CNOOC Jiantao”	中海石油建滔化工有限公司 (CNOOC Kingboard Chemical Limited*), the equity interest of which is owned as to 60% by the Company and 40% by Hong Kong Kingboard
“CNOOC Jiantao Methanol Plant”	the Group’s existing methanol plant in Hainan Province of the PRC constructed through CNOOC Jiantao
“CNOOC Limited”	CNOOC Limited (中國海洋石油有限公司), a company listed on the Hong Kong Stock Exchange and the New York Stock Exchange and a subsidiary of CNOOC, and, except where the context otherwise requires, its subsidiaries
“Company”	中海石油化學股份有限公司 (China BlueChemical Ltd.*), a company incorporated in the PRC and a subsidiary of CNOOC, the H shares of which are listed on the Stock Exchange
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“COSL”	China Oilfield Services Limited (中海油田服務股份有限公司), a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange and a subsidiary of CNOOC, and, except where context otherwise requires, its subsidiaries
“Director(s)”	director(s) of the Company
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company proposed to be convened for the Independent Shareholders to consider and, if thought fit, approve the transactions contemplated under the connected transaction agreements and the Proposed Caps, and any adjournment thereof
“Fudao Phase I”	the Group’s urea plant in Hainan completed in 1996
“Fudao Phase II”	the Group’s urea plant in Hainan completed in 2003

“Group”	the Company and its subsidiaries from time to time
“Hainan Basuo”	海南八所港務有限責任公司 (Hainan Basuo Port Limited*), the registered share capital of which is owned as to 72.5% by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Kingboard”	Kingboard Investments Limited (建滔投資有限公司), a Hong Kong incorporated subsidiary of Kingboard Chemical, which holds 40% equity interest in CNOOC Jiantao
“Independent Board Committee”	an independent committee of the Board comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi, Mr. Wu Xiaohua and Mr. Wang Wenshan, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the continuing connected transactions
“Independent Financial Adviser” or “CIMB”	CIMB-GK Securities (HK) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of certain aspects of the continuing connected transactions set out in this announcement
“Independent Shareholders”	Shareholders other than those who have interest in the relevant continuing connected transactions
“Kingboard Chemical”	Kingboard Chemical Holdings Limited, a company which is listed on the Stock Exchange
“Listing Date”	29 September 2006, the date on which dealings in the H shares of the Company commenced on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	People’s Bank of China, being the central bank of the PRC
“PRC” or “China”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau and Taiwan
“Proposed Cap(s)”	the proposed maximum annual aggregate value(s) for each type of the continuing connected transactions of the Company not being exempt from independent shareholders’ approval requirements under the Listing Rules in respect of 2009 to 2011
“Prospectus”	the Hong Kong prospectus of the Company dated 18 September 2006
“RMB”	Renminbi, the lawful currency of the PRC

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianye Chemical”	中海石油天野化工股份有限公司 (CNOOC Tianye Chemical Limited*), formerly known as 內蒙古天野化工(集團)有限責任公司 (Inner Mongolia Tianye Chemical Industry Limited), the equity interest of which is owned as to 90% by the Company
“%”	per cent

By order of the Board of Directors
China BlueChemical Ltd.
Quan Changsheng
Company Secretary

Haikou, Hainan Province, the PRC
5 November 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. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi, Mr. Wu Xiaohua and Mr. Wang Wenshan.

* *For identification purpose only.*