
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other independent professional adviser.

If you have sold or transferred all your shares in **China BlueChemical Ltd.**, you should at once hand this circular, together with the enclosed form of proxy and reply slip, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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)

**CONTINUING CONNECTED TRANSACTIONS,
ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



CIMB Securities (HK) Limited

A notice convening the extraordinary general meeting (the "EGM") to be held at the Meeting Room, 3rd Floor, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, PRC on Friday, 30 December 2011 at 10:00 a.m. is set out on pages 41 to 44 of this circular.

A reply slip and a form of proxy for use at the EGM (or any adjournment thereof) are enclosed and are also published on the website of the Stock Exchange (www.hkex.com.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Saturday, 10 December 2011. Whether or not you are able to attend the EGM, you are strongly advised to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the Company's Secretary Office of the Board in China (for holders of domestic shares or unlisted foreign shares) at Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares), at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

* *For identification purpose only*

15 November 2011

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	19
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	21
APPENDIX I — GENERAL INFORMATION	37
NOTICE OF EXTRAORDINARY GENERAL MEETING	41

DEFINITIONS

In this circular, 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 circular
“CNOOC Finance”	中海石油財務有限責任公司(CNOOC Finance Corporation Limited*), a company established in PRC, is a subsidiary of CNOOC
“CNOOC Fudao”	海洋石油富島有限公司(CNOOC Fudao Limited*), a company established in the PRC, is currently a wholly-owned subsidiary of the Company
“CNOOC Group”	CNOOC and its Associates presented as a group, excluding the Group
“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 Company’s methanol plant with a 600,000-tonne annual capacity in Hainan
“CNOOC Limited”	CNOOC Limited (中國海洋石油有限公司), a company listed on the Stock Exchange and the New York Stock Exchange and a subsidiary of CNOOC, and, except where the context otherwise requires, its Subsidiaries
“CNOOC Tianye”	中海石油天野化工股份有限公司(CNOOC Tianye Chemical Limited*), a company established in PRC which is a subsidiary of the Company
“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

DEFINITIONS

“COSL”	China Oilfield Services Limited (中海油田服務股份有限公司), a company listed on the 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
“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 and a subsidiary of the Company
“EGM”	the extraordinary general meeting of the Company proposed to be convened for the Independent Shareholders to consider and, if thought fit, approve the agreements or supplemental agreements (where applicable) in relation to certain continuing connected transactions and the Proposed Caps, and any adjournment thereof
“Fudao Phase II”	the Company’s urea plant in Hainan completed in 2003
“Group”	the Company and its subsidiaries from time to time
“Hainan Phase II Methanol Plant”	the Company’s methanol plant with a 800,000-tonne annual capacity in Hainan
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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
“Huahe Chemical”	鶴崗市華鶴煤化股份有限公司(Hegang Huahe Coal Chemical Ltd.*), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“Independent Board Committee”	an independent committee of the Board comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Gu Zongqin, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the agreements or supplemental agreements (where applicable) in relation to certain continuing connected transactions and the Proposed Caps as set out in this circular
“Independent Financial Adviser” or “CIMB”	CIMB 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the agreements or supplemental agreements (where applicable) in relation to certain continuing connected transactions and the Proposed Caps as set out in this circular

DEFINITIONS

“Independent Shareholders”	Shareholders other than those who have interest in the relevant continuing connected transactions
“Latest Practicable Date”	11 November 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Date”	29 September 2006, on which dealings in the Company’s H shares commenced on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Kingboard Chemical”	Kingboard Chemical Holdings Limited, a company listed on the Stock Exchange
“Non-exempted Continuing Connected Transactions”	the continuing connected transactions contemplated under (i) Natural Gas Sale and Purchase Agreements, (ii) Comprehensive Services and Product Sales Agreement, (iii) Financial Services Agreement with respect to the deposit services provided by CNOOC Finance to the Company, and (iv) Kingboard Product Sales and Services Agreement which are subject to Independent Shareholders’ approval at the EGM
“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 circular excludes Hong Kong, Macau and Taiwan
“Prospectus”	the Hong Kong prospectus of the Company dated 18 September 2006
“Proposed Cap(s)”	the proposed maximum annual aggregate value(s) or the annual maximum daily deposits balance(s) (as appropriate) for each type of the Non-exempted Continuing Connected Transactions of the Company in respect of 2012 to 2014
“RMB”	Renminbi, the lawful currency of the PRC
“Shanxi Hualu Chemical”	山西華鹿煤炭化工有限公司(Shanxi Hualu Coal and Chemical Engineering Co., Ltd*), a company established in the PRC with limited liability and a subsidiary of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent



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)

Executive Directors:

Mr. Yang Yexin
Mr. Fang Yong
Mr. Chen Kai

Registered Office:

No. 1 Zhu Jiang South Street
Dongfang City
Hainan Province
The PRC

Non-executive Director:

Mr. Li Hui

*Principal place of business
in Hong Kong:*

65/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Independent non-executive Directors:

Mr. Zhang Xinzhi
Mr. Tsui Yiu Wa, Alec
Mr. Gu Zongqin

15 November 2011

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS,
ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Company's announcement dated 9 November 2011 in relation to the continuing connected transactions and the annual caps for continuing connected transactions of the Company.

Certain continuing connected transactions of the Company are required to be conducted with its connected persons in the ordinary and usual course of business of the Company, on normal commercial terms and on terms that are fair and reasonable as far as the Shareholders as a whole are concerned.

* For identification purpose only

LETTER FROM THE BOARD

As some of the agreements governing the continuing connected transactions entered into by the Company and their respective annual caps will expire on 31 December 2011, the Company proposes to (i) enter into agreements or supplemental agreements (where applicable) in respect of the abovementioned continuing connected transactions, and (ii) set the annual caps for 2012 to 2014 for certain types of continuing connected transactions.

With respect to the Non-exempted Continuing Connected Transactions, as some of the applicable size test percentage ratios are more than 5%, such transactions constitute non-exempted continuing connected transactions of the Company under the Listing Rules will be subject to approval by the Independent Shareholders at the EGM.

The purposes of this circular are to give you notice of the EGM and provide you with the information, amongst others, in respect of the agreement or supplemental agreements (where applicable) and the Proposed Caps, to enable you to make a decision on whether to vote for or against the relevant resolutions at the forthcoming EGM.

SUMMARY OF THE NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions with CNOOC and its Associates

A3. Natural Gas Sale and Purchase Agreements

References are made to the Company's announcement dated 5 November 2008 and 9 November 2011 and the circular of the Company dated 14 November 2008 in relation to, among other things, the continuing connected transactions of the Company.

The Company entered into three long-term agreements with CNOOC China Limited, a wholly-owned subsidiary of CNOOC Limited, the summary of which are as follows:

- (1) Dongfang 1-1 Offshore Gasfield 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 Gasfield 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.

LETTER FROM THE BOARD

- (3) a natural gas sale and purchase framework agreement with CNOOC China Limited on 1 September 2006, under which CNOOC China Limited has committed to supply natural gas for the Company's future plants. This agreement does not include the transactions conducted under the two pre-existing agreements mentioned above. Under this framework agreement, CNOOC China Limited will sell natural gas to the Company and/or the Company's subsidiaries 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 the Company's 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.

On 26 March 2010, CNOOC China and the Company entered into the "Ledong Natural Gasfields Natural Gas Sale and Purchase Agreement" under the natural gas sale and purchase framework agreement dated 1 September 2006, pursuant to which CNOOC China has agreed to supply natural gas to the Company for Hainan Phase II Methanol Plant at benchmark prices of natural gas 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 the agreement commenced from 26 March 2010 and will expire on the closing date of the delivery period as agreed in the agreement. The target delivery period is 15 years commencing on 1 January 2011 and will expire on 31 December 2025, or the substitute period as determined in accordance with the terms of the agreement.

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 which are provided by Platts Crude Oil Marketwire.

Platts Crude Oil Marketwire is published by Platts which is a leading global provider of energy and metals information. Platts has been widely recognised by the crude oil industry due to the high accuracy and quick update of the information provided by it, and its fair and transparency as an independent information provider. So far, major oil companies and trading companies both in China and abroad have adopted the oil price information provided by Platts as the basis to conduct their business.

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

The Natural Gas Sale and Purchase Agreements will not expire this year and the terms remain unchanged.

LETTER FROM THE BOARD

A4. Comprehensive Services and Product Sales Agreement

References are made to the Company's announcements dated 5 November 2008, 12 December 2008, 27 March 2011 and 9 November 2011, and the circulars of the Company dated 14 November 2008 and 31 December 2008 in relation to, among other things, the continuing connected transactions of the Company.

The Company entered into a comprehensive services and product sales framework agreement with CNOOC on 1 September 2006 (as supplemented by a supplemental agreement dated 5 November 2008 and will expire on 31 December 2011).

On 9 November 2011, the Company re-entered into a comprehensive services and product sales framework agreement with CNOOC (the "**Comprehensive Services and Product Sales Agreement**"), pursuant to which:

- (a) the CNOOC Group may provide services and supplies to the Group (such as telecommunication and network services, engineering services, construction services, agency services, equipment leasing and maintenance, project management services, labour services, materials/equipment procurement services, transportation services, technical training services, catering, hospital and vehicle rental);
- (b) the Group may provide to the CNOOC Group services and supplies (such as provision of offices and facilities, vehicle rental, logistics management and services, accommodation/conference services/business services/catering services and transportation); and
- (c) the Group may sell products to the CNOOC Group and the CNOOC Group may sell products to the Group.

The term of the Comprehensive Services and Product Sales Agreement will commence on 1 January 2012 and expire on 31 December 2014, 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 favourable than those offered to third parties, and priced in accordance with the following pricing principles:

- (i) where there is a government-prescribed price (including that prescribed by local governments) or a government guidance price, at the government-prescribed price or the government guidance price;
- (ii) where there is neither a government-prescribed price nor a government guidance price, the market price; and
- (iii) where none of the above (i) and (ii) is applicable, the price will be determined based on the cost plus a gross margin of up to 10% on cost (before tax).

LETTER FROM THE BOARD

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

A5. Financial Services Agreement

References are made to the Company's announcement dated 5 November 2008 and 9 November 2011, and the circular of the Company dated 14 November 2008 in relation to, among other things, the continuing connected transactions of the Company.

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 (as supplemented by a first supplemental agreement dated 3 November 2008 and will expire on 31 December 2011), 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 fees and charges payable by the Company to CNOOC Finance under the financial services framework agreement 1 September 2006 are determined on the following basis:

- (a) provision of loans to the Company: 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;

LETTER FROM THE BOARD

- (c2) arrangement of entrustment loans between our Company and our 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 framework agreement dated 1 September 2006, the Company shall have a 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 Company, the Company will be able to offset the amount due to the Company from CNOOC Finance against the amounts outstanding from the Company to CNOOC Finance. CNOOC Finance shall not have any offset right. The term of the financial services agreement commenced on the date of the agreement and expired 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. CNOOC Finance and the Company entered into a first supplemental agreement on 3 November 2008 which will expire on 31 December 2011. CNOOC Finance and the Company may, from time to time when the situation requires, enter into separate agreements which 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 framework agreement dated 1 September 2006.

On 9 November 2011, the Company entered into a second supplemental agreement to the financial service framework agreement with CNOOC Finance date 1 September 2006 (together with the financial service framework agreement dated 1 September 2006, the “**Financial Services Agreement**”), pursuant to which (i) the terms of the financial services framework agreement dated 1 September 2006 remain unchanged, and (ii) the term of the Financial Services Agreement will be extended to commence on 1 January 2012 and expire on 31 December 2014 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

Continuing connected transactions with Hong Kong Kingboard and its Associates

B1. Kingboard Product Sales and Services Agreement

References are made to the Company’s announcement dated 5 November 2008 and 9 November 2011, and the circular of the Company dated 14 November 2008 in relation to, among other things, the continuing connected transactions of the Company.

The Company entered into a product sales and related services framework agreement with Hong Kong Kingboard on 22 August 2006 (as supplemented by a first supplemental agreement dated 5 November 2008 and will expire on 31 December 2011), 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.

LETTER FROM THE BOARD

According to the product sales and related services framework agreement dated 9 November 2011, the transactions would 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 term of the product sales and related services framework agreement dated 22 August 2006 commenced on the date of the agreement and expired 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. Hong Kong Kingboard and the Company entered into a first supplemental agreement on 5 November 2008 which will expire on 31 December 2011. Hong Kong Kingboard (and/or its Associates) and the Company may, from time to time when the situation requires, enter into separate agreements which 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 product sales and related services framework agreement dated 22 August 2006.

The Company entered into a second supplemental agreement to the product sales and related services framework agreement with Hong Kong Kingboard on 9 November 2011 (together with the product sales and related services framework agreement dated 22 August 2006, the “**Kingboard Product Sales and Services Agreement**”), pursuant to which (i) the terms of the product sales and related services framework agreement dated 22 August 2006 remain unchanged, and (ii) the term of Kingboard Product Sales and Services Agreement will be extended to commence on 1 January 2012 and expire on 31 December 2014 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

LETTER FROM THE BOARD

HISTORICAL TRANSACTION FIGURES AND THE APPROVED ANNUAL CAPS WITH RESPECT TO NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Set out below are the historical amounts of each category of the Non-exempted Continuing Connected Transactions for the two previous financial years ended 31 December 2009 and 2010 and the six months ended 30 June 2011 and the approved annual caps for the 3 years ending 31 December 2011:

Category of the Non-exempted Continuing Connected Transactions	Year ended 31 December 2009		Year ended 31 December 2010		Six months ended 30 June 2011	Year ended 31 December 2011
	Actual amount	Approved cap	Actual amount	Approved cap	Actual amount	Approved cap
	<i>Amounts in RMB'000</i>					
A3. Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited	873,841	1,138,011	1,223,470	1,540,198	975,464	2,544,416
A4(a). Provision of services and supplies by the CNOOC Group to the Group	167,456	285,970	190,303	318,899	53,153	338,872
A4(b). Provision of services and supplies by the Group to the CNOOC Group	20,283	114,503	30,353	196,229	15,612	286,415
A4(c). Sale of products by the Group to the CNOOC Group	18,190	500,563	46,321	531,147	8,271	552,147
A4(d). Purchase of products from CNOOC Group by DYK Chemical	160	280,000	98,707	308,000	109,441	338,800
A5. Financial Services Agreement <i>(note)</i>						
A5(b). Deposits placed by the Group with CNOOC Finance	370,098	400,000	331,176	500,000	409,358	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	253,313	630,000	321,975	877,800	255,878	1,597,400

Note: The caps under this agreement refer to the maximum daily balance during the year.

LETTER FROM THE BOARD

PROPOSED CAPS IN RELATION TO THE NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The table below set out the proposed annual caps for the Non-exempted Continuing Connected Transactions of the Company:

Category of Non-exempted Continuing Connected Transactions		Year ending 31 December 2012 <i>(Note 1)</i>	Year ending 31 December 2013 <i>(Note 1)</i>	Year ending 31 December 2014 <i>(Note 1)</i>
		<i>Amount in RMB'000</i>		
A3. Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited <i>(Note 4)</i>	Proposed Caps <i>(Note 2)</i>	2,520,000	2,682,960	2,880,494
A4. Comprehensive Services and Product Sales Agreement: <i>(Note 5)</i>				
A4(a). Provision of services and supplies and sale of products by the CNOOC Group to the Group <i>(Note 6)</i>	Proposed Caps <i>(Note 2)</i>	806,411	836,568	787,491
A4(b). Provision of services and supplies and sale of products by the Group to the CNOOC Group <i>(Note 7)</i>	Proposed Caps <i>(Note 2)</i>	426,777	1,177,654	1,315,227
A5. Financial Services Agreement <i>(Note 8)</i>				
A5(b). Deposits placed by the Group with CNOOC Finance <i>(Note 9)</i>	Proposed Caps <i>(Notes 2 and 3)</i>	600,000	600,000	600,000
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 <i>(Note 10)</i>	Proposed Caps <i>(Note 2)</i>	776,558	797,889	819,470

Notes:

1. In respect of all continuing connected transactions, the Directors have estimated the annual transaction figures for the coming three financial years ending on 31 December 2014 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 upon normal commercial terms;

LETTER FROM THE BOARD

- (c) references have been made to the historical amounts for the two financial years ended 31 December 2010 and the six months ended 30 June 2011 as well as the estimated amounts for the year ending 31 December 2011; and
 - (d) there will not be any material adverse changes to the state of the PRC economy, the business expansion of the Group, the level of prices and demand for the Group's products and the materials and services needed by the Group for its operation.
2. The Proposed Caps are subject to Independent Shareholders' approval at the EGM.
 3. These Proposed Caps refer to the maximum daily outstanding balance during the relevant period.
 4. **A3. Natural Gas Sale and Purchase Agreements:** The determination of the increase in annual cap under this category is mainly based on the increase of the theoretical maximum amount of gas consumption and the price of natural gas.
 5. **A4. Comprehensive Services and Product Sales Agreement:** In order to facilitate effective internal control of the continuing connected transactions contemplated under the Comprehensive Services and Product Sales Agreement, the Company will divide, so far as practicable, such transactions into two categories, which are (i) the provision of services, supplies and sale of products by CNOOC Group to the Group, and (ii) the provision of services, supplies and sale of products by the Group to CNOOC Group.
 6. **A4(a). Comprehensive Services and Product Sales Agreement: Provision of services and supplies and sale of products by the CNOOC Group to the Group:** The determination of the annual cap under this category is mainly based on the following aspects: (i) expected significant increase from 2012 to 2014 of the Group's demand for the construction services from the CNOOC Group, due to the projects under construction of CNOOC Tianye, Huahe Chemical and Shanxi Hualu Chemical, and (ii) expected increase of the demand for human resources, networking services and maintenance services required by the Group from the CNOOC Group.
 7. **A4(b). Comprehensive Services and Product Sales Agreement: Provision of services and supplies and sale of product by the Group to the CNOOC Group:** The determination of the increase in annual cap under this category is mainly based on the Company supplying/will supply transportation services, loading and unloading services, materials and products to CNOOC Group for its existing projects and projects under construction which are expected to be completed in 2013.
 8. **A5. Financial Services Agreement:** As described in the Company's announcement dated 5 November 2008, the Company at that time contemplated that two types of loans would be granted by CNOOC Finance to the Group, namely (1) loans as part of the Group's project financing where security over the Group's assets would 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 would be created in favour of CNOOC Finance, hence independent shareholders' approval had been obtained in respect of the type (1) loan under Category A5(a) at the EGM held on 30 December 2008 (as type (2) loan was fully exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules). As no type (1) loan had been obtained since 2009 and the Group does not anticipate that any type (1) loan will be granted by CNOOC Finance to the Group in the future which will require security over the Group's assets created in favour of CNOOC Finance in respect of the loan, all loans granted by CNOOC Finance to the Group (which were previously referred to as the Category A5(a) transactions) now do not require any security over the Group's assets to be given in respect of such loan. Therefore, loans under Category A5(a) constitute financial assistance provided by the CNOOC Group to the Group which will be fully exempted from reporting, announcement and Independent Shareholders' requirements

LETTER FROM THE BOARD

under Rule 14A.65(4) of the Listing Rules. If any loan to be granted by CNOOC Finance to the Group in the future requires any security over the Group's assets to be given in respect of such loan, the Group will duly comply with the Listing Rules and make the relevant disclosures as appropriate.

9. ***A5(b). Financial Services Agreement: Deposits placed by the Group with CNOOC Finance:*** It is expected that the annual maximum daily deposits balances will increase after completion of the projects under construction by the Group.
10. ***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:*** The determination of the annual cap under this category is mainly based on the Group's sales plan for methanol and its future selling prices.

REASONS AND BENEFITS OF THE NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

As mentioned in the Prospectus and the announcements of the Company dated 5 November 2008, 12 December 2008, 27 March 2011 and 9 November 2011 and the circulars of the Company dated 14 November 2008 and 31 December 2008 published by the Company, the continuing connected transaction agreements (as mentioned in the Company's announcement dated 9 November 2011 and in the section headed "Summary of the Non-exempted Connected Continuing Transactions" in this circular) were or will be entered into for the business needs and benefits of the Group. The Company is one of the major subsidiary of CNOOC, which is one of the largest petroleum company 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 Non-exempted Continuing Connected Transactions are or will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The Board is of the view that it is in the interests of the Company and the Shareholders as a whole to carry on the Non-exempted Continuing Connected Transactions as those transactions have facilitated and will continue to facilitate the operation of the Group's business. The Directors are of the view that the terms and the Proposed Caps of those transactions as described above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES

Information on the Group

The Group's current core business is the production and sale of fertilisers (mainly urea and phosphate fertilisers) and chemical products (primarily methanol and POM).

LETTER FROM THE BOARD

Information on CNOOC and its Associates

CNOOC is the controlling shareholder of the Company and 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 prominent main business and a complete production chain including upstream petroleum businesses (such as exploration, development, production and sales of oil and gas), downstream petroleum businesses (such as refining, petrochemicals, use of natural gas, power generation, the manufacturing and sale of fertilisers and chemicals), financial services, logistic service and new energies development.

CNOOC Limited is a subsidiary of CNOOC. CNOOC Limited and its subsidiaries mainly engage in exploration, development, production and sales of offshore oil and natural gas.

CNOOC Finance is a subsidiary of CNOOC and 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.

Information on Hong Kong Kingboard and its Associate

Hong Kong Kingboard is a company incorporated in Hong Kong with limited liability and a subsidiary of Kingboard Chemical. The principal activities of Hong Kong Kingboard is investment holding.

Kingboard Chemical is a company incorporated in Cayman Islands with limited liability and the controlling shareholder of Hong Kong Kingboard. 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.

LISTING RULES IMPLICATIONS

CNOOC and its Associates

CNOOC is the controlling shareholder of the Company. Therefore, CNOOC and its Associates (other than the Group) are the Company's connected persons under Rule 14A.11(1) of the Listing Rules.

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.

LETTER FROM THE BOARD

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.

Hong Kong Kingboard and its Associates

CNOOC Jiantao is held as to 60% by the Company and as to 40% by Hong Kong Kingboard. 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 and its subsidiaries) are connected persons of the Company according to Rules 1.01 and 14A.11(1) of the Listing Rules.

As some of the applicable size test percentage ratios for the Non-exempted Continuing Connected Transactions contemplated under the (i) Natural Gas Sale and Purchase Agreements, (ii) Comprehensive Services and Product Sales Agreement, (iii) Financial Services Agreement in respect of Category A5(b) transactions and (iv) Kingboard Product Sales and Services Agreement are more than 5%, such continuing connected transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Directors are of the view that such Non-exempted Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group, and are on normal commercial terms and their respective annual caps are fair and reasonable, and are in the interest of the Company and its Shareholders as a whole.

As Mr. Li Hui is the vice president of CNOOC, he may be regarded as having a material interest in the continuing connected transactions between the Company and CNOOC and its Associates. As such, Mr. Li Hui has abstained from voting at the Board meeting on the resolutions agreeing to submit to Independent Shareholders for approval (i) the Comprehensive Services and Product Sales Agreement and the Financial Services Agreement and their respective Proposed Caps contemplated thereunder, and (ii) the Proposed Caps under the Natural Gas Sale and Purchase Agreement.

EXTRAORDINARY GENERAL MEETING

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

- (1) the Proposed Caps for 2012 to 2014 for the continuing connected transactions contemplated under the Natural Gas Sale and Purchase Agreement entered into between the Company and CNOOC China Limited;
- (2) the entering into of the Comprehensive Services and Product Sales Agreement between the Company and CNOOC and the Proposed Caps for 2012 to 2014 contemplated thereunder;

LETTER FROM THE BOARD

- (3) the entering into of the supplemental agreement of the Financial Services Agreement between the Company and CNOOC Finance and the Proposed Caps for 2012 to 2014 in respect of the deposit transactions with CNOOC Finance contemplated thereunder; and
- (4) the entering into of the supplemental agreement of the Kingboard Product Sales and Services Agreement between the Company and Hong Kong Kingboard and the Proposed Caps for 2012 to 2014 contemplated thereunder.

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. As at the Latest Practicable Date, the voting rights attached to 2,738,999,512 domestic shares of the Company were controlled by CNOOC and such number of shares represented approximately 59.41% of the issued share capital of the Company. As at the Latest Practicable Date, the Board was not aware that Hong Kong Kingboard and its Associates held any shares in the Company.

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 agreement or supplemental agreements (where applicable) in relation to (i) the Comprehensive Services and Product Sales Agreement with respect to transactions under Categories A4(a) and A4(b), (ii) the Financial Services Agreement with respect to transactions under Category A5(b), and (iii) the Kingboard Product Sales and Services Agreement with respect to transactions under Category B1, and (2) the Proposed Caps for each relevant type of the Non-exempted Continuing Connected Transactions under Categories A3, A4(a), A4(b), A5(b) and B1. The Company has also appointed the Independent Financial Adviser to advise the Independent Board Committee on those aspects of the Non-exempted Continuing Connected Transactions.

The notice of the EGM to be held at 10:00 a.m. on Friday, 30 December 2011 is set out on pages 41 to 44 of this circular. A reply slip and a form of proxy for use at the EGM are also enclosed.

Whether or not you are able to attend the EGM, you are strongly advised to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the Company's Secretary Office of the Board in China (for holders of domestic shares or unlisted foreign shares) at Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H shares), at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

LETTER FROM THE BOARD

A POLL AT EXTRAORDINARY GENERAL MEETING

In accordance with the requirement of Rule 13.39(4) of the Listing Rules, all resolutions to be considered, and if thought fit, to be passed at the EGM, shall be passed by way of a poll.

RECOMMENDATION

Based on the relevant information disclosed herein, the Directors believe that (1) the agreement or supplemental agreements (where applicable) in relation to (i) the Comprehensive Services and Product Sales Agreement with respect to transactions under Categories A4(a) and A4(b), (ii) the Financial Services Agreement with respect to transactions under Category A5(b), and (iii) the Kingboard Product Sales and Services Agreement with respect to transactions under Category B1, and (2) the Proposed Caps for each relevant type of the Non-exempted Continuing Connected Transactions under Categories A3, A4(a), A4(b), A5(b) and B1 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the abovementioned agreements and the Proposed Caps.

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 19 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser which is set out on pages 21 to 36 of this circular, considers that (1) the terms of the agreement or supplemental agreements (where applicable) in relation to (i) the Comprehensive Services and Product Sales Agreement with respect to transactions under Categories A4(a) and A4(b), (ii) the Financial Services Agreement with respect to transactions under Category A5(b), and (iii) the Kingboard Product Sales and Services Agreement with respect to transactions under Category B1, and (2) the Proposed Caps for each relevant type of the Non-exempted Continuing Connected Transactions under Categories A3, A4(a), A4(b), A5(b) and B1 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

By Order of the Board
China BlueChemical Ltd.*
Li Hui
Chairman

* *For identification purpose only*



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)

15 November 2011

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 15 November 2011 (the “**Circular**”) despatched to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the fairness and reasonableness with respect to (1) the terms of the agreement or supplemental agreements (where applicable) in relation to (i) the Comprehensive Services and Product Sales Agreement with respect to transactions under Categories A4(a) and A4(b), (ii) the Financial Services Agreement with respect to transactions under Category A5(b), and (iii) the Kingboard Product Sales and Services Agreement with respect to transactions under Category B1, and (2) the Proposed Caps for each relevant type of the Non-exempted Continuing Connected Transactions under Categories A3, A4(a), A4(b), A5(b) and B1. CIMB has been appointed as the Independent Financial Adviser to advise the Independent Board Committee on those aspects of the continuing connected transactions.

We wish to draw your attention to the letter from the Board set out on pages 4 to 18 of the Circular and the letter from CIMB containing its advice to us set out on pages 21 to 36 of the Circular.

Having considered the advice given by CIMB, we are of the opinion that (1) the terms of the agreement or supplemental agreements (where applicable) in relation to (i) the Comprehensive Services and Product Sales Agreement with respect to transactions under Categories A4(a) and A4(b), (ii) the Financial Services Agreement with respect to transactions under Category A5(b), and (iii) the Kingboard Product Sales and Services Agreement with respect to transactions under Category B1, and (2) the Proposed Caps for each relevant type of the Non-exempted Continuing Connected Transactions under Categories A3, A4(a), A4(b), A5(b) and B1 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

the EGM to approve the above agreements and the Proposed Caps for each relevant type of Non-exempted Continuing Connected Transactions under Categories A3, A4(a), A4(b), A5(b) and B1.

Your faithfully,
Tsui Yiu Wa, Alec, Zhang Xinzhi, and Gu Zongqin
Members of Independent Board Committee



CIMB Securities (HK) Limited

Units 7706–08, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

15 November 2011

*To the Independent Board Committee and the Independent Shareholders of
China BlueChemical Ltd.*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
AND
ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to (i) the Comprehensive Services and Product Sales Agreement with CNOOC dated 9 November 2011 and the second supplemental agreements dated 9 November 2011 (the “Supplemental Agreements”) in relation to (a) the financial services framework agreement with CNOOC Finance dated 1 September 2006 as supplemented by a first supplemental agreement dated 3 November 2008; and (b) the product sales and related services framework agreement with Hong Kong Kingboard dated 22 August 2006 as supplemented by a first supplemental agreement dated 5 November 2008; and (ii) the Proposed Caps, details of which are contained in a circular of the Company (the “Circular”) to the Shareholders dated 15 November 2011, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

An independent board committee comprising Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Gu Zongqin, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to (i) the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements; and (ii) the Proposed Caps.

BASIS OF OUR OPINION

In formulating our recommendation, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information and facts contained or referred to in the Circular, the information provided by the Company

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and our review of the relevant public information. We have also assumed that the information, facts and representations contained or referred to in the Circular were true and accurate at the time they were made and up to the date of the EGM. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, CNOOC, or Hong Kong Kingboard, or any of their respective subsidiaries (as defined in the Listing Rules) or Associates. We have no reason to doubt the truth, accuracy and completeness of the information, facts and representations provided and represented to us by the Company. We have also been advised by the Company and believe that no material facts have been omitted from the Circular.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors and reasons:

(I) Background

As advised by the Company, the continuing connected transactions of the Company contemplated under certain agreements (as supplemented by their respective supplemental agreements), including among others (a) the comprehensive services and product sales framework agreement dated 1 September 2006 (as supplemented by a supplemental agreement dated 5 November 2008 and to be expired on 31 December 2011); (b) the financial services framework agreement with CNOOC Finance (as supplemented by a first supplemental agreement dated 3 November 2008 and to be expired on 31 December 2011); and (c) the product sales and related services framework agreement with Hong Kong Kingboard (as supplemented by a first supplemental agreement dated 5 November 2008 and to be expired on 31 December 2011) are conducting and will continue to be conducted on a regular and continuing basis and in the ordinary and usual course of business of the Group. As such, the Company proposed to (i) enter into the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements; and (ii) set the annual caps for the continuing connected transactions as contemplated under the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements. Details of the aforesaid agreements and the continuing connected transactions contemplated thereunder are set out in the letter from the Board (the “Letter from the Board”) of the Circular.

In addition, the Group entered into three long-term agreements with CNOOC China Limited, namely Dongfang 1-1 offshore gasfield natural gas sale and purchase agreement between CNOOC China Limited and the Company dated 28 July 2003 with a term from 1 October 2003 to 30 September 2023, Dongfang 1-1 offshore gasfield natural gas sale and purchase agreement between CNOOC China Limited and CNOOC Jiantao dated 10 March 2005 with a term of 20 years commencing on 15 October 2006 and the natural gas sale and purchase framework agreement between the Company and CNOOC China Limited dated 1 September 2006 (the “2006 Natural Gas Agreement”) with a term of 20 years commencing on the date of the agreement. As referred to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Prospectus, the Stock Exchange granted the Company a waiver pursuant to Rule 14A.42(3) of the Listing Rules in respect of, among others, the continuing connected transactions under the aforementioned three natural gas sale and purchase agreements. On 26 March 2010, CNOOC China Limited and the Company entered into the Ledong natural gasfield nature gas sale and purchase agreement (together with the aforementioned three long-term agreements, collectively the “Natural Gas Sale and Purchase Agreements”) pursuant to the 2006 Natural Gas Agreement.

The proposed caps for the continuing connected transactions contemplated under the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements and the proposed cap for the continuing connected transactions in relation to provision of natural gas by CNOOC China Limited to the Group, which are classified as Category A3 in the Circular and regulated by the Natural Gas Sale and Purchase Agreements (collectively referred to as the “Non-exempted Continuing Connected Transactions”), will be subject to the Independent Shareholders’ approval at the EGM pursuant to the Listing Rules.

(II) Reasons for and benefits of entering into the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements

The Group is a large-scale and modernized enterprise engaged in the development, production and sales of mineral fertilisers and chemical products and its products mainly include urea, methanol, phosphate fertiliser and polyoxymethylene. The Group also engages in other businesses including, among others, port operation, provision of transportation services, manufacture and sale of bulk blended fertilisers, woven plastic bags and trading of chemical fertilisers.

Pursuant to the Comprehensive Services and Product Sales Agreement entered into between the Company and CNOOC, the CNOOC Group and the Group will continue to provide services and supplies and sale of products to each other. We understand that the Company, as one of the major subsidiaries of CNOOC, has established long-term business relationship with CNOOC, which is the third largest petroleum company in China and is an integrated corporation with extensive business sectors including but not limited to oil and gas exploitation, technical services, natural gas and power generation, financial services, logistics services and new energies development. As such, we concur with the view of the management of the Company that it is desirable for the Group to continue its business relationship with and to seek supports from the CNOOC Group as such cooperation is expected to benefit the Group for its business development from leveraging on the CNOOC Group’s extensive resources and experience in the petroleum industry.

Pursuant to the Kingboard Product Sales and Services Agreement, the Group will continue to sell its products and to provide related services to Hong Kong Kingboard and its Associates. As stated in the Letter from the Board, Hong Kong Kingboard is the business partner of the Company with respect to its 40% equity interest in CNOOC Jiantao, which is principally engaged in manufacturing and sale of methanol products. The Group also maintains close business relationship with Hong Kong Kingboard by

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

providing the Group's methanol products to Hong Kong Kingboard and its Associates. As such, the Company considers that the entering into of commercial arrangements and transactions with Hong Kong Kingboard is beneficial to the Group by expanding its revenue base.

Pursuant to the Financial Services Agreement, CNOOC Finance will continue to provide finance services, including among others, loan and deposit services, to the Group. In respect of the risk profile of CNOOC Finance, we have reviewed information relating to CNOOC Finance provided by the Company, including, among others, its latest management accounts as at 30 June 2011, credit ratings rated by international rating agencies, current ratio and capital adequacy ratio. We also note from 企業集團財務公司管理方法 (the Administration of the Finance Companies of Enterprises Groups Measures) issued by China Banking Regulatory Committee ("CBRC") that such finance companies are subject to supervision and administration by CBRC and such regulation is more stringent than that on commercial banks in certain respects. For example, the capital adequacy ratio for finance companies of enterprise groups shall not be lower than 10% whereas such threshold for commercial banks is 8% as stipulated in 商業銀行資本充足率管理方法 (the Administration of Capital Adequacy Ratio of Commercial Banks Measures) issued by CBRC.

Besides, CNOOC undertakes to inject capital to CNOOC Finance if CNOOC Finance has difficulties in meeting its payment obligation. The annual report of CNOOC for the year ended 31 December 2010 states that the total assets and the net assets of CNOOC as at 31 December 2010 amounted to approximately RMB617 billion and approximately RMB279 billion, respectively. The Group shall also have a unilateral setoff right under the Financial Services Agreement to offset the amounts due to the Group from CNOOC Finance against the amounts outstanding from the Group to CNOOC Finance in the event of any misuse or default by CNOOC Finance in respect of deposit placed with it by the Group. Furthermore, the Directors consider that the entering into of commercial arrangements and transactions with CNOOC Finance would help the Group to secure timely and sufficient financings from CNOOC Finance in view of the liquidity regulation polices over domestic banks in the PRC issued by PBOC and also CNOOC Finance is in a better position, as compared with independent commercial banks in the PRC, to provide the Group with a more efficient and orderly financial service platform as CNOOC Finance, as a group finance company, is more familiar with the business and transaction pattern of the CNOOC Group and the Group and helps the Group to reduce transaction costs.

Our view

Given the above, we consider that the entering into of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements between the Group and its relevant connected persons is for the business purpose of the Group and falls within the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole.

(III) Major terms of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements

Common major terms

As stated in the Letter from the Board, the Non-exempted Continuing Connected Transactions are or will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms.

We have reviewed (i) the existing agreements (together with their respective first supplemental agreement); and (ii) the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements, and understand that major terms essentially remain unchanged except for the extension of the term of each agreement for another three-year period from 1 January 2012 to 31 December 2014.

The relevant agreements are on a non-exclusive basis, save for the Comprehensive Services and Product Sales Agreement, under which the Company and CNOOC agreed to procure supplies, services and/or products from the other party provided that the terms offered by the other party are no less favourable than the terms offered by independent third parties, which, as advised by the Company, is mainly due to the long term good relationship between the Group and the CNOOC Group as well as the support provided by the latter.

Pricing principles of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements

A4 the Comprehensive Services and Product Sales Agreement

Under the Comprehensive Services and Product Sales Agreement, the continuing connected transactions contemplated thereunder will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to independent third parties and priced in accordance with the following pricing principles:

- (i) the price prescribed by the PRC government (including local governments) or the government guidance price;
- (ii) where there is neither a government-prescribed price nor a government guidance price, the market price; and
- (iii) where none of the above is applicable, the price to be agreed between relevant parties based on the cost plus a gross margin of up to 10% on cost (before tax).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, as at the Latest Practicable Date, services, supplies and/or products provided under the Comprehensive Services and Product Sales Agreement are not subject to any PRC government prescribed or guidance price, but the Company considers it prudent to provide pricing principle (i) in consideration of the comprehensive scope of subject matters under the agreement.

The Company advised that products (such as urea, methanol products and phosphate fertiliser) supplied between the CNOOC Group and the Group under the Comprehensive Services and Product Sales Agreement have an active market and the prices of products charged by the Group to the CNOOC Group shall be no less favourable to the Group than those offered by the Group to its independent third parties and the prices of products payable by the Group to the CNOOC Group shall be no less favourable to the Group than those available from independent third parties.

As advised by the Company, the services/supplies provided between the CNOOC Group and the Group under the Comprehensive Services and Product Sales Agreement are of a comprehensive range and the Group usually sources services/supplies in accordance with its internal procedures on procurement and bid invitation. The Directors consider it reasonable to set the pricing of the relevant services and/or supplies by reference to the cost plus a margin, which was determined after arm's length negotiations between the Company and CNOOC and is expected to reflect reasonable profits for the two parties in providing the subject matters under the agreement. We also note that such margin is comparable to the segment profit margin of approximately 10.4% of the Group for similar services based on the annual report of the Company for the year ended 31 December 2010. Given the above, together with the fact that both the CNOOC Group and the Group are obliged to the same pricing mechanism which was determined on an arm's length basis, we concur with the view of the Company that such terms are fair and reasonable and on normal commercial terms.

Giving the above, we concur with the view of the management of the Company that the pricing principle under the Comprehensive Services and Product Sales Agreement is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

A5 the Financial Services Agreement

Under the Financial Services Agreement, the fees and charges payable by the Company to CNOOC Finance for the loan and deposit services shall be determined on the following basis:

Category	Nature of the services	Pricing principle
A5(a)	Loans from CNOOC Finance	The interest rates for such loans are determined in accordance with the standard rates promulgated by the PBOC (“PBOC Rate”) from time to time, and may be reduced where the relevant laws and regulations allow
A5(b)	Deposits with CNOOC Finance	The interest rates for such deposits are determined in accordance with the PBOC Rate from time to time

We have discussed with the management of the Company and understand that the interest rates offered by CNOOC Finance to the Group shall be determined by reference to the prevailing PBOC Rate with a downward adjustment (where the relevant laws and regulations allow), and the interest rates offered by CNOOC Finance for the deposits placed by the Group shall be in line with the prevailing PBOC Rate.

We are also advised by the Company that the interest rates for the loans or the deposits offered by CNOOC Finance to the Group under the Financial Services Agreement will be no less favourable than those offered by independent commercial banks in the PRC.

Giving the above, we concur with the view of the management of the Company that the pricing principle under the Financial Services Agreement is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B1 the Kingboard Product Sales and Services Agreement

Under the Kingboard Product Sales and Services Agreement, the continuing connected transactions contemplated thereunder will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to independent third parties and priced in accordance with the following pricing principles:

- (i) the price prescribed by the PRC government (including local governments);
- (ii) where there is no government-prescribed price but there is a government guidance price, the 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 to be agreed between relevant parties based on the cost plus a margin of up to 15% on cost.

As advised by the Company, as at the Latest Practicable Date, the subject matters provided by the Group to Hong Kong Kingboard and its Associates under the Kingboard Product Sales and Services Agreement are not subject to any PRC government prescribed or guidance price, but the Company considers it prudent to provide pricing principles (i) and (ii) in the agreement.

We have discussed with the Company regarding the pricing principle (iii) and understand that there is an active market for the methanol products supplied by the Group to Hong Kong Kingboard and its Associates and the prices charged by the Group to Hong Kong Kingboard and its Associates shall be determined based on market price which shall be no less favourable to the Group than those offered by the Group to its independent third parties.

We are also advised by the Company that as at the Latest Practicable Date, the market of methanol products is active and thus the pricing principle (iv) is not applicable. However, for prudence purpose, the Company provides pricing principle (iv) to cater for the extreme situation where no market of methanol products is available and advises that such margin was determined after arm's length negotiations between the Company and Hong Kong Kingboard and is expected to reflect reasonable profit for the Group in providing products/services under the Kingboard Product Sales and Services Agreement. As the pricing principle (iv) (including the margin) was determined on an arm's length basis and is applicable only under the above mentioned extreme situation for the purpose to allow a reasonable profit for the Group, we concur with the view of the Company that such cost-plus pricing principle is fair and reasonable and on normal commercial terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Giving the above, we concur with the view of the management of the Company that the pricing principle under the Kingboard Product Sales and Services Agreement is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Our view

Having considered the above, we are of the view that major terms, including the pricing terms, of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements are normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

(IV) Proposed Caps

Set out below are the details of (i) the actual transaction amounts of the Non-exempted Continuing Connected Transactions for each of the two years ended 31 December 2010 and the six months ended 30 June 2011; (ii) the existing annual cap amount for the year ending 31 December 2011; and (iii) the Proposed Caps for each of the three years ending 31 December 2014:

Category	Historical figures			Existing annual cap amount for the year ending 31 December 2011	Proposed Caps for the year ending 31 December		
	for the year ended 31 December		for the six months ended 30 June		for the year ending 31 December		
	2009	2010	2011		2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
A3. Natural Gas Sale and Purchase Agreements							
Purchase of natural gas by the Group from CNOOC China Limited	873,841	1,223,470	975,464	2,544,416	2,520,000	2,682,960	2,880,494
A4. Comprehensive Services and Product Sales Agreement							
A4 (a). Provision of services and supplies and sale of products by the CNOOC Group to the Group	167,616	289,010	162,594	677,672 ^{Note 1}	806,411	836,568	787,491
A4 (b). Provision of services and supplies and sale of products by the Group to the CNOOC Group	38,473	76,674	23,883	838,562 ^{Note 2}	426,777	1,177,654	1,315,227
A5. Financial Services Agreement							
A5 (b). Deposits placed by the Group with CNOOC Finance ^(Note 3)	370,098	331,176	409,358	500,000	600,000	600,000	600,000
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	253,313	321,975	255,878	1,597,400	776,558	797,889	819,470

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The existing cap amount of Category A4(a) for the year ending 31 December 2011 is a sum of the proposed cap of RMB338,872,000 for provision of services and supplies by the CNOOC Group to the Group for 2011 as set out in the circular of the Company dated 14 November 2008 and the proposed cap of RMB338,800,000 for purchase of products by DYK Chemical from the CNOOC Group for 2011 as set out in the circular of the Company dated 31 December 2008.
2. The existing cap amount of Category A4(b) for the year ending 31 December 2011 is a sum of the proposed cap of RMB286,415,000 for provision of services and supplies by the Group to the CNOOC Group for 2011 as set out in the circular of the Company dated 14 November 2008 and the proposed cap of RMB552,147,000 for sale of products by the Group to the CNOOC Group as set out in the circular of the Company dated 31 December 2008.
3. The proposed cap amounts and transaction amounts of Category A5(b) represent the maximum daily deposit balance during the relevant period.

As stated in the Letter from the Board, the Directors have determined the Proposed Caps for each of the three years ending 31 December 2014 based on the following factors:

- (a) references have been made to the historical amounts for each of the two financial years ended 31 December 2010 and the six months ended 30 June 2011 as well as the estimated transaction amounts for the year ending 31 December 2011; and
- (b) there will not be any material adverse changes to the state of the PRC economy, the business expansion of the Group, the level of prices of and demand for the Group's products, and the materials and services needed by the Group for its operation.

Besides, we are advised by the Company that the Company also takes into account the expected business/projects development of the Group for the three years ending 31 December 2014 when determining the Proposed Caps.

Details of the basis of the determination and the analysis of the Proposed Caps are set out below:

A3 Proposed cap for the continuing connected transactions contemplated under the Natural Gas Sale and Purchase Agreements ("Natural Gas Sale and Purchase Cap")

We note that the Natural Gas Sale and Purchase Cap for each of the three years ending 31 December 2014 represents a significant increase as compared with the historical transaction amounts for each of the two years ended 31 December 2010 and the six months ended 30 June 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing the reasonableness of the Natural Gas Sale and Purchase Cap, we have discussed with the management of the Company and understand that the Group has taken into account the following principal factors: (i) the Group's estimated transaction amount for the year ending 31 December 2011; (ii) the Group's estimated average natural gas price in the coming three years, which, as advised by the Company, is mainly based on the historical average natural gas price and the Group's estimates on the growth of the natural gas price in the coming three years; (iii) the Group's estimated maximum demand for natural gas for its manufacturing in the coming three years; and (iv) a buffer of 5% in consideration of the possibility of fluctuation in natural gas price and/or gas volume to be provided by CNOOC China Limited to the Group.

We have reviewed the cap calculation and note the cap is arrived at based on the Group's estimated unit price and demand for natural gas. We have reviewed invoices provided by the Company for supply of natural gas by CNOOC China Limited to the Group on a sample basis and the pricing principles stipulated in the Natural Gas Sale and Purchase Agreements and consider that the estimated natural gas price for cap calculation is reasonable. We also understand the estimated demand for natural gas adopted by the Company for cap calculation is mainly based on the gas quantity stipulated in the relevant natural gas supply agreements. In addition, in view that the natural gas price is affected by fluctuated international energy prices, we consider the 5% buffer is reasonable.

Given the above, we consider the relevant cap is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

A4(a) Proposed cap for the continuing connected transactions in relation to provision of services and supplies and sale of products by the CNOOC Group to the Group contemplated under the Comprehensive Services and Product Sales Agreement ("Provision of Services and Supplies and Sale of Products by the CNOOC Group Cap")

We note that the Provision of Services and Supplies and Sale of Products by the CNOOC Group Cap for each of the three years ending 31 December 2014 represents a significant increase as compared with the historical transaction amounts for each of the two years ended 31 December 2010 and the six months ended 30 June 2011.

In assessing the reasonableness of the Provision of Services and Supplies and Sale of Products by the CNOOC Group Cap, we have reviewed the cap calculation and understand that the Provision of Services and Supplies and Sale of Products by the CNOOC Group Cap is arrived at based on the estimated demand for subject services, supplies and/or products under the Comprehensive Services and Product Sales Agreement from individual group members of the Group in accordance with their respective business operation and plan. We have discussed with the management of the Company and understand that the increase is mainly attributable to the following factors: (i) the estimated increase in demand by the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group for construction services to be provided by the CNOOC Group for the Group's projects of CNOOC Tianye, Huahe Chemical and Shanxi Hualu Chemical; (ii) the Group's estimated increase of demand for human resources, networking and maintenance services to be provided by the CNOOC Group for the Group's business expansion in the coming three years; and (iii) a buffer of 5% in consideration of the possibility of fluctuation in charges and/or demand in relation thereto in the coming three years.

We have reviewed the information in relation to the above mentioned projects including among others total investment and construction schedule of each project. We also understand from the Company that the proposed cap for 2014 is slightly lower than that of 2013 as construction works of major projects of the Group are expected to be completed in 2013 according to their respective schedules. In addition, taking into account the expected inflation in prices and the possible increase in demand for subject services and/or products caused by various factors such as changes in business operation and plan of individual group members of the Group in the coming three years, we consider the 5% buffer is reasonable.

Given the above, we consider the relevant cap is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

A4(b) Proposed cap for the continuing connected transactions in relation to provision of services and supplies and sale of products by the Group to the CNOOC Group contemplated under the Comprehensive Services and Product Sales Agreement ("Provision of Services and Supplies and Sale of Products by the Group Cap")

We note that the Provision of Services and Supplies and Sale of Products by the Group Cap for each of the three years ending 31 December 2014 represents a significant increase as compared with the historical transaction amounts for each of the two years ended 31 December 2010 and the six months ended 30 June 2011.

In assessing the reasonableness of the Provision of Services and Supplies and Sale of Products by the Group Cap, we have reviewed the cap calculation and understand that the Provision of Services and Supplies and Sale of Products by the Group Cap is arrived at based on the estimated supply of subject services, supplies and/or products under the Comprehensive Services and Product Sales Agreement by individual group members of the Group to the CNOOC Group in accordance with their respective business operation and plan. We have discussed with the management of the Company and understand that the increase is mainly attributable to the following factors: (i) the expected increase in demand from the CNOOC Group for the transportation services, loading and unloading services, materials and products to be provided by the Group for the CNOOC Group's existing projects and the project under construction which is expected to be completed in 2013; and (ii) a buffer of 5% in consideration of the possibility of fluctuation in the relevant charges and/or demand in relation thereto in the

coming three years. The Company also advised that the significant increase in the Provision of Services and Supplies and Sale of Products by the Group Cap of 2012 as compared to the transaction amount for the six months ended 30 June 2011 on an annualized basis is mainly due to the estimated increase in sale of products by the Group to members of the CNOOC Group in 2012 and provision of logistics and inspection services by the Group for the project of the CNOOC Group which is under construction in 2012.

We have reviewed the information in relation to the above mentioned projects including among others total investment and construction schedule. In addition, taking into account the expected inflation in prices and the possible increase in demand for subject services and/or products caused by various factors such as changes in business operation and plan of individual group members of the CNOOC Group in the coming three years, we consider the 5% buffer is reasonable.

Given the above, we consider the relevant cap is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

A5(b) Proposed cap for the continuing connected transactions in relation to deposits to be placed by the Group with CNOOC Finance contemplated under the Financial Services Agreement (“Deposit Cap”)

We note that the Group assumes an increase of approximately 47% when determining the Deposit Cap for the coming three years as compared with the maximum daily deposit balance during the six months ended 30 June 2011. As advised by the Company, such increase is mainly due to the expected increase of daily deposit balance to be placed with CNOOC Finance after completion of the Group’s projects under construction which are expected to increase the production capacity and thus business scale of the Group.

Given the above, we consider the Deposit Cap for each of the three years ending 31 December 2014 is fair and reasonable.

B1 Proposed cap for the continuing connected transactions in relation to provision of products and services by the Group to Hong Kong Kingboard and its Associates contemplated under the Kingboard Product Sales and Services Agreement (“Kingboard Cap”)

We note that the Kingboard Cap for each of the three years ending 31 December 2014 represents a significant increase as compared with the historical transaction amounts for each of the two years ended 31 December 2010 and the six months ended 30 June 2011.

In assessing the reasonableness of the Kingboard Cap, we have reviewed and discussed with the management of the Company in relation to the cap calculation and understand that the Kingboard Cap is determined mainly based on the following factors: (i) the Group’s estimates on the average price and the sales

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

volume of methanol products to Hong Kong Kingboard and its Associates in the coming three years; and (ii) a buffer of 5% in consideration of the possibility of fluctuation of price of methanol and/or sales volume to be provided by the Group to Hong Kong Kingboard and its Associates in the coming three years. The Company also advised that the significant increase in the Kingboard Cap of 2012 as compared to the transaction amount for the six months ended 30 June 2011 on an annualized basis is mainly due to the increase in the estimated average selling price of methanol, which is determined by reference to the historically high market price of methanol.

We have reviewed invoices provided by the Company for supply of methanol products by the Group to Hong Kong Kingboard and its Associates on a sample basis and public information in respect of the market price of methanol and consider that the estimated methanol price for cap calculation is reasonable. We also understand the estimated sales volume is based on the Group's sales plan. In addition, taking into account the expected inflation in price and the possible increase in demand for methanol products by Hong Kong Kingboard and its Associates in the coming three years, we consider the 5% buffer is reasonable.

Given the above, we consider the relevant cap is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Our view

Having considered the above, we are of the view that the basis adopted by the management of the Company in determining the Proposed Caps is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

However, Shareholders should note that the Proposed Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the relevant continuing connected transactions. Consequently, we express no opinion as to how closely the actual transaction amounts of each of the Non-exempted Continuing Connected Transactions correspond with the Proposed Caps as discussed above.

(V) Requirement by the Listing Rules regarding the Non-exempted Continuing Connected Transactions

As required by the Listing Rules, for each financial year of the Company over the term of the Comprehensive Services and Product Sales Agreement, the Supplemental Agreements and the Natural Gas Sale and Purchase Agreements, the Non-exempted Continuing Connected Transactions shall be subject to the annual review by the independent non-executive Directors and the Company's auditors as required by Rules 14A.37 and 14A.38 of the Listing Rules, respectively. In particular, each year, the independent non-executive Directors must confirm that the Non-exempted Continuing Connected Transactions have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, each year, the Company's auditors must provide a letter to the Board confirming that the Non-exempted Continuing Connected Transactions:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
- have been entered into in accordance with the relevant agreements governing the transactions; and
- have not exceeded the caps disclosed in the previous announcement(s).

Given the above, we consider that there exist appropriate procedures and arrangements to confirm that the Non-exempted Continuing Connected Transactions will be conducted on terms pursuant to the Comprehensive Services and Product Sales Agreement, the Supplemental Agreements and the Natural Gas Sale and Purchase Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the principal factors and reasons referred to in the above, in particular,

- the purpose of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements is to regulate the ongoing transactions between the Group and its relevant connected persons for the three years ending 31 December 2014;
- the continuing connected transactions contemplated under the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements fall in the ordinary and usual course of business of the Group;
- the pricing principles under the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements are fair and reasonable;
- the basis of the determination of the Proposed Caps is fair and reasonable; and
- there exist appropriate procedures and arrangements to confirm that the Non-exempted Continuing Connected Transactions will be conducted on terms pursuant to the Comprehensive Services and Product Sales Agreement, the Supplemental Agreements and the Natural Gas Sale and Purchase Agreements,

we consider that (i) the entering into of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements is in the ordinary and usual course of business of the Group and the terms of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements are on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and hence the entering into of the Comprehensive Services and Product Sales Agreement and the Supplemental Agreements is in the interests of the Group and the Shareholders as a whole; and (ii) the Proposed Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Comprehensive Services and Product Sales Agreement, the Supplemental Agreements and the Proposed Caps.

Yours faithfully,
For and on behalf of
CIMB Securities (HK) Limited
Alex Lau **Lily Li**
Head *Vice President*
Corporate Finance *Corporate Finance*

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility, and confirm that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors, supervisors or the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

Name of Director	Capacity	Number of share appreciation rights granted	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of the Company's total issued shares (%)
Yang Yexin	Beneficial owner	891,000(L) (note 1)	0.05(L)	0.02(L)
Fang Yong	Beneficial owner	681,000(L) (note 2)	0.04(L)	0.01(L)
Chen Kai	Beneficial owner	681,000(L) (note 3)	0.04(L)	0.01(L)
Wu Mengfei (note 4)	Beneficial owner	1,053,000(L) (note 4)	0.06(L)	0.02(L)

Notes:

(L) denotes long position.

(1) These shares represent interests in share appreciation rights of the Company, of which 222,750 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

- (2) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.
- (3) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.
- (4) Mr. Wu Mengfei resigned as the Chairman and non-executive Director of the Company with effect from 29 July 2011.

These shares represent interests in share appreciation rights of the Company, of which 263,250 share appreciation rights are exercisable in each of following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

Save as disclosed above and so far as the Directors are aware, as at the Latest Practicable Date, no other person had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 & 3 of Part XV of the SFO.

SERVICE CONTRACTS OF THE DIRECTORS

No Director or supervisor of the Company had entered into any service contract with the Company, which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in other business which competes or is likely to compete with the business of the Group.

EXPERT STATEMENTS

This circular includes statement(s), opinion(s) or advice(s) made by the following expert:

Name	Qualification
CIMB Securities (HK) Limited	Licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with its statements and references to its name included in the form and context in which it respectively included.

NO MATERIAL INTERESTS

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the Directors, the supervisors of the Company and the above expert had any interest in any assets which have been, since 31 December 2010 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company was materially interested in any contract or arrangement subsisting at the date of this circular which was significant in relation to the business of the Group.

NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, the date to which the latest published consolidated audited accounts of the Group had been made up.

MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened against any members of the Group.

MISCELLANEOUS

- (i) The company secretary of the Company is Mr. Quan Changsheng. Mr. Quan is also the Chief Financial Officer of the Company.
- (ii) The registered office and the principal place of business of the Company is No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC. The Hong Kong H Share Registrar and H Share transfer office of the Company is Computershare Hong Kong Investor Services Limited situated at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iii) The English language text of this document shall prevail over the Chinese language text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's representative office in Hong Kong at 65/F., Bank of China Tower, No. 1 Garden Road, Central, Hong Kong for a period of 14 days (excluding Saturdays) from the date of the circular:

- (i) the letter from the Independent Board Committee dated 15 November 2011, the text of which is set out on page 19 of this circular;
- (ii) the letter from the Independent Financial Adviser dated 15 November 2011, the text of which is set out on pages 21 to 36 of this circular;
- (iii) the comprehensive services and product sales framework agreement dated 1 September 2006 between the Company and CNOOC, the supplemental agreement dated 5 November 2008 and the Comprehensive Services and Product Sales Agreement dated 9 November 2011 entered into between the Company and CNOOC;
- (iv) the financial services framework agreement dated 1 September 2006 between the Company and CNOOC Finance, the first supplemental agreement dated 3 November 2008, and the second supplemental agreement dated 9 November 2011; and
- (v) the product sales and related services framework agreement dated on 22 August 2006 between the Company and the Hong Kong Kingboard, the first supplemental agreement dated 5 November 2008, and the second supplemental agreement dated 9 November 2011.



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China BlueChemical Ltd. (the “**Company**”) (“**EGM**”) will be held at the Meeting Room, 3rd Floor, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, PRC, on Friday, 30 December 2011 at 10:00 a.m. for the purpose of considering and, if thought fit, passing of the following resolutions:

Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 15 November 2011 relating to, among other things, the continuing connected transactions of the Company (the “**Continuing Connected Transactions Circular**”):

By way of ordinary resolutions:

“**THAT:**”

1. To consider and approve the Proposed Caps for the transactions under the Natural Gas Sale and Purchase Agreements for the three financial years commencing on 1 January 2012 and ending on 31 December 2014 as set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Proposed Caps for the transactions under the Natural Gas Sale and Purchase Agreements.
2. To consider and approve the entering into the Comprehensive Services and Product Sales Agreement dated 9 November 2011 between CNOOC and the Company, details of which are set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Comprehensive Services and Product Sales Agreement.
3. To consider and approve the Proposed Caps for the transactions under Category A4(a) of the Comprehensive Services and Product Sales Agreement for the three financial years commencing on 1 January 2012 and ending on 31 December 2014 as set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Proposed Caps for the transactions under Category A4(a) of the Comprehensive Services and Product Sales Agreement.

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. To consider and approve the Proposed Caps for the transactions under Category A4(b) of the Comprehensive Services and Product Sales Agreement for the three financial years commencing on 1 January 2012 and ending on 31 December 2014 as set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Proposed Caps for the transactions under Category A4(b) of the Comprehensive Services and Product Sales Agreement.
5. To consider and approve the entering into the supplemental agreement dated 9 November 2011 (“**Financial Services Supplemental Agreement**”) in relation to the financial services framework agreement between CNOOC Finance and the Company dated 1 September 2006, details of which are set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Financial Services Supplemental Agreement.
6. To consider and approve the Proposed Caps for the transactions under Category A5(b) of the Financial Services Agreement for the three financial years commencing on 1 January 2012 and ending on 31 December 2014 as set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Proposed Caps for the transactions under Category A5(b) of the Financial Services Agreement.
7. To consider and approve the entering into of the supplemental agreement dated 9 November 2011 (“**Kingboard Supplemental Agreement**”) in relation to the product sales and related services framework agreement dated 22 August 2006 entered into between Hong Kong Kingboard and the Company, details of which are set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Kingboard Supplemental Agreement.
8. To consider and approve the Proposed Caps for the transactions of the Kingboard Product Sales and Services Agreement for the three financial years commencing on 1 January 2012 and ending on 31 December 2014 as set out in the Continuing Connected Transactions Circular; and the Board be and is hereby authorized to take such actions as are necessary to implement the Proposed Caps for the transactions of the Kingboard Product Sales and Services Agreement.

By order of the Board
China BlueChemical Ltd.*

Li Hui
Chairman

Beijing, the PRC
15 November 2011

* *For identification purpose only.*

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this circular, the executive directors are Mr. Yang Yexin, Mr. Fang Yong and Mr. Chen Kai, the non-executive director is Mr. Li Hui, and the independent non-executive directors are Mr. Tsui Yiu Wa, Alec, Mr. Zhang Xinzhi and Mr. Gu Zongqin.

Notes:

1. In order to determine the list of shareholders who are entitled to attend the EGM, the registers of members will be closed from Wednesday, 30 November 2011 to Friday, 30 December 2011, both days inclusive, during which period no transfer of shares will be effected. Shareholders of the Company whose names appear on the registers of members of the Company on Friday, 30 December 2011 are entitled to attend the meeting.

In order to attend and vote at the meeting, holders of H Shares of the Company whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at or before 4:30 p.m. on Tuesday, 29 November 2011. The address of the transfer office of Computershare Hong Kong Investor Services Limited is Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

2. A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company. Where a shareholder has appointed more than one proxy to attend the meeting, such proxies may only vote on a poll.

The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its attorney or duly authorised attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorising that attorney to sign or other authorisation document must be notarised.

In order to be valid, in respect of holders of domestic shares or unlisted foreign shares, the proxy form together with the power of attorney or other authorisation document (if any) must be deposited at the Company's Secretary Office of the Board in China (Address: Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC) not less than 24 hours before the time fixed for holding the meeting. In respect of the Company's H Shares, the said documents together must be lodged at the Company's H Share Registrar within the abovementioned period by holders of H Shares. Completion and return of the proxy form will not preclude a shareholder from attending and voting in person at the meeting if she/he so wishes. The H Share Registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. Shareholders who intend to attend the meeting in person or by proxy should return the reply slip in person, by post or by fax to the Company's Secretary Office of the Board in China (for holders of domestic shares or unlisted foreign shares) or Computershare Hong Kong Investor Services Limited (for holders of H shares) on or before Saturday, 10 December 2011. The Company's Secretary Office of the Board in China is Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC (Tel: 0086-10-84527250, Fax: 0086-10-84527254, Post code: 100029). The address of Computershare Hong Kong Investor Services Limited is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
4. Shareholders or their proxy must present proof of their identities upon attending the extraordinary general meeting. Should a proxy be appointed, the proxy must also present copies of his/her Proxy Form, or copies of appointing instrument and power of attorney, if applicable.
5. The extraordinary general meeting is expected to last not more than one day. Shareholder or proxies attending the extraordinary general meeting are responsible for their own transportation and accommodation expenses.