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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)

MAJOR AND CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ACQUISITION OF 83.17% EQUITY INTEREST IN HUBEI DAYUKOU CHEMICAL CO., LTD.* AND 100% EQUITY INTEREST IN ZHJ MINING CO., LTD.* AND PROPOSED CONTINUING CONNECTED TRANSACTIONS

Financial Advisers to China BlueChemical Ltd.



**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



CIMB-GK Securities (HK) Limited

On 12 December 2008, the Company has entered into the Acquisition Agreement with CNOOC under which the Company has agreed to purchase, and CNOOC has agreed to sell, the Equity Interests at a cash consideration of RMB1,262,847,026 (equivalent to approximately HK\$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK\$1,224,266,168) constitutes the consideration for the acquisition of 83.17% equity interest in DYK Chemical and RMB181,820,000 (equivalent to approximately HK\$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining. Upon Completion, the Company will be directly interested in the Equity Interests.

The operations of both the Target Companies are in Jingmen City, Hubei Province of the PRC. The main businesses of these companies are phosphate mining and processing as well as the production and sale of phosphoric chemical products (mainly phosphate fertilizers). As at the date of this announcement, the Company does not hold any equity interests in DYK Chemical or ZHJ Mining.

Completion is conditional upon the fulfilment of certain conditions, namely, (i) the approval of the Acquisition (including the method of the transfer of the Equity Interests) and the transactions contemplated in the Acquisition Agreement by the SASAC; (ii) the passing of all necessary resolutions by the Independent Shareholders approving the Acquisition Agreement and the transactions contemplated thereunder at the Extraordinary General Meeting in accordance with the articles of association of the Company and the Listing Rules; and (iii) the approval from the Department of Commerce of Hubei Province in relation to the Acquisition.

As one of the applicable percentage ratios in respect of the Acquisition represents more than 25% but less than 100% for the Company while the other applicable percentage ratios represent less than 25%, the Acquisition constitutes a major transaction pursuant to Chapter 14 of the Listing Rules. Further, as CNOOC is a connected person of the Company, the Acquisition also constitutes a connected transaction under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

As soon as DYK Chemical and ZHJ Mining become subsidiaries of the Company, the continuing transactions between DYK Chemical or ZHJ Mining on one hand and CNOOC and/or its Associates on the other hand will become continuing connected transactions of the Company and will be subject to the reporting, announcement and/or independent shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules.

For the continuing connected transactions with the applicable percentage ratios that represent less than 2.5% but more than 0.1%, such transactions are only subject to the reporting and announcement requirements under the Listing Rules but not independent shareholders' approval. 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 with the applicable percentage ratios that represent more than 2.5%, such transactions are subject to independent shareholders' approval requirements, approval from the Independent Shareholders on the Proposed Caps for those transactions will be sought at the Extraordinary General Meeting.

The Directors have appointed the Independent Board Committee, comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Wang Wenshan, the three independent non-executive Directors, to advise the Independent Shareholders in relation to the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b). An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b). A circular containing further information on the Acquisition and a notice convening the Extraordinary General Meeting to consider (1) the Acquisition Agreement and transactions contemplated thereunder; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) will be issued by the Company and despatched to the Shareholders within 21 days from the date of publication of this announcement.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders apart from CNOOC and its Associates will be required to abstain from voting on the resolutions to approve the Acquisition Agreement together with the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

THE ACQUISITION AGREEMENT

Date of the Acquisition Agreement

12 December 2008

Parties

- (1) CNOOC, as vendor; and
- (2) The Company, as purchaser.

Assets to be acquired

Pursuant to the Acquisition Agreement, CNOOC agrees to sell and the Company agrees to purchase:

- (1) the 83.17% equity interest in DYK Chemical; and
- (2) the 100% equity interest in ZHJ Mining.

Consideration

The total consideration of the Acquisition is RMB1,262,847,026 (equivalent to approximately HK\$1,430,177,832), of which RMB1,081,027,026 (equivalent to approximately HK\$1,224,266,168) constitutes the consideration for the acquisition of 83.17% equity interest in DYK Chemical and RMB181,820,000 (equivalent to approximately HK\$205,911,665) constitutes the consideration for the acquisition of 100% equity interest in ZHJ Mining. Eighty-five percent (85%) of such consideration will be payable in cash by the Company to CNOOC within five (5) Business Days from the date when all the conditions precedent set out below have been satisfied. The remaining fifteen percent (15%) of such

consideration together with the Interest for the Remaining Payment will be payable in cash by the Company to CNOOC within ten (10) Business Days from date of the issuance of the Special Auditing Reports as specified under the Acquisition Agreement.

The consideration will be financed by the Company's internal resources.

The amount of the consideration was determined on the basis of normal commercial terms and arm's length negotiations between the Company and CNOOC, as well as taking into account of various factors, including (i) the assets valuation carried out by a certified PRC public valuer approved and regulated by China Securities Regulatory Commission and Ministry of Finance, Tianjian, on each of DYK Chemical and ZHJ Mining as at 30 June 2008; (ii) the quality of the assets being acquired; (iii) the synergy and strategic value of the Target Companies that can be brought to the Group in order to enhance its future development; and (iv) the market positioning of DYK Chemical and ZHJ Mining. The valuation prepared by Tianjian for the 100% equity interests in DYK Chemical and ZHJ Mining are RMB1,299,780,000 and RMB181,820,000 respectively. It follows that the valuation for 83.17% equity interest in DYK Chemical is approximately RMB1,081,027,026.

Valuation Methodology and Assumptions

Tianjian has used both asset-based approach and income approach in their valuation of the Target Companies. According to Tianjian, income approach is one of the most recognised valuation approaches for State-owned assets in the PRC and has been adopted in recent cases. Tianjian has indicated in its assets appraisal report for the Target Companies that it has mainly used the income approach, also known as discounted cash flow method, to assess the value of the Target Companies and that the income approach is its final concluded valuation approach.

The valuation of each of the Target Companies prepared by Tianjian, for which the income approach has been used, constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules and, accordingly, the requirements under Rule 14.62 of the Listing Rules are applicable to the Acquisition.

In the course of conducting the valuation, the principal assumptions upon which the profit forecast for each of DYK Chemical and ZHJ Mining have been made are presented as follows:

DYK Chemical

1. there are no major changes in the relevant state laws, regulations and policies observed by DYK Chemical;
2. there are no major changes in the social, political and economic environment in the place of DYK Chemical and its business places;
3. DYK Chemical will conduct going-concern operation in accordance with the laws and in line with the general trends in terms of business scope, mode and decision-making procedures;
4. the interest rate of financial credit, tax rate, foreign exchange rate and market conditions are changed within the normal or existing government guided scope;
5. there are no force majeure events or unforeseeable factors that result in major or significant negative impact on the production and operation of DYK Chemical;

6. DYK Chemical continues to maintain its current production and sales strategies to meet market demand;
7. DYK Chemical is able to conduct operations under the current business conditions without additional capital expenditures; and
8. DYK Chemical continues using the trademarks of “Xiangyan”⁽¹⁾ and “SACF”⁽²⁾ for free.

ZHJ Mining

1. there are no major changes in the relevant state laws, regulations and policies observed by ZHJ Mining;
2. there are no major changes in the social, political and economic environment in the place of ZHJ Mining and its business places;
3. ZHJ Mining will conduct going-concern operation in accordance with the laws and in line with the general trends in terms of business scope, mode and decision-making procedures;
4. the interest rate of financial credit, tax rate, foreign exchange rate and market conditions are changed within the normal or existing government guided scope;
5. there are no force majeure events or unforeseeable factors that result in major or significant negative impact on the production and operation of ZHJ Mining;
6. ZHJ Mining will continue to use the land through lease arrangement⁽³⁾ with CNOOC Investment and the rent will be maintained at the current level for future operation period; and
7. due to technical limitations, ZHJ Mining will no longer develop unprofitable phosphate processing business.

Notes:

- (1) A trademark assignment agreement signed between DYK Chemical and CNCCC on 21 August 2008 whereby CNCCC agreed to transfer the trademark of “Xiangyan” to DYK Chemical. As at the date of the announcement, the registration of the transfer of “Xiangyan” is still under process.
- (2) The trademark of “SACF” is owned by 河北天人化工股份有限公司 (Hebei Tianren Chemical Co., Ltd.*) which is an independent third party to the Company and DYK Chemical. On 23 August 2008 and 2 September 2008, Hebei Tianren Chemical Co., Ltd. issued the authorization letters to DYK Chemical whereby DYK Chemical is allowed to use the “SACF” trademark for free until 21 August 2015.
- (3) According to the Company’s PRC legal counsel, Jun He Law Offices, ZHJ Mining does not own any land use right on its own. It leases land from CNOOC Investment for the purpose of general business and staff quarters. The total area of land leased amounts to approximately 2 million square metres. On 22 September 2008, a land use rights lease agreement has been signed between ZHJ Mining and CNOOC Investment for a term commencing from the date of the agreement and expiring on 31 December 2010. More details of that agreement are set out in the section headed “Continuing Connected Transactions Arising From the Acquisition — (1) Land use rights leasing” below.

The Directors are of the view that the valuation of DYK Chemical and ZHJ Mining prepared by Tianjian has been made after due care and enquiry by the Directors. A letter from the Company’s auditors and a joint letter from the Company’s financial advisers will be included in the circular for the purpose of Rule 14.62 of the Listing Rules.

Conditions Precedent

The Acquisition is conditional upon the fulfilment of the following conditions:

- (i) the approval of the Acquisition (including the method of the transfer of the Equity Interests) and the transactions contemplated in the Acquisition Agreement by the SASAC;
- (ii) the passing of all necessary resolutions by the Independent Shareholders approving the Acquisition Agreement and the transactions contemplated thereunder at the Extraordinary General Meeting in accordance with the articles of association of the Company and the Listing Rules; and
- (iii) the approval from the Department of Commerce of Hubei Province in relation to the Acquisition.

None of the conditions above can be waived. The Company and CNOOC have agreed to use their reasonable endeavours to fulfil and/or procure the fulfilment of the above conditions within twelve (12) months from the execution of the Acquisition Agreement.

Representations and Warranties

Both parties have, according to the Acquisition Agreement, provided certain usual representations and warranties to each other in respect of the Acquisition. In particular, both parties represent and warrant that CNOOC shall be entitled to or responsible for (as the case may be) the Profit and Loss of the Relevant Period. Within ten (10) Business Days after the first payment of the consideration, both parties shall jointly appoint a qualified PRC accounting firm as the auditor to prepare the Special Auditing Reports for the Relevant Period in accordance with the applicable PRC accounting policies and principles. The auditing cost in preparing the Special Auditing Reports shall be borne equally by CNOOC and the Company. If there is an increase in the net asset value of the Target Companies in respect of the Equity Interests in the Relevant Period, the Company shall within ten (10) Business Days after the issuance of the Special Auditing Reports pay the aggregate amount of the increase in the net asset value of the Target Companies in respect of the Equity Interests as determined by the auditor to CNOOC. If there is a reduction in the net asset value of the Target Companies in respect of the Equity Interests in the Relevant Period, CNOOC shall within ten (10) Business Days after the issuance of the Special Auditing Reports pay the aggregate amount of reduction in the net asset value of the Target Companies in respect of the Equity Interests as determined by the auditor to the Company.

Completion

The Company and CNOOC agreed to use their best endeavours to complete, or procure to complete, all the registration and filings with the Industrial and Commercial Administration Bureau of Hubei Province in respect of the transfer of the Equity Interests, within ninety (90) Business Days from the date when all of the conditions precedent set out above have been satisfied.

Completion shall take place upon completion of all the registration and filings with the Industrial and Commercial Administration Bureau of Hubei Province in respect of the transfer of the Equity Interests.

INFORMATION ON THE TARGET COMPANIES

The operations of both the Target Companies are in Jingmen City, Hubei Province of the PRC. Both of the Target Companies do not engage in any exploration of natural resources.

DYK Chemical

DYK Chemical is a company established in the PRC with limited liability in August 2005. It is principally engaged in phosphate mining and processing, and sales and production of MAP and DAP fertilizers. DYK Chemical possesses a 30-year mining license for the Dayukou Mine. The mining permit covers an area of 8.1545km² commencing from 18 April 2008 and will expire on 18 April 2038.

According to the Minarco Report, the Dayukou Mine consists of 2 separate ore bodies within distinct geological units, namely PH1 and PH3. As at June 2008 and based on average P₂O₅ cut-off grade of 15% for PH1 and 8% for PH3, the In Situ Quantity Resources were estimated to be 124,016kt at an average grade of 19.6% P₂O₅ (Phosphorus Oxide), and the Mineable Quantity Reserves were estimated to be 77,753kt. The Mineable Quantity Reserves will be mined using a combination of open cut and underground mining methods. Please refer to Table 1 and 2 for the In Situ Quantity Resources and Mineable Quantity Reserves levels of Dayukou Mine.

Table 1: Estimates of In Situ Quantity Resources using the PRC Code (June 2008)

Type	Classification	Tonnes (kt)	Grade% P ₂ O ₅
Economic	111b + 122b	85,326	19.23
	333	38,690	20.42
	Sub Total Economic	124,016	19.60
Sub Economic	2S21 + 2S22	158,338	—

Table 2: Estimates of Mineable Quantity Reserves using the PRC Code (June 2008)

Type	Classification	Tonnes (kt)	Grade% P ₂ O ₅
Open Cut	111b + 122b + 333	14,447	—
Underground	111b + 122b + 333	63,306	—
Total	111b + 122b + 333	77,753	—

The mining production of Dayukou Mine in 2007 was 882kt.

ZHJ Mining

ZHJ Mining is a limited liability company established in the PRC in July 2006. Its main business activity is phosphate mining. ZHJ Mining possesses a 29-year mining permit for the Wangji Mine commencing on 5 June 2007 and expiring on 5 June 2036.

Similar to Dayukou Mine, the In Situ Quantity Resources of Wangji Mine are made up of 2 separate ore bodies, PH1 and PH3. According to the Minarco Report, as at June 2008, the In Situ Quantity Resources were estimated to be 35,697kt at 21.57% P₂O₅ based on an average cut-off grade of 15% P₂O₅ for PH1 and 8% for PH3. The estimated In Situ Quantity Resources are broken down into their specific classification under the PRC Code in Table 3.

Table 3: In Situ Quantity Resources using the PRC Code (June 2008)

Type	Classification	Tonnes (kt)	Grade% P ₂ O ₅
Economic	111b + 122b	18,328	—
	331 + 332	1,399	—
	2M11 + 2M22	15,970	—
	Sub Total Economic	35,697	21.57
Sub Economic	2S21 + 2S22	13,783	—

According to the Minarco Report, the Mineable Quantity Reserves for the Wangji Mine were estimated to be 6,265.5kt at an average grade of 24.02% P₂O₅ as at June 2008. The Wangji Mine comprises of one producing underground mine in orebody PH1 and one developing underground mine in orebody PH3. Both underground mines adopted small scale room and pillar mining methodology. The estimations of Mineable Quantity Reserves were based on underground mine design applied to the 111b In Situ Quantity Resources classification under the PRC Code between elevations of 75 mRL and 10 mRL.

Additional 21,000kt of Mineable Quantity Reserves have been estimated to occur beneath the currently estimated Mineable Quantity Reserves of 6,265.5kt. The additional mineable quantities, based on the In Situ Quantity Resources shown in Table 3, were compiled by Northwest Hubei Province Hubei Geological Minerals Investigation Bureau* (湖北省鄂西北地質礦產調查所), an organization which is part of “Bureau of Geological Exploration & Development of Hubei Province”, and specializes in mine exploration and geological research. Minarco has reviewed the underlying data and assumptions used in the estimation of the additional Mineable Quantity Reserves of 21,000kt, and considers the additional mineable quantities to be reasonable.

The mining production of ZHJ Mining in 2007 was 570.4kt at an average grade of 22.9% P₂O₅.

Relationship between the Target Companies

In order to achieve the development and synergy of the businesses of DYK Chemical and ZHJ Mining, ZHJ Mining supplies phosphoric ore to DYK Chemical for its fertilizers production. ZHJ Mining’s expertise in mine exploitation is also shared with DYK Chemical so that DYK Chemical may further improve its own phosphate mine exploitation skills. The Acquisition will allow the Target Companies to continue advancing such synergy effect and technical know-how to complement their business operations in a cost-effective manner.

Previous Changes in the Equity Interests of the Target Companies

On 12 August 2005 (the date of establishment of DYK Chemical), CNCCC contributed RMB300,000,000 in cash to the registered share capital of DYK Chemical to obtain 29.98% equity interest in DYK Chemical. On 5 May 2008, CNCCC acquired another 53.19% equity interest in DYK Chemical from 中國信達資產管理公司 (China Cinda Asset Management Corporation*) at a cash consideration of RMB532,247,900.

On 31 July 2006 (the date of establishment of ZHJ Mining), CNCCC contributed RMB50,000,000 in cash to the registered share capital of ZHJ Mining to obtain 100% equity interest in ZHJ Mining.

Pursuant to a notice issued by the SASAC, CNCCC was merged with CNOOC and became a wholly-owned subsidiary of CNOOC from 13 October 2006.

In accordance with the “Interim Measures for the Administration of Gratuitous Transfer of State-owned Property Rights of Enterprises*” of the PRC 《企業國有產權無償劃轉管理暫行辦法》, CNCCC transferred its entire interests in DYK Chemical and ZHJ Mining to CNOOC at nil consideration on 1 September 2008 and 18 August 2008 respectively.

Selected Financial Information

The following is a summary of the audited financial information of DYK Chemical for the period from 12 August 2005 (date of incorporation) to 31 December 2005, the two years ended 31 December 2007 and the six months period ended 30 June 2008:

	As at 31 December 2005 <i>(RMB'000)</i>	As at 31 December 2006 <i>(RMB'000)</i>	As at 31 December 2007 <i>(RMB'000)</i>	As at 30 June 2008 <i>(RMB'000)</i>
Total assets	1,185,886	1,369,510	1,357,350	1,466,587
Total liabilities	296,886	465,046	402,824	426,898
Net assets	889,000	904,464	954,526	1,039,689
	12 August 2005 to 31 December 2005⁽¹⁾ <i>(RMB'000)</i>	For the year ended 31 December 2006 <i>(RMB'000)</i>	For the year ended 31 December 2007 <i>(RMB'000)</i>	Six months period ended 30 June 2008 <i>(RMB'000)</i>
Revenue	145,704	702,292	1,109,618	766,392
Cost of sales	163,139	615,810	907,397	612,056
Gross profit/(loss)	(17,435)	86,482	202,221	154,336
Profit/(loss) before tax	(165,320)	26,580	98,184	113,977
Profit/(loss) after tax	(111,624)	15,464	50,062	85,163

The following is a summary of the audited financial information of ZHJ Mining for the period from 31 July 2006 (date of incorporation) to 31 December 2006, the year ended 31 December 2007 and the six months period ended 30 June 2008:

	As at 31 December 2006 (RMB'000)	As at 31 December 2007 (RMB'000)	As at 30 June 2008 (RMB'000)
Total assets	139,270	169,539	170,990
Total liabilities	76,559	78,488	66,440
Net assets	62,711	91,051	104,550

	31 July 2006 to 31 December 2006⁽²⁾ (RMB'000)	For the year ended 31 December 2007 (RMB'000)	Six months period ended 30 June 2008 (RMB'000)
Revenue	36,009	120,330	51,832
Cost of sales	9,180	42,584	17,025
Gross profit	26,829	77,746	34,807
Profit before tax	18,349	44,233	19,074
Profit after tax	12,711	28,340	13,499

Notes:

- (1) The financial year of 2005 for DYK Chemical began from 12 August 2005 (being its date of incorporation) to 31 December 2005.
- (2) The financial year of 2006 for ZHJ Mining began from 31 July 2006 (being its date of incorporation) to 31 December 2006.

The above financial information of each of the Target Companies was prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

As at the date of this announcement, the Company does not hold any equity interests in either of the Target Companies. Upon Completion, the Company will be directly interested in 83.17% equity interest in DYK Chemical and the remaining 16.83% equity interest in DYK Chemical will continue to be held by the Stated-owned Assets Supervision and Administration Commission of Hubei Provincial People's Government, an independent third party to the Company and its connected persons, and 100% equity interest in ZHJ Mining and each of DYK Chemical and ZHJ Mining will become a subsidiary of the Company. Financial information of each of the Target Companies will be consolidated to the Company's accounts after the Company obtains effective control of the Target Companies.

CONTINUING CONNECTED TRANSACTIONS ARISING FROM THE ACQUISITION

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 Investment 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.

As soon as DYK Chemical and ZHJ Mining become subsidiaries of the Company, the continuing transactions between DYK Chemical or ZHJ Mining on one hand and CNOOC and its Associates on the other hand will become continuing connected transactions of the Company.

Set out below are the continuing connected transactions arising from the Acquisition which will not be qualified as de minimis transactions and thus will not be fully exempt from reporting, announcement and independent shareholders' approval requirements (where applicable) under the Listing Rules.

(1) Land use rights leasing

On 22 September 2008, CNOOC Investment and ZHJ Mining entered into a land use rights lease agreement (the "**Land Use Rights Lease Agreement**"), pursuant to which CNOOC Investment has agreed to lease the rights to use certain parcels of land in Hubei Province of the PRC to ZHJ Mining for general business and staff quarter uses.

The term of the Land Use Rights Lease Agreement commenced on the date of the agreement and will expire on 31 December 2010. Upon expiration of the lease term, the term of the Land Use Rights Lease Agreement will automatically be extended for one year provided that no party will give a three-month prior notice in writing to the other party to terminate the agreement and the requirements of the Listing Rules in relation to connected transactions are complied with. If the term of the Land Use Rights Lease Agreement is extended for one year, the Company will comply with the Listing Rules and make an announcement for the extended term of 2011. Upon expiration of the extended term, the Land Use Rights Lease Agreement may be renewed upon mutual agreement provided that the requirements of the Listing Rules are complied with. At any time during the term of the agreement, either party may, by giving not less than 30 days' prior written notice, terminate the agreement.

Pursuant to Rule 14A.41 of the Listing Rules, the Land Use Rights Lease Agreement is subject to applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Land Use Rights Lease Agreement.

The rent under the Land Use Rights Lease Agreement is RMB3,000,000 per annum.

As announced by the Company on 5 November 2008, the annual caps for leases of properties by the Group from the CNOOC Group under the Properties Leasing Agreement will be RMB13,325,000, RMB15,845,000 and RMB15,845,000 for the years ending 31 December 2009, 2010 and 2011 respectively. The Board expects that the annual caps for leases of properties will be revised to RMB16,325,000, RMB18,845,000 and RMB15,845,000 for the years ending 31 December 2009, 2010 and 2011 respectively after aggregating the annual figures for the Land Use Rights Lease Agreement.

(2) Comprehensive Services and Product Sales Agreement

References are made to the Company's announcement dated 5 November 2008 and circular dated 14 November 2008 in relation to the continuing connected transactions.

The Company entered into a supplemental agreement to the comprehensive services and product sales agreement (the "**Comprehensive Services and Product Sales Agreement**") (as supplemented) on 5 November 2008 with CNOOC (such supplemental agreement and the annual caps will become effective upon approval of the Independent Shareholders at the extraordinary general meeting of the Company to be held on 30 December 2008 pursuant to the circular made on 14 November 2008), 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.

2(a) Sales of products by the Group to the CNOOC Group

DYK Chemical has been selling products such as DAP to the CNOOC Group and starting from January 2009, products such as MAP is expected to be sold to the CNOOC Group. As soon as DYK Chemical becomes a subsidiary of the Company, such transactions will be subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented). Further, the annual revenue generated from such sales will be aggregated with the annual revenue generated from other sales of products under the Comprehensive Services and Product Sales Agreement (as supplemented) for the purpose of determining the future annual caps for the years 2009 to 2011. As announced by the Company on 5 November 2008, the annual caps for such other sales of products for the years 2009 to 2011 are already subject to the Independent Shareholders' approval which is to be sought at the extraordinary general meeting of the Company to be held on 30 December 2008. Upon completion of the Acquisition, the annual revenue generated from sale of products by DYK Chemical to the CNOOC Group will increase the annual cap figures for other sales of products by the Group to the CNOOC Group under the Comprehensive Services and Product Sales Agreement (as supplemented) and should therefore be subject to reporting, announcement and independent shareholders' approval requirements.

The revenue of DYK Chemical from sales of products to the CNOOC Group was approximately RMB2,543,000, RMB4,336,000 and nil respectively for the two years ended 31 December 2007 and the six months ended 30 June 2008.

2(b) Purchases of products by DYK Chemical from the CNOOC Group

DYK Chemical has been purchasing products such as sulphur from the CNOOC Group for its business operation prior to the Acquisition and will continue to do so after the Acquisition. As soon as DYK Chemical becomes a subsidiary of the Company, such transactions will be subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented). This type of continuing connected transactions and the Proposed Caps under this category are expected to be subject to reporting, announcement and independent shareholders' approval requirements.

The expenditure of DYK Chemical for purchases of products from the CNOOC Group was approximately RMB68,701,000, RMB152,120,000 and RMB175,639,000 respectively for the two years ended 31 December 2007 and the six months ended 30 June 2008.

PROPOSED ANNUAL CAPS IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

The table below sets out the annual caps for the continuing connected transactions in relation to the Comprehensive Services and Product Sales Agreement:

Category of continuing connected transactions		Amount in RMB'000			
		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>	
2.	Comprehensive Services and Product Sales Agreement:				
2(a).	Sales of products by the Group to the CNOOC Group	Proposed Caps <i>(Note 2)</i>	500,563	531,147	552,147
2(b).	Purchases of products by DYK Chemical from the CNOOC Group				
	• continuing connected transactions arising from the Acquisition	Proposed Caps <i>(Note 3)</i>	280,000	308,000	338,800

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 (if any) 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. As announced by the Company on 5 November 2008, the annual caps for sales of products by the Group to the CNOOC Group under the Comprehensive Services and Product Sales Agreement (as supplemented) (without taking into account the sales of products by DYK Chemical to the CNOOC Group) will be RMB395,563,000, RMB426,147,000 and RMB447,147,000 for the years ending 31 December 2009, 2010 and 2011 respectively. The annual figures for sales of products by DYK Chemical to the CNOOC Group arising from the Acquisition will be RMB105,000,000, RMB105,000,000 and RMB105,000,000 for the years ending 31 December 2009, 2010 and 2011 respectively. When these annual cap figures are aggregated with the annual figures for sales of products by DYK Chemical under the same agreement, the Proposed Caps for this category of continuing connected transactions will be RMB500,563,000, RMB531,147,000 and RMB552,147,000 for the years ending 31 December 2009, 2010 and 2011 respectively.

The annual figures for sales of products by DYK Chemical arising from the Acquisition will increase the annual cap figures for other sales of products by the Group to the CNOOC Group under the Comprehensive Services and Product Sales Agreement (as supplemented) which are already subject to the Independent Shareholders' approval and therefore the Proposed Caps will be subject to another round of the Independent Shareholders' approval to be sought at the EGM.

3. The Proposed Caps are subject to the Independent Shareholders' approval at the EGM.

INFORMATION ON CNOOC

CNOOC, established in 1982, is one of the largest State-owned oil companies in the PRC specializing in exploration of oil and gas in the PRC with its headquarter in Beijing. CNOOC is the largest offshore oil and gas producer in the PRC. Since its establishment, CNOOC 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 services and new energies development.

CNOOC Investment is a subsidiary and therefore an Associate of CNOOC under Rule 19A.04 of the Listing Rules and is therefore the Company's connected person pursuant to Rule 14A.11 (4) of the Listing Rules. CNOOC Investment primarily engages in asset investments and management of entrusted asset investments.

INFORMATION ON 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).

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group's current core operations involve the production and sale of urea (the most commonly used nitrogenous fertilizers in the PRC) and methanol. Besides, the Group manufactures and sells other fertilizers and chemical products.

The development objective of the Group is to become a leading fertilizer producer in the PRC. In order to achieve this objective, the Group plans to expand its fertilizer business to include the production and sales of phosphate fertilizers and compound fertilizers through acquisition of the Target Companies, such that the competitiveness of the Group could be further enhanced in both the domestic and international markets.

Through the Acquisition, together with prior joint venture project announced by the Company on 15 May 2008, the Group will obtain significant phosphate resources and reserves, expertise and technical know-how relating to phosphate mining and processing, as well as production of DAP, MAP and compound fertilizers.

The phosphate resources and reserves are important to the Group's phosphate fertilizer operations as they provide long term and stable phosphoric ore supply and reduce the risks of potential shortage of phosphate, dependence on external suppliers, and fluctuations in the price of phosphoric ore.

Furthermore, as high P₂O₅ content phosphorus ores are depleting rapidly and the low-medium P₂O₅ content phosphorus ores are expected to become the major phosphate resource in the PRC, the know-how and techniques in processing low-medium P₂O₅ content phosphorus ores possessed by the Target Companies are of strategic value to the Group.

The future integrated operation of the joint venture vehicle under the above-mentioned joint venture project, DYK Chemical and ZHJ Mining, ranging from mining and processing of phosphoric ore as well as production and sale of various phosphate fertilizers, will allow the Group to enjoy significant cost advantages as a result of the enlarged scale of production and share of sales network.

Based on the aforesaid, it is expected that the Group will be able to develop a major phosphate production base in Hubei Province of the PRC.

REASONS FOR AND BENEFITS OF THE NEW CONTINUING CONNECTED TRANSACTIONS

The 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 before and after completion of the Acquisition.

The continuing connected transactions arising from the Acquisition 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 continuing connected transactions as those transactions have facilitated and will continue to facilitate the business operation of the Group (which will include DYK Chemical and ZHJ Mining after the Acquisition). The executive Directors and the non-executive Director are of the view that the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) 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 (Category 1), 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 the annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As CNOOC is a connected person of the Company by virtue of CNOOC being a substantial shareholder of the Company, the Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules. Further, one of the applicable percentage ratios in respect of the Acquisition represents more than 25% but less than 100% for the Company while the other applicable percentage ratios represent less than 25%, the Acquisition constitutes a major transaction pursuant to Rule 14.06(3) of the Listing Rules. Therefore, the Acquisition Agreement is subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.17 of the Listing Rules.

As soon as DYK Chemical and ZHJ Mining become subsidiaries of the Company, the continuing transactions between DYK Chemical or ZHJ Mining on one hand and CNOOC and its Associates on the other hand will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For the continuing connected transactions with the applicable percentage ratios that represent less than 2.5% but more than 0.1%, such transactions are only subject to the reporting and announcement requirements under the Listing Rules but not independent shareholders' approval. 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 with the applicable percentage ratios that represent more than 2.5%, such transactions are subject to independent shareholders' approval requirements, approval from the Independent Shareholders on the Proposed Caps for those transactions will be sought at the Extraordinary General Meeting.

EGM

The Company will convene an EGM for the Independent Shareholders to consider and, if thought fit, to approve, among other things:

- (1) the Acquisition Agreement and the transactions contemplated thereunder; and
- (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders apart from CNOOC and its Associates will be required to abstain from voting on the resolutions to approve the Acquisition Agreement together with the transactions contemplated thereunder and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b).

The Directors have appointed the Independent Board Committee, comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Wang Wenshan, the three independent non-executive Directors, to advise the Independent Shareholders in relation to the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b). An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b). A circular containing further information on the Acquisition and a notice convening the Extraordinary General Meeting to consider (1) the Acquisition Agreement and transactions contemplated thereunder; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) will be issued by the Company and despatched to the Shareholders within 21 days from the date of publication of this announcement.

DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Equity Interests by the Company from CNOOC
“Acquisition Agreement”	the sale and purchase agreement dated 12 December 2008 entered into between the Company (as purchaser) and CNOOC (as vendor) in relation to the Acquisition
“Associate(s)”	has the meaning ascribed to it under the Listing Rules
“Benchmark Loan Rates”	RMB benchmark loan rates for financial institutions published by the Peoples’ Bank of China one day before the date of the payment of the remaining consideration
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and PRC official public holidays)
“Category 2(a)”	the continuing connected transactions regarding the sales of products by the Group to the CNOOC Group as described in the section headed “Continuing Connected Transactions Arising From the Acquisition” in this announcement
“Category 2(b)”	the continuing connected transactions regarding the purchases of products by DYK Chemical from the CNOOC Group as described in the section headed “Continuing Connected Transactions Arising From the Acquisition” in this announcement
“CNCCC”	中國化工建設總公司 (China National Chemical Construction Corp.*), a company established in China and is currently a wholly-owned subsidiary of CNOOC
“CNOOC”	中國海洋石油總公司 (China National Offshore Oil Corporation*), a 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 Group”	CNOOC and its Associates presented as a group, excluding the Group, CNOOC Limited (the shares of which are listed on the Stock Exchange and the New York Stock Exchange), China Oilfield Services Limited (the H shares of which are listed on the Stock Exchange and the A shares of which are on the Shanghai Stock Exchange) and Offshore Oil Engineering Co., Ltd. (the A shares of which are listed on the Shanghai Stock Exchange)

“CNOOC Investment”	中海石油投資控股有限公司 (CNOOC Investment Co., Ltd.*), a company established in China which is a wholly-owned subsidiary of CNOOC
“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
“Completion”	completion of the Acquisition
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“controlling shareholders”	has the meaning ascribed to it under the Listing Rules
“DAP”	di-ammonium phosphate, $(\text{NH}_4)_2\text{HPO}_4$, a type of phosphate fertilizer
“Dayukou Mine”	Hubei Province Dayukou Phosphate Mine owned and operated by DYK Chemical
“Director(s)”	director(s) of the Company
“DYK Chemical”	湖北大峪口化工有限責任公司 (Hubei Dayukou Chemical Co., Ltd.*), a company established in the PRC with limited liability
“Equity Interests”	83.17% of the equity interest in DYK Chemical and 100% of the equity interest in ZHJ Mining
“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 (among other things) the transactions contemplated under the Acquisition Agreement, including but not limited to the Acquisition, and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b) and any adjournment thereof
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“In Situ Quantity Resources”	estimates of total in ground tonnes and grades which meet the requirements of the PRC Code for reserves but do not meet either 43-101 or Joint Ore Reserves Committee’s recommendations

“Independent Board Committee”	an independent committee of the Board comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Wang Wenshan, all of the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the Acquisition and the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b)
“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, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (1) the Acquisition; and (2) the Proposed Caps for the continuing connected transactions under Category 2(a) and Category 2(b)
“Independent Shareholders”	Shareholders other than those who have interest in the Acquisition and the continuing connected transactions as described in this announcement
“Interest for the Remaining Payment”	the simple interest on fifteen percent (15%) of the total consideration for the Interest Period calculated in accordance with the applicable Benchmark Loan Rates specified for the Interest Period multiplying it by total number of days of the Interest Period and dividing it by 365 days
“Interest Period”	the period between the next day of the first payment of consideration and the date of the payment of the remaining consideration
“kt”	kiloton, one thousand metric tonnes
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAP”	mono-ammonium phosphate, $\text{NH}_4\text{H}_2\text{PO}_4$, a type of phosphate fertilizer
“Minarco”	Minarco Mineconsult, an independent technical consultant in mineral assets
“Minarco Report”	An independent technical review report, which was commissioned by the Company, prepared by Minarco
“Mineable Quantity Reserves”	estimates of recoverable in ground tonnes and grades which meet the requirements of the PRC Code for reserves but do not meet either 43–101 or Joint Ore Reserves Committee’s recommendations
“mRL”	metre(s) above sea level
“PH1”	orebody name as referred to in the Chinese geological literature
“PH3”	orebody name as referred to in the Chinese geological literature

“P ₂ O ₅ ”	phosphorus oxide, the mineral being mined from both minesites and processed at the plant of DYK Chemical
“Profit and Loss of the Relevant Period”	the aggregate sum of the difference between the amount of the net asset value for each of the Target Companies as of the date of the first payment of the consideration (which shall be the last day of the preceding month of the date of first payment of the consideration provided that if the date of the first payment of the consideration does not fall on the last day of the respective month) and the amount of net asset value for each of the Target Companies as of 30 June 2008 as determined in accordance with the applicable PRC accounting policies and principles in respect of the Equity Interests. If aggregate sum of such difference is a positive amount, it indicates that the net asset value for each of the Target Companies attributed to the Equity Interest has increased during the Relevant Period. If aggregate sum of such difference is a negative amount, it indicates that the net asset value for each of the Target Companies attributed to the Equity Interest has reduced during the Relevant Period
“PRC” or “China”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau and Taiwan
“PRC Code”	Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766–1999) issued by the Ministry of Land and Resources P.R.C.
“Properties Leasing Agreement”	the properties lease agreement entered into between the Company and CNOOC dated 1 September 2006 which was supplemented by an agreement dated 5 November 2008, details of which are set out in the announcement of the Company dated 5 November 2008
“Proposed Cap(s)”	the proposed maximum annual aggregate value(s) for the continuing connected transactions of the Company and not being exempt from independent shareholders’ approval requirements under the Listing Rules in respect of 2009 to 2011
“Relevant Period”	the period between the date of the valuation of the Target Companies (exclusive of such day) and the date of the first payment of the consideration (which shall be the last day of the preceding month of the date of first payment of the consideration provided that if the date of the first payment of the consideration does not fall on the last day of the respective month)
“RMB” or “Yuan”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council 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

“Special Auditing Reports”	the audited financial statements showing the Profit and Loss for each of the Target Companies of the Relevant Period to be prepared by a qualified PRC accounting firm jointly appointed as the auditor by CNOOC and the Company as specified in the Acquisition Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning ascribed to it under the Listing Rules
“Target Companies”	DYK Chemical and ZHJ Mining
“Tianjian”	北京天健興業資產評估有限公司 (Beijing Pan-China Assets Appraisal Co., Ltd.*), a certified PRC public valuer approved and regulated by China Securities Regulatory Commission and Ministry of Finance
“Wangji Mine”	Hubei Province Wangji Phosphate Mine owned and operated by ZHJ Mining
“ZHJ Mining”	中化建礦業有限公司 (ZHJ Mining Co., Ltd.*), a company established in the PRC with limited liability
“%”	per cent

Unless otherwise stated, amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB0.883 to HK\$1.00, which is a rate announced by The People’s Bank of China as at the date of this announcement, for illustration purposes only. No representation is made that any amounts in RMB or HK\$ can be or could have been converted at the relevant dates at the above rate or any other rate at all.

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

Haikou, the PRC
12 December 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 and Mr. Wang Wenshan.

* *For identification purpose only*