

### HISTORY AND BUSINESS DEVELOPMENT

Granular urea has been our main product since the commencement of our business. Our first integrated ammonia and urea production plant was Fudao Phase I which was completed in 1996 and is under the operation of CNOOC Fudao. The first predecessor of CNOOC Fudao was established in February 1993 under the approval of the Hainan local government and was managed by the then Hainan Fuel Chemicals Industry Bureau. In 1997, it was reorganized as a State wholly-owned entity, the equity interests of which were subsequently transferred by the State designated shareholder to CNOOC Chemical (our predecessor) in early 2001. CNOOC Chemical used all such equity interests as capital contribution, and the four Promoters contributed by way of cash, to establish CNOOC Fudao Co., Limited (the immediate predecessor of CNOOC Fudao) which was incorporated on 31 December 2001. Since its establishment, CNOOC Fudao Co., Limited was owned as to 87.04% by CNOOC Chemical and as to 3.24% by each of the other four Promoters.

The predecessor of our Company, CNOOC Chemical, was founded on 3 July 2000 by CNOOC. It rapidly expanded its operations since its incorporation and it developed our second integrated ammonia and urea production plant, or Fudao Phase II, with designed annual production capacities of 450,000 tonnes of ammonia and 800,000 tonnes of urea, which started mass production in January 2004. Upon commencement of mass production by Fudao Phase II, we became one of the largest urea producers in China in terms of production capacity.

On 31 October 2003, CNOOC Jiantao was established as a Sino-foreign joint venture company by CNOOC Chemical and Hong Kong Kingboard. CNOOC Jiantao has been, since its establishment, owned as to 60% by our Company and as to 40% by the joint venture partner. CNOOC Jiantao constructed a plant with a designed annual production capacity of 600,000 tonnes of methanol, which commenced trial production in September 2006. Upon commencement of mass production, expected in January 2007, we expect to be one of the largest methanol producers in China in terms of designed production capacity.

On 25 April 2005, CNOOC Chemical and the State-owned Assets Supervision and Administration Commission of the Province of Hainan established Hainan Basuo as a joint venture company, which provides logistics and transportation services to customers of our fertilizers and to other third party customers. Hainan Basuo is currently owned as to 72.5% by our Company and the remaining 27.5% is owned by Hainan Development which obtained the equity interest in Hainan Basuo from the State-owned Assets Supervision and Administration Commission of the Province of Hainan by allocation.

In November and December 2005, CNOOC Chemical entered into share transfer agreements with Tianye Chemical's then shareholders to acquire an aggregate 90% equity interest in Tianye Chemical at a total cash consideration of approximately RMB964.6 million. On 7 March 2006, we completed the acquisition of Tianye Chemical. After the Acquisition, we own 90% of the equity interest of Tianye Chemical. Pending the Acquisition, in July 2004, the shareholders of Tianye Chemical agreed to entrust the management of Tianye Chemical to CNOOC. In July 2004, CNOOC appointed an executive of the CNOOC Group, Mr. Chen Kai, as the general manager of Tianye Chemical to manage Tianye Chemical and appointed our Company to oversee the operations of Tianye Chemical. Since July 2004 until the Acquisition, we provided technical, production, construction, sales and financial expertise to Tianye Chemical. The Acquisition allowed us to increase our designed production capacity in an efficient manner and to immediately capture new markets in northern and northeastern China as part of our business growth strategy.

**RESTRUCTURING**

China BlueChemical Ltd. was restructured from CNOOC Chemical, which was a limited liability company, to be a joint stock limited company under PRC law on 25 April 2006 as part of the Restructuring in anticipation of the Global Offering. CNOOC is our main Promoter and used its entire interest in CNOOC Chemical (including the interest of CNOOC Chemical in Tianye Chemical following the Acquisition) to establish our Company. Our other four Promoters are Zhejiang AMP, Guangdong AMP, Shanghai AMP, Transammonia, each of which used its entire shareholding in CNOOC Fudao Co., Limited, the predecessor of CNOOC Fudao, as its capital contribution to our Company. Upon our establishment as a joint stock limited company, we issued to CNOOC 2,899,999,512 Domestic Shares, to each of Zhejiang AMP, Guangdong AMP and Shanghai AMP 25,000,122 Domestic Shares, and to Transammonia 25,000,122 Unlisted Foreign Shares, representing approximately 96.67%, 0.83%, 0.83%, 0.83% and 0.83%, respectively, of our issued share capital as of the Latest Practicable Date, and CNOOC Fudao Co., Limited became our wholly-owned subsidiary.

The other aspects of the Restructuring included the following:

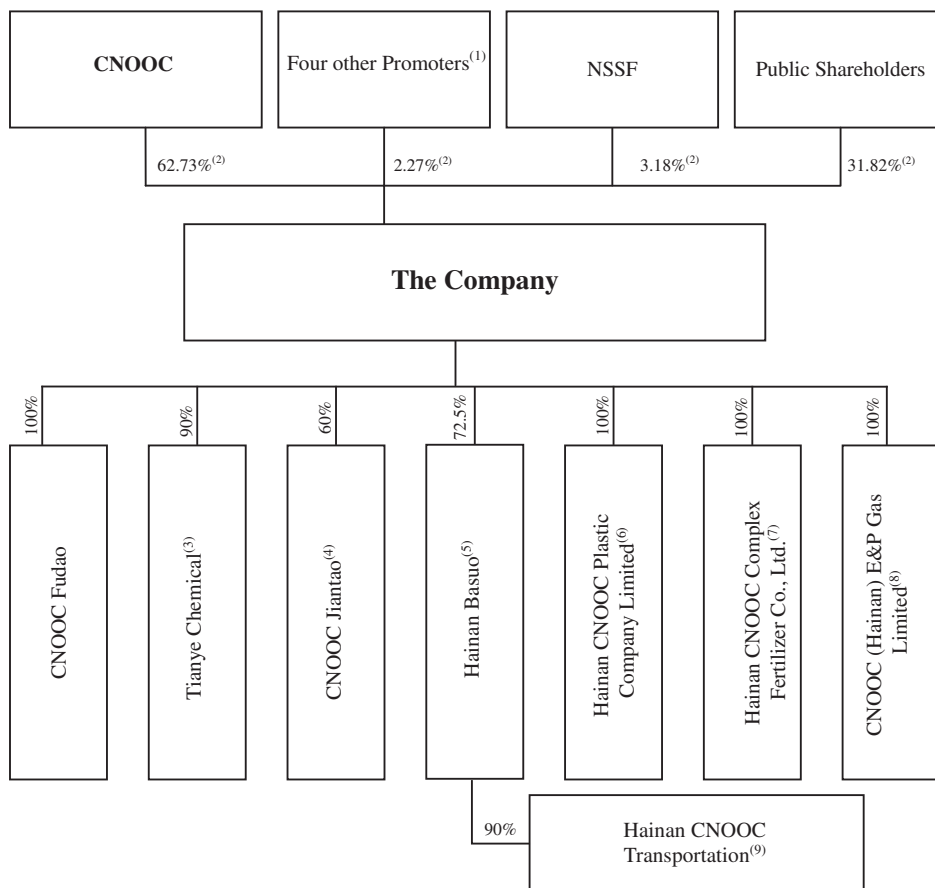
- CNOOC Fudao Co., Limited was restructured from a joint stock limited company as CNOOC Fudao, a limited liability company.
- Pursuant to a notice issued by CNOOC dated 13 February 2006 (the “CNOOC Notice”), a 40% equity interest in Hainan CNOOC Transportation, a 30.23% equity interest in Hainan CNOOC Plastic Company Limited and a 60% equity interest in CNOOC (Hainan) E&P Gas Limited were allocated to us at no consideration from CNOOC’s relevant subsidiaries. As a result, we own a 90% equity interest in Hainan CNOOC Transportation (which provides logistics and transportation services to our customers), a 100% equity interest in Hainan CNOOC Plastic Company Limited (which produces woven plastic bags for the packaging of our urea products produced in Hainan) and a 100% equity interest in CNOOC (Hainan) E&P Gas Limited (which constructed the CO<sub>2</sub> Plant—See “Our Business—Principal production facilities—CO<sub>2</sub> Plant”).
- We acquired a 30% equity interest in Hainan CNOOC Complex Fertilizer Co., Ltd. from Hainan Agricultural Means of Production Group Limited pursuant to a share transfer agreement dated 28 February 2006 and a further 34.95% equity interest from our employees. We currently own a 100% equity interest in Hainan CNOOC Complex Fertilizer Co., Ltd., which produces compound fertilizers.
- Certain non-core operating assets were transferred out of our Company to CNOOC Investment Holding Co., Ltd., a wholly-owned subsidiary of CNOOC, at no consideration pursuant to the CNOOC Notice. Such assets comprise equity interests in PRC established entities that engage in hotel and agricultural businesses (being our entire equity interests of 9.21%, 60% and 84% in Sanya Resort Co., Ltd., Haiwan Fudao Hotel and Hainan CNOOC Agriculture Co., Ltd., respectively). As of the Latest Practicable Date, the transfer by us of such assets had not been completed.
- CNOOC Chemical transferred to Hainan Basuo the 90% equity interest in Hainan CNOOC Transportation pursuant to a share transfer agreement dated 24 April 2006. Part of the consideration for such transfer was applied as CNOOC Chemical’s contribution to an increase in the registered share capital of Hainan Basuo.

See paragraph I.4. of Appendix VIII to this Prospectus for further details of the Restructuring.

All approvals from relevant PRC Government authorities, including the SASAC and the MOFCOM, have been obtained for the Restructuring as of the Latest Practicable Date.

## CORPORATE STRUCTURE

The following chart sets out our Company, our major subsidiaries and our jointly controlled entity together with our ownership structure following the Restructuring and the Acquisition and after giving effect to the Global Offering, assuming that the Over-allotment Option is not exercised:



- (1) The four other Promoters are Zhejiang AMP (0.57%), Guangdong AMP (0.57%), Shanghai AMP (0.57%), and Transammonia (0.57%).
- (2) If the Over-allotment Option is exercised in full, the shareholding proportions held by CNOOC, the other four Promoters, NSSF and the public shareholders will be approximately 59.41%, 2.17%, 3.49% and 34.93%, respectively.
- (3) The remaining 10% equity interest in Tianye Chemical is held by the State-owned Assets Supervision and Administration Commission of Inner Mongolia Autonomous Region People's Government which is a substantial shareholder (as defined in the Hong Kong Listing Rules) of Tianye Chemical.
- (4) The remaining 40% equity interest in CNOOC Jiantao is held by Hong Kong Kingboard which is a Controlling Shareholder of CNOOC Jiantao. Hong Kong Kingboard is a subsidiary of Kingboard Chemical.
- (5) The remaining 27.5% equity interest in Hainan Basuo is held by Hainan Development which is a substantial shareholder (but not a Controlling Shareholder) of Hainan Basuo. Hainan Development is a State-owned enterprise which is independent from us apart from its shareholding in Hainan Basuo. Hainan Basuo operates Port of Basuo. For more information about Port of Basuo, see "Our Business—Transportation of products".

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## HISTORY, RESTRUCTURING AND CORPORATE STRUCTURE

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- (6) Hainan CNOOC Plastic Company Limited produces woven plastic bags to package our urea products produced in Hainan. See “Our Business—Raw materials and energy—Plastic resins”.
- (7) Hainan CNOOC Complex Fertilizer Co., Ltd. is a producer of compound fertilizers. For more information on compound fertilizers, see “Our Business—Products—Principal products”.
- (8) Through CNOOC (Hainan) E&P Gas Limited, we constructed a new CO<sub>2</sub> Plant, which commenced trial operations in February 2006. As of the Latest Practicable Date, the plant was in trial operation. For more information, see “Our Business—Principal production facilities—Existing facilities”.
- (9) The remaining 10% equity interest in Hainan CNOOC Transportation is held by CNOOC Trust & Investment Co., Ltd., a subsidiary of CNOOC, which is a substantial shareholder of Hainan CNOOC Transportation. Hainan CNOOC Transportation provides our logistics and transportation services. For more information, see “Our Business—Transportation of products—Transportation of products produced in Hainan”.